The Steadyhand Dictionary

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first edition

The Steadyhand Dictionary is a collection of investing terms and colloquialisms. Some are widely used, some aren't used enough, and some are seen only in Steadyhand publications. Many are misunderstood.

A high level grasp of these terms will help make you a better investor, not to mention a stirring conversationalist.

index

Active Management

ac·tive man·age·ment *(noun)*

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The strategy of building and managing a portfolio by buying and selling securities based on research, judgment and experience. The objective of active management is to outperform a specific benchmark or index over the long run. Actively managed portfolios look different than the broad market because they are constructed using a distinct investment philosophy.

ANTONYMS *Passive Management, Indexing*

Active Share

ac·tive share *(noun)*

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A gauge of how actively managed a fund is. It measures how much it differs in composition from a benchmark or index. A fund with an active share of 100% has no replication of the index, whereas a fund with an active share of 0% looks exactly like the index.

The term was coined by two former Yale professors whose research shows that there is a direct correlation between active management and performance (funds with the highest active share tend to outperform their index after fees and expenses). The professors classify "truly active" funds as those with an active share of 80% or greater; whereas funds with an active share of 60% or less are considered "closet index funds" (see page 11).

Agility

a·gil·i·ty *(noun)*

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1. The ability to move quickly and efficiently in the capital markets.
2. To not be weighed down by excessive assets under management.
3. Nimble.
4. Small.
5. Responsive.

Automated Switchboard

au·to·ma·ted switch·board *(noun)*

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An annoying computer-generated voice prompt used to answer incoming phone calls. Purpose is to confuse customers or make them wait lengthy periods of time before speaking to a human, in hopes that they will just hang up. Typically used by large, faceless financial institutions.

ANTONYMS *Live Voice, Human*

Bankification

ban·ki·fi·ca·tion *(noun)*

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The process of becoming slow-moving, bureaucratic and institutional. To become pre-occupied with asset gathering. To believe that bigger is better.

Symptoms of bankification include: proliferation of products; constant emphasis on scale; continuous personnel changes; and cute, reassuring ads.

Behavior Gap

be·ha·vior gap *(noun)*

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A term coined by U.S. financial planner and author Carl Richards (hence the American spelling) to describe the phenomenon whereby investors let emotions get in the way of making smart financial decisions. The behavior gap is "the distance between what we should do and what we actually do". It is a key reason why some investors underperform the products they invest in due to poor timing and emotionally driven decisions.

Book Value

book val·ue *(noun)*

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For mutual fund investors, the original purchase value of a fund plus any subsequent purchases and re-invested distributions (including fee rebates). Used for tax purposes to calculate any capital gains (or losses) resulting from the sale of a fund. Book value should not be used in performance calculations as it will understate actual returns if the fund has paid any distributions.

ALSO REFERRED TO AS *Adjusted Cost Base (ACB)*

Closet Indexing

clo·set in·dex·ing *(verb)*

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The practice of a fund manager building a portfolio that closely resembles an index for fear of losing assets or his job if performance fails to stay close to the index. Associated with low conviction, low active share, and underperformance.

ANTONYM *Undexing*

Co-Investment

co-in·vest·ment *(noun)*

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1. The practice of an investment manager or adviser investing alongside, or holding the same portfolio, as her clients.
2. Having a close alignment of interests.
3. Eating one's own cooking.
4. Having skin in the game.

Compound Annual Return

com·pound ann·u·al re·turn *(noun)*

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The average year-over-year growth rate of an investment over a specific time period. The return in each year of the calculation is added (or subtracted) to the previous year's starting value such that the return reflects the effect of compounding.

Concentration

con·cen·tra·tion *(noun)*

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To own a tight collection of investments. To possess in-depth knowledge of the companies in which you invest. To have a high level of conviction in your investments. To only hold securities that you feel are undervalued.

ANTONYM *Diworsification*

Direct Distribution

di·rect dis·tri·bu·tion *(noun)*

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1. The practice of an investment or mutual fund company offering its products directly to investors, rather than through a third-party intermediary.
2. Direct distributors often charge lower fees as they do not pay commissions to salespeople.
3. Cutting out the middleman.

Distributions

dis·tri·bu·tions *(noun)*

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The mechanism whereby mutual funds transfer to unitholders any taxable income they have accrued, including interest and dividend income and realized capital gains. Distributions may be paid out monthly, quarterly or annually depending on the fund. Income funds typically pay monthly or quarterly, while equity funds pay annual distributions. Distributions are typically re-invested into additional fund units, but investors may choose to receive them in cash.

Immediately following a distribution, the price of a fund drops by an amount equal to the payment; however, investors who re-invest receive additional fund units which are equivalent in value to the amount of the distribution. The end result is that the value of the investment doesn't change, but investors own more units in the fund at a lower unit price.

Diversification

di·ver·si·fi·ca·tion *(noun)*

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1. The practice of owning a collection of investments or securities in different industries, geographic regions, or asset classes.
2. Not putting all your eggs in one basket.
3. A strategy to help reduce risk in a portfolio and dampen its volatility of returns.
4. The only free lunch in investing.

SEE ALSO *Diworsification*

Diworsification

di·wor·si·fi·ca·tion *(noun)*

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The practice of owning too many securities or investments such that a portfolio starts to look very similar to the broad market and has no sense of direction.

ALSO KNOWN AS *Overdiversification*.

Dollar Cost Averaging (DCA)

dol·lar cost ave·rag·ing *(noun)*

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A strategy of buying a fixed amount of an investment (such as a mutual fund) on a regular, pre-determined schedule. The investment is purchased regardless of price, which helps take emotion out of the process. Dollar cost averaging can help smooth out the path of returns of an investment, as more shares, or fund units, are purchased when the investment's price is falling and less are bought when the price is rising.

A dollar cost averaging plan, for example, may involve purchasing $1,000 worth of mutual fund units on the 15th day of every month for 24 months.

Duration

dur·a·tion *(noun)*

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A measure of how price sensitive a bond, or bond fund, is to a change in interest rates. Duration is a complex calculation, expressed in years, that takes into account a bond's yield, coupon, final maturity and call features. It's a measure of the approximate change in percentage terms in a bond's price that will result from a 1% change in interest rates. For example, the price of a bond with a duration of 5 years will increase by 5% if interest rates fall 1% (or decrease by 5% if interest rates rise 1%).

Exchange-Traded Fund (ETF)

ex·change tra·ded fund *(noun)*

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A security that seeks to replicate the composition and performance of an index, sub-sector of an index, or underlying basket of securities. ETFs trade like stocks on an exchange and their values change throughout the day. They were developed to provide investors with low-cost, broad-based exposure to widely followed indexes (e.g. the S&P 500 Index and S&P/TSX Composite Index). Their growth has exploded in recent years to include somewhat more expensive actively managed funds and products that track niche sectors of the market.

SEE ALSO *Indexing*

Growth Investing

growth in·vest·ing *(verb)*

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A style of investing in which investors look for companies they feel are poised to grow their revenues or earnings at a higher than average pace. *Growth* stocks typically have higher price-to-earnings multiples (P/E's) and pay small or no dividends (profits are used for expansion, acquisitions or other activities to grow the business).

ANTONYM *Value Investing*

Herd-Speak

herd·speak *(noun)*

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To use the same language and investment dialogue as everyone else. To demonstrate a lack of independent thought. To reflect the consensus view.

Indexing

in·dex·ing *(verb)*

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A form of investing that seeks to replicate the same returns as a given stock or bond market. Indexing can be achieved by investing in exchange-traded-funds (ETFs) or index mutual funds.

ANTONYM *Undexing*

Investment Boutique

in·vest·ment bou·tique *(noun)*

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A small firm that specializes in investing in a certain asset class. Investment boutiques typically have expertise in a specific area of the capital markets and provide investment management services for a select group of clients (such as high-net-worth investors or pension funds).

Leveraged ETF

lev·er·aged E·T·F *(noun)*

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1. An investment product that seeks to double or triple the daily return of an underlying investment.
2. Among the most misunderstood financial products. Suitable for day traders and sophisticated investors only.
3. A ticking time bomb.

Liquidity

li·quid·i·ty *(noun)*

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The ability to easily convert an investment or security into cash without significantly impacting its price. Liquidity can present concerns, and opportunities, for small cap managers, as smaller stocks are less *liquid* than larger ones and can be subject to wide short-term price fluctuations as a result. Liquidity can also become a concern for large investment managers, as it can take them months to buy or sell a position in a stock, and they may not be able to sell a stock without driving its price down materially.

Long Term

long term *(noun)*

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One of the most widely used terms in investing. And also one of the most vague. Long term means different things to different people. To some investors, it's a few years. To Warren Buffett, it's forever.

There's no explicit number of years that constitutes a long time frame, but it has to be long enough to include a number of events. Stocks will get beaten up and boosted up. There will be periods of doom and gloom, and stretches of euphoria and exuberance. Interest rates will rise and fall. Bubbles will form and pop. Gold will be cherished and scorned. Trends will come and go. The pundits will claim *it's different this time*. And markets will eventually revert to their historic averages. Stocks will beat bonds and bonds will beat cash.

The longer the time frame, the more this holds true.

Management Expense Ratio (MER)

man·age·ment ex·pense ra·tio *(noun)*

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A measure of the expenses associated with investing in a mutual fund. A fund's management expense ratio is calculated annually and is expressed as a percentage of a fund's assets. The MER includes management fees (the fee paid to the investment manager for selecting securities and managing the portfolio), all operating expenses (such as legal, custodian, and accounting fees) and taxes (GST/HST).

Market Capitalization

mar·ket ca·pi·tal·i·za·tion *(noun)*

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The total value of a company's shares. A company's market capitalization (also known as market cap) is calculated by multiplying its current share price by the number of shares outstanding.

Stocks may be classified as *small cap*, *mid cap* or *large cap*. Although definitions vary, a small cap stock is often considered a company with a market cap less than $1 billion. A mid cap stock is one with a market cap between $1-10 billion, while a large cap stock is over $10 billion.

Market Timing

mar·ket ti·ming *(verb)*

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1. The act of trying to time, or predict, which asset class will perform the best in the near term and focusing a portfolio in said asset class.
2. To invest in a specific asset class based on a short-term prediction.
3. To forego diversification by buying one asset class and selling another based on speculation.
4. A risky and difficult way of trying to achieve superior returns.

No-Load Fund

no·load fund *(noun)*

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A fund that does not charge investors any sales commissions for purchasing or redeeming units. Typically associated with low-fee and/or direct distribution fund companies (see page 15).

One Simple Fee

one sim·ple fee *(noun)*

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A term which refers to the all-in fees charged by the Steadyhand funds. The One Simple Fee includes the same expenses as a management expense ratio (MER): management fees, operating expenses and taxes. The difference is that it is a fixed fee, whereas an MER can change from year to year due to the variable operating expenses and taxes. In Steadyhand's case, the company pays each fund's variable expenses and charges a fixed fee in return.

Portfolio Turnover

port·fo·li·o turn·o·ver *(noun)*

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1. A measure of the frequency with which securities are bought and sold in a fund.
2. Expressed as a percentage of the portfolio that is "turned over" or changed during a year.
3. Calculated by dividing the total purchases or redemptions (whichever is less) of securities by a fund's average monthly assets.
4. Funds with high turnover incur higher transaction costs and tend to be less tax efficient than funds that adhere to a low turnover approach.

Price-to-Earnings Multiple (P/E Multiple)

price to earn·ings mul·ti·ple *(noun)*

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A valuation ratio of a company's current share price to its annual profits, or earnings per share. The ratio is expressed as a multiple and is an illustration of how much investors are paying per dollar of profit.

For example, if a stock trades at $10 and the company earns $0.50 per share in earnings, it has a P/E multiple of 20 (10/0.50). This is often expressed as *20X earnings*.

The earnings used in the calculation may be from the current period, the last reported annual earnings (referred to as the *trailing P/E*), or an estimate of what the company will earn in the next 12 months (the *forward P/E*). The ratio is used as a comparative tool to determine the value of a stock relative to its peers and historic levels.

Principal-Protected Note (PPN)

prin·ci·pal pro·tec·ted note *(noun)*

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A product that guarantees the principal investment amount, often over a period of five to seven years, and offers the potential to participate in the returns of a specific investment such as an index, fund or basket of securities. The PPN structure also guarantees that investors are foregoing possibly significant returns. One further guarantee is that the issuer is making good money off the note holders while taking on minimal risk, and there is little chance of the adviser selling the product (or any professional investor for that matter) owning it in his or her portfolio.

Right-Sized

right sized *(noun)*

....

1. To have the ability to remain agile in the capital markets and pursue all opportunities in a specific asset class.
2. To not be encumbered by excessive assets under management.
3. Not too big; not too small.
4. To be willing to close your doors to new business.

Sentiment

sen·ti·ment *(noun)*

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The mood of the market. The attitude of investors towards the near-term prospects for a particular index, asset class, or security. Some investment managers view market sentiment as a valuable contrarian indicator. That is, when the bulk of investors are sour on the prospects for the market, it is often a good time to buy, as much of the bad news is already reflected in prices and the downside risk is limited. Conversely, when an asset class can seemingly do no wrong and investors are piling in, it's often a good time to trim back.

Short-Termism

short term·i·sm *(noun)*

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1. To focus on short-term market moves, economic news or company fundamentals.
2. To act on recent events without considering the longer-term implications.
3. To veer off course from an investment plan based on prevailing trends or fads.
4. Investors plagued by short-termism often damage their portfolios by buying high and selling low.
5. A chronic condition among some investors.

Stewardship

stew·ard·ship *(noun)*

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The act of being a steward of capital. Having a close alignment of interests. Good stewardship is characterized by: charging low fees, investing alongside clients, providing transparent reporting on performance and costs, maintaining high compliance standards, educating clients to help them become better investors, and communicating in plain-English.

Strategic Asset Mix (SAM)

stra·te·gic as·set mix *(noun)*

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An investor's long-term mix of stocks, bonds, cash and other investments that will provide her with the best opportunity to achieve her objectives. It should take into consideration an investor's goals, risk tolerance, and investment time horizon.

An investor should not alter her Strategic Asset Mix unless she experiences a change in her personal circumstances such that her investment objectives, risk tolerance or time horizon change. The SAM will evolve over time due to the inevitability of aging, but major shifts should not be made in reaction to short-term market moves.

Style Agnostic

style ag·nos·tic *(noun)*

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A style of investing in which an investor or fund manager does not focus solely on either value or growth stocks. Rather, they are indifferent to style parameters and build portfolios that are not limited to one type of stock. For example, they may own fast growing stocks with high P/E multiples as well as more mature, solid-as-a-rock, high dividend-paying stocks.

SEE ALSO *Value Investing and Growth Investing*

Sub-Advisor

sub-ad·vi·sor *(noun)*

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A money manager (outside of the investment provider itself) hired to manage the assets of a portfolio or fund. Sub-advisors typically possess investment expertise in specific areas of the market.

SEE ALSO *Investment Boutique*

Trailer Fee

trai·ler fee *(noun)*

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A commission paid by a mutual fund company to an investment adviser or salesperson for keeping a client invested in a fund. This annual fee is meant to compensate the salesperson for advice and service provided to the client.

For funds sold with no upfront sales charges, trailer fees are typically 1% for equity funds and 0.5% for bond funds. Trailer fees are embedded in a fund's management expense ratio (MER) and investors are often unaware of them.

Unconstrained

un·con·strained *(noun)*

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1. The ability to invest wherever a fund manager sees the greatest value, regardless of a security's style (growth or value), market capitalization, or index weight.
2. Not having one's hands tied.
3. Free from unnecessary constraints that prevent a manager from acting on his convictions.

SEE ALSO *Undexing, Style Agnostic*

Underweight

un·der·weight *(noun)*

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A term typically used by benchmark-oriented managers to compare the weighting of a stock or sector in their funds to the weighting in the index. Along with *overweight*, one of the most commonly used words in the industry. Indicative of low Active Share (see page 5).

SEE ALSO *Closet Indexing*

ANTONYM *Overweight*

Undexing

un·dex·ing *(verb)*

....

1. To build a concentrated portfolio of securities based on an investment manager's best ideas.
2. To not be afraid to look different than the index in pursuit of higher returns.
3. To not be constrained by index characteristics and weightings when building and managing a portfolio.

Value Investing

val·ue in·vest·ing *(verb)*

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A style of investing in which investors look for stocks that are trading at prices below what they believe to be their intrinsic, or true value. *Value* stocks are commonly characterized as those with low P/E multiples, low price-to-book-value ratios and higher than average dividend yields.

ANTONYM *Growth Investing*

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“Words are, of course, the most powerful drug used by mankind.”

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Rudyard Kipling

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