

FROM YOUR ADVISOR

DEFINING THE TERMS: PART 2

Does some investing lingo leave you in a quandary? We explain a few commonly used terms

Annual dividend/yield: The amount of a security's income that is distributed to the issuing company's shareholders during the course of a year. Some stocks pay shareholders a portion of company profits in the form of dividends, while bondholders typically receive interest payments. Both payments may be referred to as the investment's yield. To calculate a security's annual yield, simply divide the amount of income paid out to investors during the past year by its share price.

Benchmark: A yardstick used to measure a security's performance. For example, the S&P/TSX composite index, which tracks about 260 of the largest Canadian companies, is commonly used as a benchmark used to compare the performance of Canadian equity mutual funds. Other indices, such as the S&P 500 composite index, which tracks 500 of the largest U.S. companies, or the BMO small-cap index, which tracks Canadian small-capitalization stocks, are used as benchmarks for U.S. equity and domestic small-

cap funds, respectively. Other uses for benchmarks include assessing a mutual fund's allocation relative to an index. A fund's portfolio management team also may establish internal benchmarks, for example, as a way to adhere to self-imposed asset-allocation guidelines.

Underweight/overweight: This refers to whether a mutual fund's allocation to a given type of asset is greater than (overweight) or less than (underweight) that of its benchmark. For example, a Canadian equity fund that holds 15% of assets in financial services stocks may be said to be underweighted in that sector relative to a benchmark such as the S&P/TSX composite index.

Real return: An asset's return after accounting for inflation. For example, a security that returns 10% in a given year in which inflation runs at 2% has a real return of 8%.

Definitions by Adam Zoll / Morningstar.com