

Chapter 1: Investing Concepts

Video 4

Understanding your investment returns

Annualized return

Annualized return measures how much an investment has grown on an annualized basis (over a one-year period). Reviewing annualized returns is common in the investment industry, as it simplifies comparing the returns of different investments.

Cumulative return

Cumulative return shows you the total change in the value of an investment over a specific period. Over longer time periods, the cumulative return of an investment can be a very large number.

Dividend

A dividend is a portion of profit that a company shares with its shareholders (the company's investors). Not all companies pay dividends.

Dollar-weighted return

Unlike time-weighted return, dollar-weighted return measures how well your investment has performed considering additional contributions or withdrawals after your initial investment. This method is particularly useful when evaluating your personal rate of return on an investment.

Investment returns

Investment returns express how much a security, or collection of securities (generally referred to as a portfolio), increases or decreases in value over time. These returns are often expressed as a percentage change. There are two main components of a security's total investment return: the change in price and any income earned over the period.

Price return

Price return measures the change in value of an initial investment without considering the reinvestment of dividends, interest or realized capital gains.

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Understanding your investment returns (cont.)

Realized capital gain/loss

Realized capital gains and losses refer to the change in value of an investment that is captured once you switch out of or sell the investment. Because you no longer own the investment, any gain or loss experienced from the time of original purchase is effectively locked in or “realized” at the time of sale.

Time-weighted return

Time-weighted return is one of the ways investment returns are calculated. It refers to the performance of an investment over a specific period of time, independent of any further investments or sales after your initial purchase.

Total return

Total return, unlike price return, includes the impact of reinvesting any income received, or any realized capital gains.

Unrealized capital gain/loss

Unrealized capital gains and losses refer to the increases or decreases in value of a security, or a collection of securities (generally referred to as a portfolio). We refer to these gains and losses as “unrealized” so long as you continue holding your investments, because you do not lock in, or “realize,” the gains or losses until you switch investments or sell them.