

Chapter 2: Building an investment portfolio

Video 6

Breaking down asset classes

Credit quality

Credit quality measures an entity's ability to pay off its debts consistently. High credit quality indicates that the entity is consistently meeting its debt obligations, and low credit quality indicates that the entity faces higher default risk.

Duration

Duration is a measure of how sensitive a bond's price is to changes in interest rates. It is expressed in years: a longer duration indicates that a bond's price will react more to changes in interest rates, while a bond with a shorter duration will react less.

Factor

Any characteristic that affects how a security behaves in the market.

Style factors

Style factors are specific characteristics or strategies that investors use to categorize stocks and guide their investment choices. Some common style factors include value, growth, quality, momentum and low volatility.