Explaining the jargon

Glossary of financial and investment terms

We have produced this glossary to help explain some of the most commonly seen but potentially confusing terminology.

A

Accumulation unit	Accumulation unit reinvest the income earned, instead of paying it out immediately to investors.
Advisory Investment Service	Financial planning and investment advice and recommendations are given by the advisor and the client will confirm they are happy to proceed before these are actioned.
AER	It stands for Annual Equivalent Rate. It is quoted by financial institutions, such as banks, to show how much the interest rate would be if the interest was worked out just once a year. It is intended to make it easier for people to judge how much interest they pay (or receive) when it is being worked out more than once a year. It is also intended to make it easier to compare different financial products.
Annualised	It refers to the process of converting a rate of return or any financial metric from a period of time that is less than a year into an annual basis. This allows for easier comparison and understanding of the performance of an investment or financial instrument over a standard yearly period.
Anti-Money Laundering (AML)	It refers to laws, regulations, and procedures that financial institutions and other regulated companies are required to follow in order to prevent, detect and report money laundering activities.
Annual allowance	Annual allowance is the maximum amount of money you can put into your pension funds in a given tax year, and still claim tax relief.
Annual management charge	Annual management charge is a yearly charge made by the managers of unit trusts or investment trusts. It is usually a percentage of the value of the funds being managed.
Annuity	Annuity is an amount paid out every year to someone. The money usually comes from an insurance policy. It can be split up into smaller amounts and paid out more frequently, such as monthly. It is usually paid for the rest of the beneficiary's life.
Attitude to Risk questions (ATR)	These questions are a part of a risk profiling process used to determine an investor's risk tolerance, which is then used to help create an appropriate investment strategy.

B

Balance sheet	A Balance sheet is a summary of your financial position. It lists the values, in the books of account on a particular date, of all assets and liabilities. The assets and liabilities are grouped in categories, to paint a picture of how assets are separated.
Bare trust	A Bare trust is a basic trust in which the beneficiary has the absolute right to the capital and assets within the trust, as well as the income generated from these assets. The trustee has no control over these assets and has no say or discretion in directing the trust's income or capital.
Basic state pension	Basic state pension is the retirement pension the Government pays to people who have paid enough national insurance contributions. Some people may receive a reduced basic state pension because they have not paid enough contributions.
Beneficiary	Beneficiary is someone who benefits from a will, a trust or a life insurance policy.

C

Capacity for Loss	Capacity for Loss refers to the amount of money an investor can afford to lose without significantly impacting their financial well-being.
Capital gains tax (CGT)	Capital gains tax (CGT), when you make a capital gain if you sell or dispose of a long–term asset (such as a building or stock and share) for more than it cost you. This is a tax charged on certain capital gains.
Cash ISA	Cash ISA you can invest money in a cash ISA to earn tax–free interest.
Chargeable event	If a chargeable event happens, it may create a tax charge.
Consumer Price Index (CPI)	The Consumer Price Index (CPI) is a measure of inflation used by the British Government for its UK inflation target. It measures changes in a 'basket' of goods and services purchased by households.
Costs and Charges Valuation	Costs and Charges Valuation refers to the process of determining the total costs and charges associated with an investment or financial product, in order to help investors make informed decisions. This can include management fees, transaction costs, and other related expenses, such as Fund Performance fees.

D

Dependant	A dependant is someone who depends on someone else for financial support.
Dividend	Dividend is when a company has pays out their profits to shareholders. The shareholders will receive a dividend for each share they own.
Discretionary	Discretionary refers to a type of investment management where the portfolio manager has the authority to make investment decisions on behalf of the client, rather than requiring prior approval for each transaction.
Domicile	Domicile is the country where your permanent home is, even if you are living somewhere else for now.

E

Enduring power of attorney	If a person is capable of dealing with their own affairs at present, they can sign an enduring power of attorney. It will only come into effect when they are no longer capable of looking after their own affairs. It gives authority to the person appointed to act for the person who signed the power of attorney.
Estate planning	Estate planning, for inheritance tax (IHT) purposes, an individual's estate is calculated as being his or her total assets less any liabilities at the time of their death. Proper estate planning could save your family hundreds of thousands of pounds, because IHT (sometimes called 'death duty') will be charged on what you leave behind, over the IHT threshold at time of death.
ESG	ESG investing refers to the practice of considering Environmental, Social, and Governance factors in investment decisions in order to achieve both financial return and positive social impact.
Executor	Executor is the legal term referring to a person named by the maker of a will or nominated by the testator to carry out the instructions of the will.

F

Financial Planning led Discretionary or Advisory Portfolio Management	LWM offer a Financial Planning led Discretionary or Advisory Portfolio Management refers to the process of managing a portfolio of investments on behalf of a client, where the portfolio manager has discretion to make investment decisions based on an agreed risk level within defined mandate parameters.

G

GIA (Taxable)	GIA (Taxable) stands for General Investment Account. It's a type of account which is used to hold securities and other investments and is subject to income tax on any investment income earned within it.
Gift	A Gift is a transfer of goods or property which is free of charge.

I

Inheritance tax (IHT)	Inheritance tax (IHT) is a tax charged on certain gifts, and on the value of the estate left by someone who has died.
Intestacy	Intestacy happens when someone dies without leaving a will. Their estate is divided up between their relatives following the rules set by law.
ISA (Individual Savings Account)	An Individual Savings Account (ISA) is a tax-efficient savings and investment account available in the United Kingdom. It allows individuals to save or invest money without paying income tax or capital gains tax on the interest, dividends, or capital gains earned within the account. There are several variations of ISAs, including: **Cash ISA**: A type of ISA where you can deposit money as cash and earn interest on it without paying tax on the interest earned. **Stocks and Shares ISA**: This allows you to invest in a wide range of assets, such as stocks, bonds, and funds, without paying tax on any capital gains or dividends earned. **Innovative Finance ISA**: This type of ISA is for peer-to-peer lending and other alternative finance investments, and it allows you to earn interest without paying tax on it. **Lifetime ISA**: A specific ISA designed to help individuals save for their first home or retirement, where the government provides a bonus on contributions up to a certain limit. **Flexible ISA**: offers added flexibility in how you can deposit and withdraw funds without losing the tax benefits. Introduced in April 2016, the Flexible ISA allows investors to withdraw money from their ISA and later replace it within the same tax year without it affecting their overall annual ISA contribution limit. **Help to Buy ISA**: Although this ISA is no longer available for new savers since November 2019, those who opened Help to Buy ISAs before that date can continue saving in them. This ISA was designed to help first-time buyers save for a home deposit, and the government provided a 25% bonus on contributions, up to a certain limit.

L

Lifetime allowance	Lifetime allowance is the maximum amount of money that you can accumulate as pension savings throughout your lifetime and still benefit from tax relief. If the amount you save exceeds the lifetime allowance, then you will have to pay tax on these savings.
Letters of Authority (LOA)	Letters of Authority (LOA) refers to a written authorisation given by a client to a financial advisor, allowing the advisor to speak to the 3rd party, such as a Financial Advisor, Insurance Company or Investment Manager, on a client’s behalf.

M

Mandate	Mandate refers to a specific set of instructions or guidelines given by a client to an investment manager outlining the investment objectives, risk tolerance, and constraints for a portfolio.

P

Pension	Pension is a retirement savings plan that is paid into by an individual or an employer, usually during their working years, and the funds are then used to provide income during retirement. Contributions made to a pension plan are eligible for tax relief, meaning that the individual can claim back some or all of the tax paid on the contribution. The exact amount of tax relief varies based on the individual's tax bracket and the pension scheme rules. **Self-Invested Personal Pension (SIPP)** is a type of personal pension plan that allows the individual more flexibility in terms of how their pension funds are invested.
Pension drawdown	Pension drawdown is a method of accessing retirement savings in which an individual retains their pension savings in a fund, and withdraws a portion of it as and when they need it, instead of buying an annuity. This approach provides flexibility to individuals to choose how much and when to withdraw from their pension fund, but also exposes them to investment risks and the risk of running out of money in retirement.
Periodic Suitability Assessment (PSA)	LWM has a regulatory requirement to review the suitability of your investment and risk mandate on an annual basis taking into consideration your objectives, preferences and risk tolerance and other characteristics. This will be done during your annual review meeting which will be conducted either in person or online.
Personal allowance	Personal allowance is when people do not have to pay income tax on all their income. Everyone gets a tax allowance which allows them to have some income they do not have to pay tax on. However, the amount varies depending on personal circumstances.
Portfolio	Portfolio refers to a collection of investments, such as stocks, bonds, and real estate, that an individual or institution holds.
Power of attorney	Power of attorney is a document which gives power to the person appointed by it to act for the person who signed the document.
Probate	It is the legal process of administering a deceased person's estate. It involves validating their will (if one exists), identifying and appraising their assets, paying off debts and taxes, and distributing the remaining assets to the beneficiaries or heirs according to the will or intestacy laws (if there is no will). The probate process is overseen by the court to ensure that the deceased person's wishes are carried out properly and that the distribution of assets is done in accordance with the law. **Probate Valuation** refers to the process of determining the value of an individual's assets for the purpose of probate, or distributing the assets of a deceased person in accordance with their will or the laws of intestacy. This can include the valuation of real estate, personal property, and financial assets, and is typically done by a professional valuer. A normal **Valuation** obtains the asset value for in the event of a sale, while the individual is still alive.

R

Retail Price Index (RPI)	Retail Price Index (RPI) is a measure of inflation that reflects the change in the cost of a basket of goods and services typically purchased by households. It is used as a measure of inflation for the UK and is published by the Office for National Statistics.

S

Schedule of Fees and Charges (SOFAC)	Schedule of Fees and Charges (SOFAC) details the specific fees and charges due to be taken from your portfolio.
Stamp duty	Stamp duty is a tax on the transfer documents for certain types of transaction. Examples are the buying of shares, patent rights and properties.
Suitability Assessment	Suitability Assessment refers to the process of determining whether a financial product or service is appropriate for a particular client based on their individual needs, goals, and risk tolerance.

T

Trust deed	A Trust deed is a legal document which is used to: • create a trust; • change a trust; or • control a trust. People can invest in unit trusts by buying units. The managers of the trust use the money people invest to buy investments. The fund manager values the fund's assets from time to time and puts a new price on the fund's units.

W

Will	A will is a legal document which people use to bequeath (leave as a gift) money and property when they die.

Investment Management

A

Asset Class	It refers to a group of financial instruments or investments that share similar characteristics and behave similarly in the market. Asset classes are categorized based on their risk-return profiles, correlation with other assets, and investment characteristics. Investors often diversify their portfolios by including different asset classes to manage risk and potentially increase returns. Each asset class has its unique risk and return characteristics, making them suitable for different investment strategies and goals. Typical asset classes in which LWM will invest in are listed at the end of this document.
Asset Allocation	Asset Allocation is determined by the client's risk mandate and determines the percentage parameters that can be held within the different asset classes.

B

Benchmark	It is a standard or reference point against which the performance of an investment or a portfolio is measured. Investors and fund managers use benchmarks to assess the success of their investments and to make informed decisions about asset allocation and performance evaluation. LWM use the **MSCI PIMFA** benchmark, which refers to MSCI (Morgan Stanley Capital International) and PIMFA (Personal Investment Management & Financial Advice Association) which is an index that tracks the performance of various companies: **MSCI PIMFA Conservative (TRN)** is used to benchmark LWM's **Absolute Return** mandate. **MSCI PIMFA PI Income (TRN)** is used to benchmark LWM's **Cautious Growth** mandate. **MSCI PIMFA PI Balanced (TRN)** is used to benchmark LWM's **Balanced Growth** mandate. **MSCI PIMFA PI Growth (TRN)** is used to benchmark LWM's **Aggressive Growth** mandate.
Bull market	A bull market is a financial market condition in which the prices of securities, such as stocks, are rising or are expected to rise. The term "bull market" is often used to describe a prolonged period of time during which prices are consistently going up, creating a positive outlook among investors and a general sense of optimism. During a bull market, investors tend to buy more securities, leading to further price increases and driving the market higher.
Bear market	A bear market is a financial market condition in which the prices of securities are falling or are expected to fall. A bear market is often characterized by widespread selling and declining prices, which can result in investor pessimism and a negative outlook. During a bear market, investors may sell off their securities, leading to further price decreases and driving the market lower.

C

Compound interest	Compound interest is interest on the money lent, plus interest on any interest already added to the loan.
Coupon	A coupon is a dated piece of paper attached to a *bond*. The coupon has to be surrendered (given back) to get the interest or *dividend* on the bond.

D

Depreciation	Depreciation is the drop in value of an asset due to wear and tear, age and obsolescence (going out of date) as recorded in an organisation's financial records.
Dividend	Dividend if a company has profits to share out, it can pay a dividend. The shareholders get so much dividend for each share they own. **Scrip dividend** sometimes companies will offer to pay dividends in shares instead of cash if shareholders want this.

F

Fixed asset	Fixed asset is one which is intended to be used for several years. Examples are buildings, machinery and vehicles.

I

Investment trust	Investment trust is a company which is quoted on the stock exchange, and which invests in other companies.

O

Open ended investment companies (OEICs)	Open ended investment companies (OEICs) is a type of unit trust but there is no difference between the bid price and the offer price. In other words, the buying price and the selling price is always the same.

R

Rights issue	Rights issue is the issue of extra shares by a company. Existing shareholders can buy extra new shares in proportion to the shares they already hold. The shares are usually on sale at a price lower than the stock–market price to encourage shareholders to buy. The shareholders can sell the rights if they do not wish to use them.

S

Stockbroker	Stockbroker – an individual or firm that buys and sells stocks and shares for clients.

V

Volatility	It refers to the degree of variation or fluctuation in the price of a financial instrument (such as a stock, bond, or currency) over time. It is a measure of the asset's price stability or the uncertainty of its returns. High volatility indicates that the asset's price experiences significant and rapid changes, while low volatility suggests more stable and predictable price movements. Volatility is commonly used as a risk indicator since assets with higher volatility can carry higher risks and potential rewards.

Y

Yield	Yield is a general term for the rate of income that comes from an investment, expressed as an annualised percentage and based on its current capital value.

Asset classes

LWM will invest your capital in the asset classes listed below.

Bonds	Bonds are debt securities issued by companies, municipalities, and governments to raise capital. They pay a fixed or variable interest to the bondholder, and the bondholder's principal is returned when the bond matures.
Commodities	Commodities are raw materials or primary products that can be bought and sold, such as metals, energy, and agricultural products. They are considered basic goods that are traded in large volumes in global markets.
Equity	Equity refers to the value of ownership in a company, usually represented by stocks or shares. It represents the residual value of a company after all liabilities are paid, and it is the value that is left over for shareholders if a company were to be liquidated.
Hedge Funds	Hedge Funds are investment funds that use advanced investment strategies, such as borrowing and short selling, to generate high returns. They typically have a high minimum investment requirement and are only available to accredited investors.
Infrastructure	Infrastructure refers to the basic physical and organisational structures and facilities (e.g. buildings, roads, power supplies) needed for the operation of a society or enterprise. It can also refer to the investment in these facilities.
Real Estate	Real Estate refers to the buying, selling, and renting of land, buildings, and other properties. It can also refer to the investment in these properties.