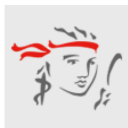
PRUDENTIAL
INVESTMENT MANAGERS



Prudential Investment Managers
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Investment jargon explained

Alpha, beta, equity, volatility… what does it all mean? New investors are often intimidated by all the investment jargon, but if you understand their meaning, you should be able to make better investment decisions. Studies show that many people are discouraged from investing because of the unfamiliar language financial advisers and investment managers tend to use, so here's a glossary of commonly used investment terms where we unpack their meanings and what they mean for you.

Alpha is a measurement of how an investment has performed relative to its return target or benchmark.

Appreciation describes the increase in value of an asset.

Beta measures the volatility of an investment relative to the wider market. Investors use beta to get an idea of how much a fund or stock will rise if the market rallies or how much it will fall if the market drops.

A **balanced fund** is a unit trust that consists of a mixture of different asset classes, such as stocks, property, bonds and cash. Investors get this diversification conveniently in one fund. The aim of investing in different asset classes is to reduce risk while providing

growth for investors. Find out more about Prudential's Balanced Fund.

A **bond** is a loan issued by a corporation or government where they promise to repay the full amount on a specific date in the future, while also paying interest to the investor. Some bonds are structured in such a way that they make regular interest payments at a specific rate and over a specific period. Some bonds have interest rates that change over time.

Market capitalisation (or market cap) refers to the market value of a company. It's calculated by multiplying the number of a company's shares by the price per share.

Diversification is the process of owning different investments that perform well in different market conditions. The aim is to reduce the effects of volatility (market ups and downs) on the portfolio, while boosting the potential for increased returns.

Equities are shares issued by a company.

Liquidity refers to how quickly and easily you're able to access money from your investment. In the equity market, it refers to how easily shares or bonds are traded. The more shares a company has listed on the stock market, the more liquid the shares are, in theory. Also the larger the number of investors in a market, the higher the market's liquidity because the easier it is to make prices.

Return is the change in value of an investment over a certain period.

A **portfolio** is a collection of investments owned by one organisation or individual. These investments are managed collectively, with specific investment goals in mind.

Price-Earnings ratio (P/E) is a valuation measure that shows how much investors are paying for a particular company's earning power. It is calculated by taking the company's share price and dividing it by the earnings per share.

Time horizon is the amount of time that you expect to stay invested in an asset or security. Determining your investment time horizon is one of the first steps in starting as an investor.

A unit trust is a collective investment vehicle where investors pool their money to invest in financial instruments (like equities and bonds). Unit trusts are divided into equal units with each investor receiving units based on how much money they invested. For more information, watch our unit trust explanation video.
Volatility refers to how much and how often an investment fluctuates in value. If an investment's value moves significantly up and down fairly frequently, it's considered to be volatile.

Yield refers to the income return on an investment (e.g. interest or dividends) over a certain period.