Helpful Stuff from QUOTEDDATA

Investment Companies: The Basics

Investment companies are companies set up to make investments on behalf of their shareholders (also called closed-end funds and, in specific circumstances, investment trusts).

Invest with an expert: Buying an investment company is a useful way of delegating responsibility for managing all or part of your investments to an expert.

Spread your risk: Buying a spread of investments (diversifying your portfolio) is important. All things being equal, it reduces your risk as it reduces the chance that one specific problem will have a major impact on your entire wealth.

Efficient: Buying an investment company rather than a collection of different investments should save you money in dealing charges.

Long-term thinking: Open-ended funds (such as unit trusts, OEICs and UCITs) expand and contract when people want to invest in them or take money out of them. Their investment managers need to worry about turning the portfolio into cash in a hurry if investors decide they want their money back. Some people think this encourages a mentality of short-term thinking. Investment companies can choose to issue new shares or buy them back but, because this is optional, they can also take a genuinely long-term view about the merits of an investment.

Wider choice of investments: With the freedom not to worry about short-term cash flows, investment companies are freer to invest in things that cannot be sold in a hurry (like property and private equity)

Board on your side: Each investment company has a Board of Directors whose job is to look after your interests. The vast majority of these Boards are independent from the fund manager and so they can exert pressure to keep running costs down and keep the manager on the right path.

You have a vote: As a shareholder, you have a say in how your company is run. You get to vote on important issues. You can attend meetings and ask questions.

Net asset values: The investment company will publish a net asset value - the regularity of these usually depends on how easy it is to value the company's investments. The net asset value is the value of all the company's investments less the value of all the money it owes and is usually expressed as a number per share.

Discounts and premiums: The value of your shares is determined by supply and demand. If there are more shares than people want to buy the price falls, if there is demand for more shares than are available then the price rises – in each case reaching a level where demand and supply are matched. This means that the share price can be lower than the net asset value – a discount – or higher than the net asset value – a premium.

Use the glossary to get an explanation of any phrase you don't understand – everything highlighted in green here links to the glossary Hopefully this page has given you a basic understanding of investment companies. Like any industry, the investment company industry is littered with jargon and abbreviations. If you want to find out more, please use the glossary on our website – which can be accessed by typing in the word you are looking for in the search box.