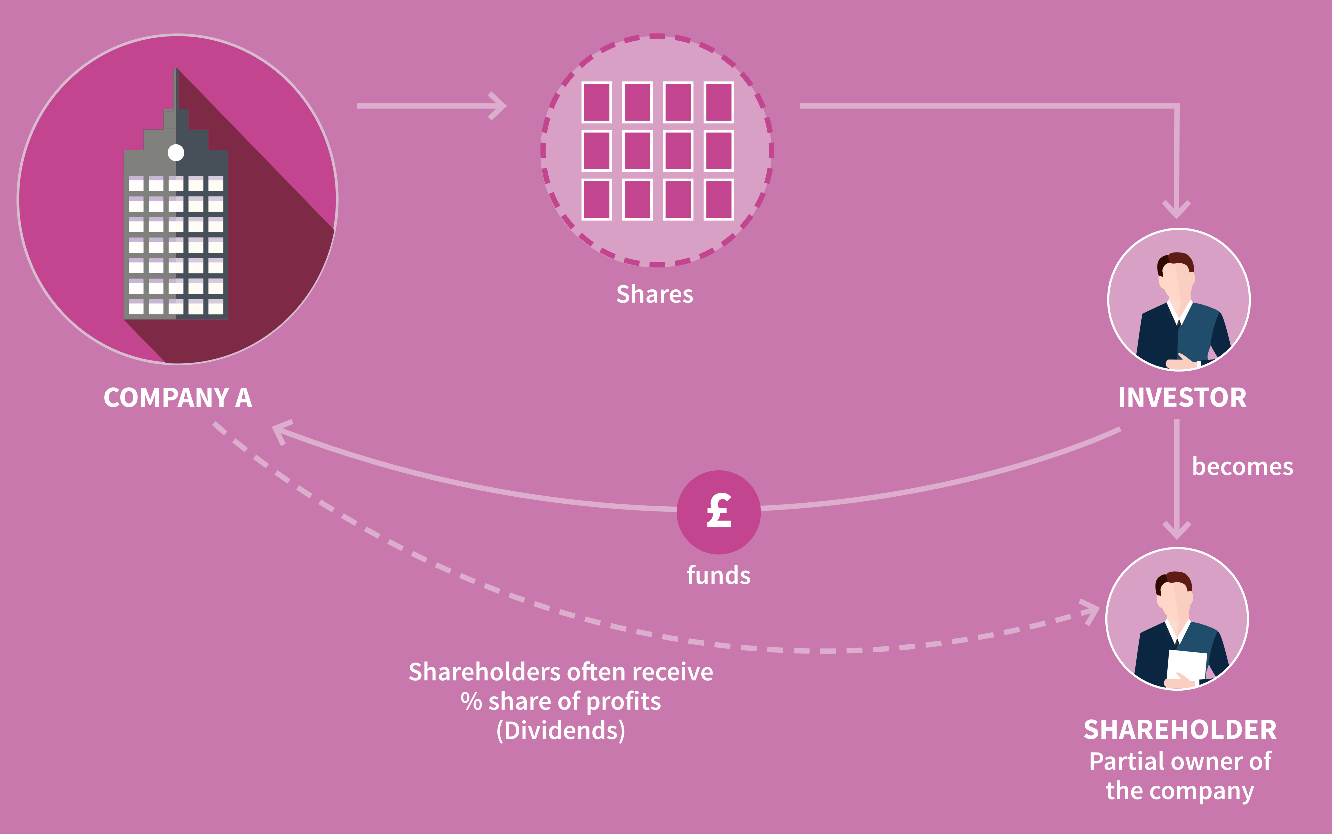
What is an equity?

Equites, also known as shares, are issued by companies looking to raise cash and listed on a stock exchange such as the UK's FTSE 100.



When an investor buys a share in a company, they invest in a small piece of the company issuing the equity, making them a shareholder in that firm.

This means they're entitled to a fraction of the assets and to share in its successes (and failures).

Key benefits

Dividends

Payouts made to shareholders of corporation who share their profits with their investors. Usually dividends are paid either quarterly, twice a year or annually.

Capital growth

If the company's value increases, typically over a number of years, its share price would also increase. Investors can sell these shares at a higher price than what they bought them at and make a capital gain.

Share prices are driven by basic demand and supply. Generally speaking, if demand for a particular stock outweighs supply, its price will go up and vice versa.

Key risks

Market volatility

share prices can be very volatile and you could lose some, if not all, of what you invest. This could be due to various factors such as political, structural and economic changes.

Income is not guaranteed

this is dependent on the dividend and will fluctuate.

Equity funds

Stocks and shares can be packaged into a mutual fund, where an experienced fund manager will pick and choose equities to hold on behalf of investors.

Given that shares can be volatile, many investors typically choose to spread and diversify their money across a wide array of stocks, thereby only risking a small percentage of their capital on each one.

Investing in stocks should always be treated as a long-term endeavour and as such it is generally accepted that you will need a time horizon of at least five years but preferably far longer.

A–Z

Your A – Z glossary of key words used in the investment management industry.

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