

Seven investment terms defined for the novice investor

So, you got your first promotion at work and with it comes a decent pay increase. And because you have now developed into a somewhat responsible young adult, you don't spend it on all the things you don't really need. Instead you decide to invest that extra income, but first you would have to learn more about investing. A smart move on your side as investing can be overwhelming if you are not sure where to start.



By [Liezel Visser](#) 29 Jul 2015

Here are a few terms that might assist you in making acquaintance with the somewhat daunting, but always interesting world of investing.

Unit Trusts

A [Unit trust](#) is when a number of people pool their money into a fund that then buys and sells shares or bonds on their behalf.

A unit trust fund comprises of units, which are all equal in value. A price or net value is attached to every unit, where the price or value is determined by the underlying assets of the fund. These assets include cash, listed properties, listed offshore share and a whole lot more.

Stocks

Also known as equity or share. Simply put, a stock is a share of a private company held by an individual. It allows the stockholder to own a percentage or partial ownership of a public company. There are numerous types of stocks, with the two main types being common stocks and preferred stocks. In a nutshell, common stocks entitles you to a vote at shareholders' meeting whereas preferred stocks does not.

Stock Exchanges

A physical or electronic place where shares are bought and sold - or traded. Indexes such as the Dow Jones, NASDAQ and our local JSE gives you an indication of how the stock markets are performing.

Dividends

Now that you've bought stocks in a company you are considered a shareholder, entitling you to a portion of said company profit. This profit is paid out in accordance with the number of shares you own and usually issued quarterly or annually. Companies do this for a number of reasons, generally because they will not secure substantial growth by reinvesting their profit or because they are trying to appeal to investors to invest with them. No matter the reason, you secure a steady source of income.

Small Caps

Smaller companies also sell their share, which are known as small caps. Ironically, small caps have become really big. Investing in a small company can be really rewarding when you see them grow. Even large companies were once small companies with potential. It is however important that you understand the risk involved in investing in small caps. Read more on small caps [here](#).

ETFs

Exchange Traded Fund or ETF is an investment that allows you to invest in a wide range of shares. For the cost of a single investment, you gain access to a variety of investments. An ETF is a hybrid between a share and a unit trust - it pools together investors' money as a unit trust would, but it is listed on the stock exchange and can be traded like shares.

Diversification

Basically, as the saying goes, you shouldn't put all your eggs in one basket. Spread your risk by including several different types of investments in your portfolio, as the market can be a fickle friend.

You are now equipped with a few phrases and key concepts about investing. However, do not worry if you don't understand all the terms right away. You could also start trading and investing with virtual money - you will incur no liability but you will not make millions either. Knowledge and confidence comes with time and experience.

ABOUT LIEZEL VISSER

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