



Fact Sheet – Financial Planning Terminology

Active Management

A style of Investment Management that seeks to attain returns above a set benchmark through asset allocation and stock selection. Opposite of Passive (index) Management.

Allocated Pension

A concessional taxed income stream purchased with superannuation monies which are unrestricted non preserved. Income must be taken every year of at least the minimum amount as set by the Government.

Generally, you can access the capital in the pension at any time – this is known as “commuting”.

ASIC

The Australian Securities and Investments Commission is the Australian Government regulating body that makes sure that the relevant laws, including consumer protection law, is followed for investments, life insurance, superannuation and banking throughout Australia.

Asset

An item of value, such as cash, investments or property.

Australian Taxation Office (ATO)

The department that collects, manages and administers taxation revenue for the Federal Government.

Basis Point

A measurement equal to one hundredth of one percent.

Benchmark

An index or other market measurement that is used by a fund manager as a yardstick to

assess the risk and performance of a portfolio e.g. the All Ordinaries is a commonly used benchmark for Australian Share portfolios.

Binding Nomination

In your superannuation fund, you indicate to the trustees your preferred beneficiaries in the event of your death together with the amount and type of payment you desire the beneficiary to receive.

In this instance the Trustee has no choice but to follow your instructions; effectively a Binding Nomination removes the trustee’s discretion. Binding nominations must be reviewed at least every three (3) years.

Bottom Up

The “bottom up” or fundamental style of investment management focuses on forecasting returns for individual companies or assets, before assessing industries and the economy as a whole.

The manager’s primary skill lies in choosing shares (or assets) because they represent good value and should outperform, rather than in making asset allocation or market timing decisions. The opposite of “top down” management style.

Budget

A plan for spending and saving money based on your goals over a certain period of time.

Capital Gain

The difference between the purchase price and the selling price of an investment.

Capital Gains Tax (CGT)

Income taxation on the growth in the value of assets or investments, payable when the gain is realised. If the assets have been held for more than one year, the capital gain may receive concessional treatment.

Complying Superannuation Fund

A superannuation fund that qualifies for concessional taxation rates. A complying superannuation fund must meet the requirements that are set down by the Federal Government.

CHESS

Abbreviation for Clearing House Electronic Subregister System. An electronic transfer and settlement system operated by the Australian Stock Exchange.

CHESS replaces physical transfer documents in the share settlement process. It automatically issues updated holdings statements to the investor and details of all shareholdings on its register to the company that has issued the shares.

Contributions Tax

Employer contributions and personal deductible contributions (e.g. made by the self employed) made to a complying super fund are taxed at the rate of 15%. This is called contributions tax. Deductions are allowed for some expenses like Death and TPD premiums.

Cost of Living

On average, what it costs to live and pay for expenses such as rent or home costs, transportation, food and utilities like electricity or gas.

Currency Risk

As Australian investors, it is important to remember that investments in overseas assets can be affected positively or adversely, dependent on the relationship the \$A has with other global currencies.

As a general rule: if the \$A rises, the value of your international investments fall; if the \$A falls, the reverse happens. This is why investment managers often hedge their currency exposure, to remove or lessen currency movement risk from their portfolios.

Credit Risk

Applies to debt type investments such as debentures and bonds. The institution you have invested with may not be able to make the required interests payments or repay your funds.

Debt

The amount a person or entity (e.g. a business) owes to lenders.

Derivatives

Securities that derive their value from another security. For example, futures and options derive their value from the underlying commodity or share. Also known as synthetics.

Diversification

Spreading invested amounts among several different savings or investments to reduce risk.

Dividend Imputation

A taxation rule under which tax paid at the company level is credited to individual shareholders when they are paid a dividend.

Duration

Duration refers to a style used to manage fixed interest. Duration managers focus on the Fund's position along the yield curve and do not focus as much on adding value via credit analysis.

Eligible Termination Payments (ETPs)

A lump sum super benefit or a payment made by an employer on termination of employment (e.g. golden handshake).

For the purposes of taxation, ETPs are split into various components, each of which can be taxed differently.

Emerging Markets

Countries with developing economies, where industrialisation has begun and the economy has links with the global economy.

Financial markets in these countries are immature compared to those of the world's financial centres, but are becoming increasingly sophisticated and integrated into the international markets.

These markets provide potentially high returns but are generally subject to higher risks and volatility.

Enduring Guardian

(Where permitted under State/Territory law) An enduring guardian can make medical decisions as well as personal or lifestyle decisions on your behalf when you are not capable of doing this yourself. You choose the decision making areas you give to your enduring guardian.

Enduring Power of Attorney

This authority continues beyond the donor's own capacity. This allows your attorney to continue acting notwithstanding that you have lost your mental capacity.

An enduring power of attorney is an essential document for all adults and particularly older people. It allows you to plan for the unexpected events such as accidents and/or illness.

Enduring Power of Attorney - Medical Treatment

(Where permitted under State/Territory Law) This allows you to authorise an agent to make decisions regarding medical treatment e.g. operations, medicines, drugs etc.

This power of attorney is typically prepared where the donor wants to express a preference in relation to the administration of medical treatment.

Executor

The executor is entrusted with the responsibility of ensuring that the wishes of the Will maker as contained in the Will are carried out. It is an important role and care needs to be exercised when selecting an executor.

The executor chosen should be competent, trustworthy and prepared to accept the task. The role is onerous and the executor may need to seek legal assistance (costs are met by the estate).

More than one executor may be appointed and provision for a substitute executor should be made. Executors may be independent and/or an interested party.

Your executor and at least one beneficiary should know where your original Will is stored.

Financial Planning Association of Australia (FPA)

The peak professional organisation for the financial planning industry in Australia. The Association is a not for profit organisation with approximately 14,500 members.

The FPA represents qualified financial planners in Australia who manage the financial affairs of over five million Australians with an investment value of more than \$560 billion.

Foreign Investment Funds (FIF) Tax

A tax on unrealised profits made by Australian investors in certain offshore investments. The aim of the tax, introduced in 1992, is to prevent a repetition of abuses of the taxation system during the 1980s, under which income could be earned overseas, taxed at favourable rates, and never returned to Australia.

Fringe Benefit

A benefit provided by an employer to an employee. Superannuation contributions made by an employer to a complying superannuation fund are not a fringe benefit.

Fringe Benefits Tax (FBT)

A tax payable by an employer on the grossed up value of certain fringe benefits that an employee receives.

Fundamental Analysis

Analysis of share values based on factors such as sales, earnings and assets that are "fundamental" to the activities of the company in question.

These factors are considered in light of the current share price in order to see if it is mispriced.

GARP

Typically GARP is a subset of Growth with a more value focussed approach to seeking out growth oriented companies. GARP stands for Growth At Reasonable Price.

GARP managers look to invest in companies with solid growth prospects and share prices that do not reflect the real value of the business.

General Power of Attorney

This authority ceases immediately upon the donor becoming mentally unable to manage his/her own affairs. It is usually prepared in circumstances where the attorney is to perform a specific function for a limited period. For example, to manage your financial affairs while you are overseas.

Goal/Objective

The aim or destination that someone wants to achieve or reach. Financial goals are often looked at in terms of short, medium and long term. Goals can be different from needs.

Growth

Growth investing focuses on companies that are expanding rapidly and/or earning revenue faster than the industry or overall market.

Growth stocks are seldom cheap and may produce little or no dividends. Their appeal lies in the capital growth that can be made from such investments. Growth managers invest in stocks that tend to outperform when the economy is in a growth stage and risk aversion is low.

High Alpha

High Alpha managers are less concerned with the variation in returns compared to the relevant benchmark and aim to outperform that benchmark by a greater margin. However, the potential to underperform the benchmark is also greater.

Hybrid Securities

Hybrid Securities are difficult to definitively classify as they encompass a wide range of different securities, however in simple terms they exhibit characteristics of both debt and equity.

They usually pay regular income (either interest or dividends) similar to the income received from a standard bond however many of these securities have the option of converting to equity (shares) of the issuing company at some point in the future.

Index

An aggregated measure of the performance or value of a group of individual shares or commodities. Examples are All Ordinaries Index and Consumer Price Index.

Index Manager

An index manager is one who aims to replicate the relevant index of that asset class on a pre fees basis.

Inflation

An increase in the price of goods and services in the economy. It is typically measured by examining a basket of goods and services considered to be representative of the average consumer's expenditure, and thus representative of the rise in the cost of living

Inflation Risk

The real purchasing power of your money may not keep pace with inflation.

Insurance

Financial protection against financial loss; an arrangement where an insurance company agrees to pay an amount of money to the insurance policy holder if a defined event occurs (e.g. death), in exchange for an insurance premium being paid.

Interest

Payment for the use of money; the return earned on invested funds; the amount a borrower pays to a lender for the use of borrowed money.

Interest rate risk

For investors relying on fixed rate investments, you may have to reinvest maturing money at significantly lower rates.

The benefit of doing this is so the variation in returns compared to the benchmark is minimised.

Intestacy

Intestacy is where upon death there is no valid Will. The rules for intestacy vary from State to State. If you die intestate your assets will be distributed in accordance with a Government formula set out in an Act of Parliament known as the intestacy rules.

This may result in your wishes not being met and disputes arising. For this reason it is essential to ensure that your Will is always current.

Investments

Assets acquired for the purpose of producing or generating income or capital gains for its owner.

Legislative Risk

Your investment strategies could be affected by changes in the current laws and regulations. GST and changing superannuation rules are some examples.

As legislation alters this may impact on your strategies and ultimately affect the desired outcome.

Liabilities

Debts or financial obligations.

Liquidity

The ability of an investment to be easily converted into cash with little or no loss of capital and minimum delay. An example of a highly liquid asset is a short term bank bill, while direct property holdings are very illiquid.

Liquidity Risk

You may not be able to access your money quickly or without cost when you need to.

Low Alpha

Low Alpha managers only aim to outperform their benchmark by a relatively small margin.

Managed Fund

This is a three way relationship established between the investor, a trustee, and a fund manager.

The Fund Manager is responsible for making the investment decisions on behalf of the investors, as well as providing proper administration for the fund. The Trustee/Custodian is responsible for the rights and interests and monies of the investor.

Managed Funds allow investors to pool monies together, giving each investor purchasing power far greater than any one person could reasonably expect to achieve alone.

This power means the fund can invest in a greater spread of assets, which in turn, offers the opportunity to achieve potentially greater returns, whilst reducing risk due to the increased diversification of assets and asset classes.

Marginal Taxation Rates (MTR)

The rate of tax you pay on your taxable income. The rates are stepped and increases as your income increases. The first rate is in fact zero, where no tax is payable up to at least \$6,000 of income.

Market Capitalisation

The sum of the total amount of various securities issued by a company, multiplied by the market price of those securities.

Market Risk

Movements in the market mean the value of your investment can go down as well as up.

Market Timing Risk

Anticipating market rises and falls can be extremely difficult because no two economic cycles are the same.

Mismatch Risk

The investment you choose may not be suitable for your needs and circumstances.

Needs

The essentials or basics of life.

Neutral

Style neutral managers are those that attempt to manage their portfolio with a balance of growth and value styles.

Non Binding Nomination

In your superannuation fund, you will indicate your preferred beneficiaries in the event of your death and the amount and type of payment you desire the recipient to receive.

In this instance however the trustees retain ultimate discretion over the amount, type and the recipient of the payment.

Unrestricted Non Preserved Benefits

These are superannuation benefits which you can cash at any time.

Passive Management

Also known as Index management. A style of investment management that seeks to achieve performance equal to the market or index returns. In pure index funds, no judgements are made about future market movements. Opposite of Active management.

Risk

The chance that you may not receive the returns you are expecting or that an unfortunate event will occur.

Risk management

The various ways or strategies used to manage potential personal or financial loss (e.g. insurance).

Salary Sacrifice

This is the practice of an employee foregoing future amounts of gross salary that otherwise might have been received as cash salary in favour of additional superannuation contributions or other benefits offered by your employer.

Settlement

In relation to securities trading, it is an arrangement between brokerage houses for the payment or receipt of cash and securities.

Settlement represents the final consummation of a securities transaction.

Size Bias

Relates to the percentage of small, mid and large cap stocks relative to the Fund's index benchmark. Simply because a manager has a small or mid cap bias does not necessarily mean the fund is predominantly small or mid cap stocks but rather it has a higher weighting to small or mid cap stocks relative to the fund's benchmark index.

Strategic Asset Allocation

The composition of an asset mix within a portfolio, constructed with the aim of meeting the long term objectives of a fund, rather than being based on short term views of relative performance of the various asset classes.

Style Focus

Relates to the investment philosophy that the manager believes and employs to manage their products, for example value vs growth, top down vs bottom up etc.

Superannuation Guarantee

A Federal Government program that requires all employers to make a minimum contribution to a complying superannuation fund for their employees.

The employer must contribute a minimum of 9% based on the employee's annual salary. Contributions must be made at least every quarter.

Tactical Asset Allocation

A process by which the asset allocation of a fund is changed on a short term basis to take advantage of perceived differences in relative values of the various asset classes.

Target Value Add

Often referred to as "alpha", this is the Fund Manager's targeted outperformance of the relevant benchmark. In the case of an equity fund this is usually an index.

Testamentary Trust

This is a trust established by the Will that comes into effect upon the death of the Will maker. The primary purpose of a testamentary trust is to manage estate assets in order to provide asset protection and to maximise after tax income for beneficiaries.

The trust is managed by a trustee who has the discretion to control the distribution of capital and income to the beneficiaries, taking into account their other income sources and the prevailing taxation legislation.

Top Down

The “top down” investment approach starts with forecasting broad macro economic trends. The manager then looks at how these economic trends will impact on individual investment sectors and then, finally, on individual assets.

Investments are made into asset classes expected to provide the best returns and then into the best stocks within those asset classes. The opposite of “bottom up” investment style.

Value

Value investing involves buying stocks where the market price is often well below the intrinsic value per share. Value managers tend to outperform when the economy is slowing as investors are focusing more on the underlying value of businesses and earnings certainty.

Investors tend to be more risk averse at this stage of the cycle.

Yield

Running yield relates to cashflow paid out to the price paid for an asset, and does not take into account any gain or loss of capital on the investment.



Level 1, 4 Park Road, MILTON QLD 4064 | P.O. Box 1969, MILTON BC QLD 4064
Tel: 07 3367 6555 Fax: 07 3368 3998 | enquiries@iplan.net.au | www.iplan.net.au

iPlan Financial Services Australia Pty Ltd ACN: 106 591 833 as trustee for the iPlan Australia Trust
ABN: 58 928 175 252 is a corporate authorised representative of
iPlan Financial Services Pty Ltd ABN: 70 122 979 140 AFSL No. 311824