TrinityBridge

Investment glossary

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A

Absolute return
A measure of the gain or loss of an asset during a specific period; it is expressed as a percentage.

Active share
The fraction/percentage of a fund which differs from the constituents of a benchmark/index. A higher percentage means an investment manager is making active decisions to deviate from an index/benchmark, in an attempt to outperform it.

Active stewardship
The range actions investors can take to better understand and influence the activities or behaviour of the companies in which they invest.

Alpha/active return
The excess return of an investment relative to its benchmark.

Annualised return
The average annual return over a period of time which takes into account the effect of compounding.

Asset
An item of property owned by an investor or company.

Asset allocation
Allocating a portfolio's assets according to risk tolerance and investment goals.

Asset class
An asset class groups investments that have similar attributes and are subject to the same laws and regulation. Common asset classes include equities, fixed income, commodities and cash.

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B

Bear market
A prolonged period where markets decline by 20% or more from their most recent high.

Benchmark
A measure, such as an index or sector, against which a portfolio's performance is judged.

Beta
An indicator of the price volatility of a fund or other asset in comparison with the broader market or benchmark. It depicts how sensitive the fund is to movements in the section of the market that comprises the benchmark. A fund with a beta close to 1 means that the fund will generally move in line with the benchmark. If it is higher than 1, the fund is more volatile than the benchmark. For example, a fund with a beta of 1.5 would be expected to rise or fall 1.5 points for every one point of the benchmark's movement.

Bid-offer spread / buy-and sell spread
Tradable securities or investments have different prices depending on whether an investor is buying or selling. Highly liquid securities which are frequently traded in volume typically have a narrower difference/spread between the two, reducing the 'return cost' of buying and selling.

Bond
A product where individuals lend money to a government or company at a specified interest rate for a specific period. It normally pays a fixed rate of interest (also known as a coupon) over a given time, at the end of which the initial amount borrowed is repaid.

Bond issue
A process where an entity (government or company) sells bonds to raise capital. If the bonds are being sold for the first time in the primary market, it is called a 'new issue'.

Bottom-up selection
An investment approach that focuses on the attractiveness of fundamental characteristics of companies. Pure bottom-up investing focuses on microeconomic factors including a company's overall financial health while disregarding the macroeconomic environment and market cycles. The opposite is known as 'top-down' selection. Typically, an investment approach will be a blend of 'top-down' and 'bottom-up'.

Bull market
A prolonged period where markets increase by 20% or more from their most recent low.

Bund
The name of the debt issued by the German government and often used as a proxy for European debt. Its equivalents for the UK and US are gilts and treasuries respectively.

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C

Capital gain / loss
The difference between an asset's purchase price and selling price, when positive or negative.

Capacity for loss
A client's ability/financial resilience to absorb falls in the value of their investment.

Carbon footprint
A measure of the amount of carbon dioxide released into the atmosphere as a result of particular actions. This is expressed as carbon dioxide equivalents (CO_2).

Carbon intensity
A company's reported or estimated greenhouse gas emissions (CO_2) normalised by sales (in millions USD), which allows for comparison between companies of different sizes, industries and/or sectors.

Capital at risk
The risk an investor faces that he or she may lose all or part of the assets invested.

Capital growth
When the current value of an investment is greater than the initial amount invested.

Capital return
The term for the gain or loss derived from an investment over a particular period. Capital return includes only capital gain or loss and excludes income (in the form of interest, coupon and dividend payments).

Close-ended traded company
A company which raises capital through issuing equity on a public exchange with investors trading shares on the open market, not the company itself. Its value may trade at a premium or discount to its reported NAV for an indefinite period of time. (Also see OEIC or open-ended investment company.)

Compounding
The process where an asset's earnings, from either capital gains or interest, are reinvested to generate additional earnings over time.

Consumer Prices Index (CPI)
An index used to measure inflation, or the rate at which prices for a basket of goods and services bought by households change. The contents of the basket are meant to be representative of products and services consumers typically spend money on and are updated regularly. It may be expressed as an annualised or month-on-month figure.

Corporate bonds
A bond issued by a company to raise capital/cash to invest in its operations.

Counterparty risk
The probability that the other party in an investment, exchange of credit, or trading transaction may not fulfil its contractual obligations to repay what it owes, whether partially or fully, by or at a pre-agreed date.

Coupon
The interest paid by the government or company that has raised a loan by selling bonds to investors. A coupon payment is the annual interest rate paid on a bond expressed as a percentage of the face value and paid from issue date until maturity.

Credit rating
An assessment by a credit rating agency of a borrower's ability to repay its debts. A high rating indicates that the credit rating agency considers the issuer to be at low risk of non-payment. A low rating indicates high risk of non-payment.

Custodian
A bank that typically holds and administers the assets of a fund, settles all trades, pays income due and collects all of the valuation data required to calculate the fund's net asset value (NAV).

Credit risk
The probability that a financial obligation will not be paid and a loss will result for the lender.

Credit spread
Typically, but not always, investors demand a higher rate of return when lending to a company than to a government. The difference between the yield of a corporate bond (a fixed income security issued by a company) and a government bond of the same life span is known as the 'credit spread'. Yield refers to the income received from an investment and is expressed as a percentage of the investment's current market value.

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D

Default risk
The risk that a lender will not receive the required payments, whether capital or income due, on a debt obligation such as bond or loan.

Defaulted bond
When a bond issuer does not maintain interest payments or repay the amount borrowed when due.

Derivatives
Financial instruments whose value and price depend on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or directly between two parties ('over the counter' or OTC).

Distribution yield
The amount that is expected to be distributed by the fund over the next 12 months expressed as a percentage of the share price as at a certain date. It is based on the expected gross income less the ongoing charges where they are deducted from income.

Diversification
The practice of investing in a variety of assets which may perform independently of, and differently to, each other. This is a risk management technique where, in a well-diversified portfolio, a loss from an individual holding may be offset by gains in other holdings, thereby lessening the impact on the overall portfolio.

Dividend
A share in the profits of a company, paid out to the company's shareholders at set times of the year.

Dividend yield
The annual income distributed by a company as a percentage of its share price as at a certain date.

Downside risk
Downside risk is a measurement that considers only negative returns. It is calculated as a downside deviation of returns below a specified risk-free rate. It represents an estimation of a security's potential to suffer a decline in price in negative market conditions and could therefore be considered an estimate of the potential loss on any investment.

Duration
A measure of the sensitivity of a fixed income security (bond) or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements. Duration is measured in years and as a rule of thumb, for every 1% move up or down in interest rates, a bond's price will change by approximately 1% in the opposite direction for every year of duration. If a bond has a duration of 4.2 years, and interest rates go up by 1%, then all things equal the bond price may go down by 4.2%.

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E

Earnings per share
The net profit of a company divided by the number of shares in issue.

Earnings yield
Earnings per share divided by the market price of the share, quoted as a percentage. It is the reciprocal of the price/earnings ratio and can be used to compare the earnings of the company against returns from bonds, which are fixed income securities.

Environment, social and governance (ESG) integration
The systematic and explicit inclusion of material environmental, social and governance (ESG) factors in the investment - and decision-making process. It is one of the core requirements for a responsible investing approach.

Equities
Shares of ownership in a company. They offer investors participation in the company's potential profits, but also the risk of losing all their investment if the company goes bankrupt.

Ethical screening
Applying negative screening filters to potential investments to create set exclusions, based on an investor's preferences, values or ethics.

Exchange-traded fund (ETF)
A type of fund that is traded on the stock market like ordinary shares. ETFs can be bought and sold throughout the day, like ordinary shares, whereas other types of funds are typically priced, and may therefore be traded, once a day only.

Exposure
The proportion of a fund invested in a particular share, fixed income security, index, sector or region, usually expressed as a percentage of the overall fund.

F

FCA
The Financial Conduct Authority, the United Kingdom's financial markets regulator.

Fixed Income
An asset class that pays regular dividends or interest payments over a specific period of time. Once this period expires, all things equal the investor gets back the original amount invested. Government and corporate bonds are the most common type of fixed income products.

Foreign exchange
The conversion of one currency into another currency. Foreign exchange also refers to the global market where currencies are traded virtually around the clock. The term 'foreign exchange' is usually abbreviated as 'forex' and occasionally as 'FX'.

Free cash flow yield
A financial solvency ratio that compares the free cash flow per share a company is expected to earn against its market value per share.

Fund
A pool of cash from a group of people in order to buy financial assets.

Fundamental analysis
Valuation methodologies used by analysts to measure a security's intrinsic value. It includes an assessment of the security together with its relevant business, economic, market, industry and sector prospects, and financial performance, to determine whether it is over- or undervalued by the market.

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G

Gilts
Fixed income securities issued by the UK government. They are called gilts because they used to be issued on gilt-edged paper.

Government bonds
Loans issued in the form of fixed income securities by governments. They normally pay a fixed rate of interest over a given time period, at the end of which the initial investment is repaid.

Guide to risk
A document which outlines the experience an investor might expect given the constraints and opportunities of a particular risk profile. It may outline the risks required to obtain a certain level of return, with some probabilistic analysis of its likelihood based on historical data.

H

Hedging
Methods to attempt to reduce unnecessary or unintended risk.

High yield bonds
Loans taken out in the form of fixed income securities issued by companies with a low credit rating from a recognised credit rating agency. They are at higher risk of default than better-quality, higher-rated fixed income securities, but they have the potential for higher rewards. These bonds also tend to be issued for shorter periods of time before maturity, perhaps 10 years or less, as opposed to government bonds which may mature in many decades time.

Historic yields
The historic yield reflects distributions declared over the past 12 months as a percentage of the share price as at the date shown.

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I

Impact investing
Aims to achieve positive social and environmental impacts alongside a financial return. These impacts should be measurable, reported, intentional and additional. The intention should consider who/what experiences the outcome and how underserved they/it were/was before. Impact can be created through capital allocation as well as engagement.

Income
Money paid out by an investment. Dividends are income from shares. Income from bonds is called interest or coupon.

Income shares
A type of share where distributions (also called dividends) are paid out as cash on the payment date.

Income yield
The income received from an investment - usually expressed annually as a percentage based on the investment's cost, its current market value or face value.

Index
An index represents a particular market or a portion of it, serving as a performance indicator for that market or segment.

Index tracking
A fund management strategy that aims to replicate the holdings and the performance of a particular index. It is known as a passive investing strategy.

Index-linked bonds
Fixed income securities where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. Also referred to as inflation-linked bonds.

Inflation
The rate of increase in the cost of living.

Inflation-linked bonds
Fixed income securities where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. Also referred to as index-linked bonds.

Inflation risk
A rise in the price of goods and services generally means a loss of purchasing power. If an investor invests £10,000 in a bond for 10 years, at maturity the capital will be worth less in real terms due to inflation.

Initial public offering (IPO)
The first sale of shares by a private company to the public.

Interest rate risk
The risk that a fixed income investment will lose value if interest rates rise.

Investment grade bonds
Fixed income securities issued by a government or company with a medium or high credit rating from a recognised credit rating agency. They are considered to be at lower risk of default than those issued by issuers with lower credit ratings.

Investment objective
The goal of an investor, a portfolio or a fund.

Investment time horizon
How long a sum of money is invested can have a huge impact on the value of a fund or portfolio.

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J

Junk bond
Fixed income securities issued by a government or company with a low to medium credit rating from a recognised credit rating agency. They are considered to be at higher risk of default than those issued by issuers with higher credit ratings.

K

Key Investor Information Document (KIID)
An Information sheet providing the main facts and figures about UCITS funds. The document aims to help investors understand the nature and key risk of the fund. A separate KIID must be created for each individual share class of a fund.

L

Liquidity
The ease of turning assets into cash when needed. A company's shares are considered highly liquid if they can be easily bought or sold, since they are regularly traded in high numbers.

Long position
Holding a security in the expectation that its value will rise.

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M

Management fee
The fee paid by the investor or client to the fund manager or Bespoke Investment Manager.

Market capitalisation
The current market value of all of a company's outstanding stock shares. It is often used to indicate a company's size and worth.

Market risk
The possibility for an investment to not achieve its return objective.

Maturity
The length of time until the initial amount invested in a fixed income security is due to be repaid to the holder of the security.

Maximum drawdown
The worst possible return over a period — for example, buying at the maximum price over the period and selling at the worst price.

Melt up
A colloquial term for a sustained and perhaps unexpected improvement in investment performance based perhaps more on investors' fear of missing out than on reliable fundamental data.

Modified duration
A measure of the sensitivity of a bond, or bond fund, to changes in interest rates, expressed in years. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

Money market instruments
Debt due to be repaid within a year, in the form of securities that are bought and sold by institutional investors such as banks, pension funds and asset managers. Individual investors need to go through an intermediary such as a bank or asset manager to invest in these instruments.

Monetary policy
A central bank's regulation of money in circulation and interest rates.

Moving day average
A measure of a security's average price over a set period of time, such as 200 days. Any significant deviation from a 'moving day average' may help to identify a new signal that a company is breaking out of a trading range.

Multi-asset investing
Investment through a broad mix of asset classes (equities, bonds and diversifiers) and geographical regions to provide wider portfolio diversification. This reduces risk or volatility but can also dilute potential returns compared with a single asset class, such as US equities or even one individual company.

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N

Negative screening
Exclusion from a fund or portfolio of certain sectors, companies, countries or other issuers based on certain criteria. Exclusion criteria (based on norms and values) can refer, for example, to product categories (eg weapons, tobacco), company practices (eg animal testing, violation of human rights, corruption) or controversies.

Net asset value (NAV)
The current value of the fund's assets minus its liabilities.

O

Ongoing Charge Figure (OCF)
The total annual operating cost of running the fund, expressed as a percentage.

Open-ended investment company (OEIC)
A type of managed fund whose value is directly linked to the value of the fund's underlying investments. The fund creates or cancels shares depending on whether investors want to redeem or purchase them.

Overweight
If a fund is 'overweight' a stock, it holds a larger proportion of that stock than the benchmark index or sector.

P

Passive management
An approach to investing whereby capital is allocated according to the stock or sector weightings of an index. Passive management is also referred to as 'indexing' or 'tracking'.

Passive manager
A fund manager who takes a passive approach to investing. The passive investor aims to match the returns from the stock market or specified index/sector, rather than to beat them.

P/E ratio (or PER)
A ratio expressing how many times current (or future) years' earnings an investor is paying today for one share/equity in a company. It is expressed by dividing the current share price by earnings per share. A share price of 200p and EPS of 10p implies a P/E ratio of 20x. The measure can be used to compare the valuations of similar companies in the same sector, or against the market.

Physical assets
An item of value that has tangible existence: for example cash, equipment, inventory or real estate. Physical assets can also refer to securities, such as company shares or fixed income securities.

Portfolio transaction cost
This includes trading costs such as brokerage, clearing, exchange fees and bid-offer spread, as well as taxes such as stamp duty.

Principal
The face value of a fixed income security, which is the amount due to be repaid to the investor by the borrower when the security reaches the end of its life (or matures).

Private markets / private equity / private credit
Terms used to explain direct investment in companies or structures which are not listed on public exchanges, whether in their equity or debt. Infrastructure, energy and real estate are common examples. To spare some confusion, some private equity companies are publicly-listed.

Prospectus
A formal written offer to sell securities. Prospectuses are issued by investment funds, containing information required by the regulator.

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R

Real Estate Investment Trust (REIT)
A publicly-traded company that owns, operates or finances income-producing properties.

Ratings
An evaluation of the credit quality of a bond, usually made by a recognised credit rating agency.

Real return
The return on an investment over a specified period, adjusted for inflation. The real rate of return indicates the extent to which the purchasing power of a sum invested has been preserved.

Real yield / real interest rate
A stated yield adjusted for inflation – ie the prevailing or expected rate of inflation has been deducted from a nominal yield.

Recession
An economic downturn defined as at least two consecutive quarters of declines in a country's gross domestic product. The definition of what constitutes a recession, and who determines one, differs by country.

Relative return
The return of an asset in a given period compared with that of a particular benchmark. It is expressed as the difference between the asset's percentage return and that of the benchmark. It is also known as 'alpha'.

Replication
Constructing a portfolio that mirrors the performance of a specific market index or benchmark.

Responsible investing
An approach to managing assets whereby investors explicitly consider and integrate the impact of material environmental, social and governance (ESG) factors on the long-term financial risk and return of their investments. Investors will also use these considerations to inform a diligent active ownership and stewardship approach. No specific sustainability goals are required for a responsible investing approach.

Return on Investment Capital (ROIC)
This shows how efficiently a company uses its capital to generate profits. The higher the ROIC, the better.

Retail Prices Index (RPI)
A UK inflation index that measures the rate of change of prices for a basket of goods and services in the UK, including mortgage payments and council tax which are excluded from CPI. RPI is typically higher than CPI.

Risk
The chance that an investment's return will be different to what is expected. Risk includes the possibility of losing some or all of the original investment.

Risk budget
The amount of risk an investment manager may take as defined by an investment mandate for a particular risk profile.

Risk management
The term used to describe the activities the fund manager undertakes to limit the risk of a loss in a fund, such as diversification or fundamental analysis.

Risk premium
The price or payoff for taking increased risk. It is the difference between the return from a risk-free asset, such as a high-quality government bond or cash, and the return from an investment in any other asset. A higher risk premium implies higher risk.

Risk profile
A way to determine the most appropriate risk and return combination for an investor's own risk appetite and circumstances. This will vary according to their capacity for loss, investment time horizon and personal attitude to risk and will commonly be determined in conjunction with their adviser or investment manager. Common risk profiles include: conservative, balanced, growth, low, moderate or high.

Risk/reward ratio
A ratio comparing the expected returns of an investment with the amount of risk undertaken.

Risk-free asset
An asset that theoretically carries no risk of non-payment by the borrower, for example cash, or a high-quality bond issued by a government.

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S

Security
Financial term for a specific asset – usually a share in a company or a fixed income security.

Share
An ownership stake in a company, usually in the form of a security - also called equity. Shares offer investors participation in the company's potential profits, but also the risk of losing all their investment if the company goes bankrupt.

Share class
Type of fund shares held by investors in a fund (share classes differ by levels of charge and/or by other features such as hedging against currency risk).

Shareholder
An owner of shares in a company.

Short position
A way for an investor to express their view that the market might fall in value.

Sharpe ratio
A risk-adjusted ratio that measures reward per unit of risk. The higher the Sharpe ratio, the better.

Socially responsible investing (SRI)
A broad term for any investment discipline which seeks to consider both financial returns as well as social and environmental good, to bring about positive change to society. These strategies have often combined ethical, ESG, and/or impact criteria, and may employ screening.

Standard deviation
A statistical measure of the dispersion of a set of data from its mean (average), indicating the spread of a fund's returns over a certain period of time.

Strategic asset allocation (SAA)
The long-term asset class mix designed to produce the best outcome under a range of different market scenarios, both good and bad, for each investor risk profile. The SAA will frequently determine the 'top-down' approach to investments in certain geographies, markets or sectors.

Stress test
A technique used to test the resilience of institutions and investment portfolios against possible future financial situations.

Sustainability focus
A FCA defined label for investment products with a sustainability objective consistent with an aim to invest at least 70% in assets that are environmentally and/or socially sustainable, determined using the robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability.

Sustainability impact
A FCA-defined label for investment products with a sustainability objective consistent with an aim to achieve a pre-defined positive, measurable, impact in relation to an environmental and/or social outcome (and invest at least 70% of their assets in accordance with that aim).

Sustainability improvers
A FCA-defined label for investment products with a sustainability objective consistent with an aim to invest at least 70% in assets that have the potential to improve environmental and/or social sustainability over time, and that are determined by their potential to meet the robust, evidence-based standard of sustainability. Firms must obtain robust evidence for selecting those assets.

Sustainability mixed goals
A FCA-defined label for investment products with a sustainability objective to invest at least 70% in accordance with a combination of the sustainability objectives for the other labels. Firms must identify (and disclose) the proportion of assets invested in accordance with any combination of the other labels. However, requirements for each of the other labels must be met.

Sustainable investment
Actively targeting specific sustainability themes, characteristics or objectives (we define this as key to long term human and/or planetary prosperity) alongside financial returns. ESG integration can be a part of this discipline to better manage risk and enhance long-term financial returns but does not determine a sustainable investment on its own.

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T

Tactical asset allocation (TAA)
Whilst adhering to a SAA, on occasion investment managers may want to express an over- or underweight asset allocation to a particular region or sector, to eke out perceived extra returns or to mitigate perceived risk. Typically, a TAA decision to move away from the SAA may be relatively short-term but may persist longer.

Top-down investing
An investment approach that analyses economic factors, ie surveys the 'big picture' of macro-economic data, before selecting which companies to invest in. The top-down investor will look at things like economic growth, inflation and the business cycle to pick stocks.

Total return
The gain or loss derived from an investment over a particular period, including income and price appreciation in that period. Income can be in the form of interest for bonds or dividend payments for shares.

Tracking error
This statistic measures the standard deviation of a fund's excess returns over the returns of an index or benchmark portfolio. As such, it can be an indication of 'riskiness' in the manager's investment style, or the 'active risk' of the portfolio.

Transaction cost
The cost of trading, such as brokerage, clearing and exchange fees as well as taxes such as stamp duty.

Treasuries
Fixed income securities issued by the US government.

Turnover / Portfolio Turnover
Turnover is the pace that a company replaces assets within a certain period of time. Portfolio Turnover is a measure of how frequently an investment manager buys and sells assets within a set time – there are different measures of Portfolio Turnover.

U

UN Sustainable Development Goals (UN SDGs)
The 17 Sustainable Development Goals that were set in 2015 by the United Nations General Assembly. The mission of the goals is to be a blueprint to achieve a better and more sustainable future for all people and the world by 2030.

Unconstrained
The mandate of a fund whereby the manager has the freedom to invest according to his or her own strategy, rather than being obliged to allocate capital according to the weightings of an index that the fund seeks to beat or track.

Underlying value
The fundamental value of a company reflecting its tangible and intangible assets, rather than the current market value or stock price.

Underweight
Holding a smaller proportion of a stock than the benchmark index or sector.

Unit / unit trust
A unit is a 'share' to represent ownership in a unit trust, which is a type of managed fund whose value is linked to the underlying investments. The unit trust's size grows or shrinks as investors buy or sell units.

United Nations Global Compact
A United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies and to report on their implementation.

Unlisted/Unquoted stocks
Shares of ownership in companies that are not listed on a public exchange, known as private companies.

Unrated debt / bonds
Bonds – typically issued by companies – which have no formal credit rating from a credit rating agency but which analysts may believe are investible. Many companies decide not to pay for an official credit rating, preferring to pay a higher yield to investors as compensation instead.

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V

Valuation
The worth of an asset or company, based on the present value of the cashflows it will generate.

VIX (Volatility Index)
A common proxy for equity market volatility. The VIX is the risk-neutral expected volatility of the stock market over the next 30 days and is calculated from options on the S&P 500 index. The VIX tends to spike when investors are uncertain or fearful, hence it is commonly referred to as a 'fear gauge'. A long-run average for the VIX is ~20.

Volatile
When the value of a particular share, market or sector swings up and down fairly frequently and/or significantly, it is considered volatile.

Volatility
The amount and frequency with which an investment fluctuates in value.

Y

Yield
This refers to either the interest received from a fixed income security or to the dividends received from a share.

Yield to maturity
The rate of return an investor will receive if a long-term investment, such as a bond - with interest/coupon included - is held to its maturity.

We would be delighted to talk

If you would like further information please get in touch.

For more details about TrinityBridge, our offices, and our people, please visit **trinitybridge.com**

Please be aware that no investment, or investment strategy, is without risk. The value of investments can fall as well as rise and you may get back less than you invested.

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TBR15875. August 2025.