

Glossary of Financial Terms

A

administrative fees

Fees charged by a mutual fund company to maintain and administer the fund.

advisor

A person or organization employed by an individual or mutual fund to manage assets or provide investment advice. Also called financial advisor, investment advisor or investment counsel. Sometimes spelled adviser.

agency bond

A bond, issued by a U.S. government-sponsored agency. The offerings of these agencies are backed by the U.S. government, but not guaranteed by the government since the agencies are private entities. Agency bonds are usually exempt from state and local taxes, but not federal tax.

agent

An individual or firm authorized to act on behalf of another (called the principal), such as by executing a transaction or selling and servicing an insurance policy. The agent does not assume any financial risk in the transaction, as a dealer would.

American Stock Exchange (AMEX)

The second-largest stock exchange in the U.S., after the New York Stock Exchange (NYSE). In general, the listing rules are a little more lenient than those of the NYSE, and thus the AMEX has a larger representation of stocks and bonds issued by smaller companies than the NYSE.

amortization schedule

The schedule of payments for paying off a loan.

Annual Percentage Rate (APR)

The yearly cost of a mortgage, including interest, mortgage insurance, and the origination fee (points), expressed as a percentage.

annual report

Audited document required by the SEC and sent to a public company's or mutual fund's shareholders at the end of each fiscal year, reporting the financial results for the year (including the balance sheet, income statement, cash flow statement and description of company operations) and commenting on the outlook for the future.

annuitant

A person who is entitled to receive benefits from an annuity.

annuity

A contract sold by an insurance company designed to provide payments to the holder at specified intervals, usually after retirement. The holder is taxed only when they start taking distributions or if they withdraw funds from the account. All annuities are tax-deferred, meaning that the earnings from investments in these accounts grow tax-deferred until withdrawal. Annuity earnings are also tax-deferred so they cannot be withdrawn without penalty until a certain specified age. Fixed annuities guarantee a certain payment amount, while variable annuities do not, but do have the potential for greater returns. Both are relatively safe, low-yielding investments.

asset allocation

The process of dividing investments among different kinds of assets, such as stocks, bonds, real estate and cash, to optimize the risk/reward tradeoff based on an individual's or institution's specific situation and goals.

B

backend loan fund

A loaded mutual fund that charges a sales fee when you sell your shares.

backup withholding

The IRS uses backup withholding to make sure people without a proper Social Security number or taxpayer identification number still pay taxes.

balance sheet

A quantitative summary of a company's financial condition at a specific point in time, including assets, liabilities and net worth. The first part of a balance sheet shows all the productive assets a company owns, and the second part shows all the financing methods (such as liabilities and shareholders' equity).

balanced investment strategy

A method of portfolio allocation designed to provide both income and capital appreciation while avoiding excessive risk.

balanced mutual funds

Mutual funds that attempt to marry income and growth investing in companies that pay dividends, but are growing.

bank CD ladder

A strategy of buying bank CDs with different maturities so that as the shorter-term CDs mature, the investor buys a longer-term CD. This keeps a spread of maturities and protects against interest rate fluctuations.

bear market

A prolonged period in which investment prices fall, accompanied by widespread pessimism. If the period of falling stock prices is short and immediately follows a period of rising stock prices, it is instead called a correction. Bear markets usually occur when the economy is in a recession and unemployment is high, or when inflation is rising quickly.

bearer bond

An unregistered, negotiable bond on which interest and principal are payable to the holder, regardless of whom it was originally issued to. Bearer bonds are being phased out in favor of registered bonds.

beneficiary

An individual, institution, trustee, or estate which receives, or may become eligible to receive, benefits under a will, insurance policy, retirement plan, annuity, trust, or other contract.

benefits schedule

The schedule on an insurance policy that lists what the insurance company covers and at what rate of coinsurance (if any).

blue chip stocks

Stock of a large, national company with a solid record of stable earnings and/or dividend growth and a reputation for high quality management and/or products.

bond ladder

A strategy of buying bonds with different maturities so that as the shorter-term bonds mature, the investor buys a longer-term bond. This keeps a spread of maturities and protects against interest rate fluctuations.

bond mutual funds

Mutual funds that invest in bonds and may target long or short maturities and different issuers.

bonds

Debt instruments. They represent an obligation on the part of the issuer to repay the debt. Governments and private corporations issue bonds.

book value

A company's common stock equity as it appears on a balance sheet, equal to total assets minus liabilities, preferred stock, and intangible assets such as goodwill.

broker/dealer

Any individual or firm in the business of buying and selling securities for itself and others. Broker/dealers must register with the SEC.

budgeting

A process of intentionally planning your spending so you live within your income and save for important financial goals.

bull market

When the market shows significant and long-term growth in values as shown by rising market indicators.

buy and hold investment strategy

A long-term strategy that suggests buying and holding quality investments for long periods and has a high probability of success.

C

callable bonds

Some bonds have a "call" clause that allows the issuer to pay them off before maturity.

capital gain

The amount by which an asset's selling price exceeds its initial purchase price. A realized capital gain is an investment that has been sold at a profit. An unrealized capital gain is an investment that hasn't been sold yet but would result in a profit if sold.

capital preservation strategy

A conservative investment strategy that values preservation of capital above return. An ultra conservative strategy is often used to pass a large "corpus" or body of a trust to the next generation.

cash equivalents

Highly liquid, very safe investments which can be easily converted into cash, such as Treasury Bills and money market funds.

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cash managed accounts

Accounts often offered by brokerage services to high-end investors. The product is a way to manage cash and investment assets under a single account.

Certificates of Deposit (CDs)

Short- or medium-term, interest-bearing, FDIC-insured debt instrument offered by banks and savings and loans. CDs offer higher rates of return than most comparable investments, in exchange for tying up invested money for the duration of the certificate's maturity. CDs are low risk, low return investments, and are also known as "time deposits".

Certified Financial Planner (CFP)

A title conveyed by the International Board of Standards and Practices for Certified Financial Planners. A Certified Financial Planner must pass a series of exams and enroll in ongoing education classes. Knowledge of estate planning, tax preparation, insurance, and investing is required.

Chartered Financial Consultant (ChFC)

a designation which identifies those professionals with knowledge in a broad range of financial topics, and may have expertise in one or more specific areas. This individual may provide financial planning services independently.

Chartered Life Underwriter (CLU)

a designation which identifies those professionals with knowledge in the broad range of life insurance products available, and the most effective uses of these products.

Chicago Board of Trade

An exchange where grain, gold, and Treasury Bond futures and options are traded.

closed-end mutual fund

A hybrid type of mutual fund investment that offers shares for sale only once. After that there are no new shares sold. The remaining shares are traded like stocks and can be bought and sold on the open market.

coinsurance

An insurance policy provision under which the insurer and the insured share costs incurred after the deductible is met, according to a specific formula. Also called copay.

common stock

The primary unit of ownership in a corporation. Holders of common stock are owners of the corporation with certain rights including voting on major issues concerning the corporation. Shareholders, as they are known, have liability limited to the value of stock they own.

compounding

A process whereby the value of an investment increases exponentially over time due to compound interest.

Consumer Price Index (CPI)

An inflationary indicator that measures the change in the cost of a fixed basket of products and services, including housing, electricity, food, and transportation.

convertible bonds

Bonds that can be converted to common stock instead of cash.

corporate bonds

Bonds issued by corporations to finance a number of different projects, including the acquisition of other companies. Issuing bonds is often cheaper than commercial loans and better than issuing new stock.

correlation

The degree to which stocks that appear to be diversified react to the same economic situation. Stocks that may be in completely different industries, but still react poorly to an economic indicator, are highly correlated.

coupon

The interest rate on a fixed income security, determined upon issuance, and expressed as a percentage of par.

credit score

A measure of credit risk calculated from a credit report using a standardized formula. Factors that can damage a credit score include late payments, absence of credit references, and unfavorable credit card use.

D

death benefit

The payment made to a beneficiary from an annuity or policy when the policyholder dies. Also called survivor benefit.

deductible

The amount of a loss that an insurance policy holder has to pay out-of-pocket before reimbursement begins in accordance with the coinsurance rate.

defined benefit plan

A company retirement plan, such as a pension plan, in which a retired employee receives a specific amount based on salary history and years of service, and in which the employer bears the investment risk. Contributions may be made by the employee, the employer, or both.

defined contribution plan

A company retirement plan, such as a 401(k) plan or 403(b) plan, in which the employee elects to defer some amount of his/her salary into the plan and bears the investment risk.

demand account

A bank account, such as a savings account, that is of low value to a bank because the owner can demand money from it at any time and without penalty. Banks make money by lending out deposits in the form of loans, but they must keep a high percentage of reserves for demand accounts in case owners want their funds.

dilution

The change in earnings per share or book value per share that would result if all warrants and stock options were exercised and all convertible securities were converted.

Direct Investment Plans (DIPs)

Some companies allow investors to buy stock directly without going through a broker. Usually, the company accepts periodic debits from an investor's bank account to buy the shares.

discount brokers

A brokerage which executes buy and sell orders at commission rates lower than a full-service brokerage, but which typically provides fewer services such as research and advice.

diversification

A portfolio strategy designed to reduce exposure to risk by combining a variety of investments, such as stocks, bonds, and real estate, which are unlikely to all move in the same direction. The goal of diversification is to reduce the risk in a portfolio.

Dividend Reinvestment Plans (DRIPs)

Investors are allowed to reinvest dividends back into the investment program to buy more shares of stock or a mutual fund. You can also set up a DRIP and make periodic payments as a way of buying stock without going through a broker.

dividend yield

The yield a company pays out to its shareholders in the form of dividends. It is calculated by taking the amount of dividends paid per share over the course of a year and dividing by the stock's price.

dividends

A taxable payment declared by a company's board of directors and given to its shareholders out of the company's current or retained earnings, usually quarterly. Dividends are usually given as cash (cash dividend), but they can also take the form of stock (stock dividend) or other property. Dividends provide an incentive to own stock in stable companies even if they are not experiencing much growth.

dollar-cost averaging

An investment strategy designed to reduce volatility in which securities, typically mutual funds, are purchased in fixed dollar amounts at regular intervals, regardless of what direction the market is moving. Thus, as prices of securities rise, fewer units are bought, and as prices fall, more units are bought. Also called constant dollar plan.

Dow Jones Industrial Average (Dow)

This index is the best known and most widely quoted in the popular press. The Dow consists of 30 companies considered leaders in their industries. Together they account for a significant amount of the value in the market.

E

economic indicators

Statistical data showing general trends in the economy. Those with predictive value are leading indicators; those occurring at the same time as the related economic activity are coincident indicators; and those that only become apparent after the activity are lagging indicators.

economic risk

In financing a project, the risk that the project's output will not generate sufficient revenues to cover operating costs and to repay debt obligations.

EE/E savings bond

A government savings bond that pays a fixed interest rate for up to 30 years. EE/E bonds bought before May 2005 pay a variable interest rate. Interest accrues and is paid when the bond is cashed in.

emergency fund

A ready supply of cash to meet your family's essential needs for a period of at least three months and up to one year in the event you lose all or a substantial part of your family's income.

Employee Stock Ownership Plan (ESOP)

Retirement plans, also known as ESOPs, that use company stock to fund part of the employee's retirement. ESOPs may be combined with other plans such as the 401(k).

equity

The difference between what your house is worth and what you owe.

escrow

An account held by the lender into which a homeowner pays money for taxes and insurance.

expense ratio

For a mutual fund, operating costs, including management fees, expressed as a percentage of the fund's average net assets for a given time period. The expense ratio does not include brokerage costs and other transaction costs that may contribute to a fund's total expenses.

F

Fair Credit Billing Act (FCBA)

A federal law, passed as an amendment to Regulation Z, also known as the Truth in Lending Act. The FCBA is intended to protect consumers from credit card account billing errors or other unfair practices.

Federal Reserve Board

The 7-member Board of Governors that oversees Federal Reserve Banks, establishes monetary policy (interest rates, credit, etc.), and monitors the economic health of the country. Its members are appointed by the President subject to Senate confirmation, and serve 14-year terms; also called the Fed.

financial checkup

A routine review of your finances to see how your situation may have changed since the last review and what adjustments you need to make in investments, savings, insurance and so on.

Financial Industry Regulatory Authority (FINRA)

A regulatory body created after the merger of the National Association of Securities Dealers and the New York Stock Exchange's regulation committee. The Financial Industry Regulatory Authority is responsible for governing business between brokers, dealers and the investing public.

financial planning

An ongoing process that considers your current circumstances and projects what will be needed to reach your financial goals. It contains a strategy for reaching your financial goals within the period you define.

fiscal year

The bookkeeping year for a company. It may or may not correspond with a calendar year.

float

The time after you have written a check, but before the amount has been deducted from your account.

full-service brokers

Stockbrokers who offer comprehensive services to persons wishing to invest, including recommendations on specific products and proprietary research.

fundamental analysis

A method of security valuation which involves examining the company's financials and operations, especially sales, earnings, growth potential, assets, debt management, products, and competition.

futures

A standardized, transferable, exchange-traded contract that requires delivery of a commodity, bond, currency, or stock index, at a specified price, on a specified future date. Unlike options, futures convey an obligation to buy. The risk to the holder is unlimited, and because the payoff pattern is symmetrical, the risk to the seller is unlimited as well.

G

goodwill

An intangible asset which provides a competitive advantage, such as a strong brand, reputation, or high employee morale. In an acquisition, goodwill appears on the balance sheet of the acquirer in the amount by which the purchase price exceeds the net tangible assets of the acquired company.

Gross Domestic Product (GDP)

The total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports.

growth investing

An investment strategy that seeks companies with significant capacity for long-term growth.

growth mutual funds

A fund that makes investments in stocks of companies with the potential of rapid and sustained growth.

growth stock

Stock of a company which is growing earnings and/or revenue faster than its industry or the overall market.

H

Health Maintenance Organizations (HMOs)

A form of health insurance combining a range of coverages in a group basis. A primary physician within the HMO handles referrals.

Health Savings Accounts (HSAs)

A part of an employee's health plan, into which deposits can be made by the employer or the employee. These funds can then be used to pay for a variety of the individual's medical expenses, such as insurance co-pays and deductibles, as well as over-the-counter medicine.

I

I bonds

U.S. Treasury bonds that have a fixed rate of return and inflation protection. The principal increases by the total of the fixed rate and the inflation adjustment. There is no federal tax due until funds are withdrawn.

income mutual funds

Funds that invest in stocks and bonds that provide high levels of current income.

income statement

A financial document listing income and expenses of a company that reveals how much was made or lost. Part of the annual report.

index

A way to measure financial activity. An index has an arbitrary beginning value and as the underlying stocks or bonds change in value, the index either rises or falls.

index mutual fund

A mutual fund that seeks to mimic some key market index like the S&P 500. Index funds are known for very low expense ratios since they do little buying or selling unless the underlying index changes.

Individual Retirement Accounts (IRAs)

A tax-deferred retirement account for an individual that permits individuals to set aside money each year, with earnings tax-deferred until withdrawals begin at age 59 1/2 or later (or earlier, with a 10% penalty). Only those who do not participate in a pension plan at work or who do participate and meet certain income guidelines can make deductible contributions to an IRA. All others can make contributions to an IRA on a non-deductible basis. Such contributions qualify as a deduction against income earned in that year and interest accumulates tax-deferred until the funds are withdrawn.

inflation

The erosion of future purchasing power so that money is worth less while the price of goods and services rises.

Initial Public Offering (IPO)

The first time a company issues stock for sale to the public. The company is said to be "going public" when this happens. The offering is highly regulated and often surrounded by a lot of media attention.

interest rate

The stated percentage of the loan or deposit product. However, it is not necessarily the rate you will pay or receive because it does not factor in any compounding.

international mutual funds

Also known as global funds, they make it possible for you to participate in the economic systems of foreign countries. These funds buy stocks and bonds in foreign economies.

investing

An active form of using money to make money, where return is important and some risk is acceptable.

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J

junk bonds

Also known as high yield bonds, these securities pay high interest rates because there is a significant risk of default. They should not be part of a conservative portfolio and only a very small part of a more aggressive portfolio.

K

Keogh Plan

A tax-deferred qualified retirement plan for self-employed individuals and unincorporated businesses. Also called self-employed pension.

L

large cap stock

A company with a market capitalization of \$8 billion or more.

leverage

The degree to which an investor or business is utilizing borrowed money.

life cycle mutual funds

A single fund that has a target date that corresponds to the investor's retirement. As the investor nears the retirement date, the fund shifts the investment mix to a more conservative stance.

life events

Changes in your personal or family situation that may have an effect on your taxes or filing status. Life events include loss of job, marriage, divorce, children, death of a spouse and so on.

life/health license

Licensing required by each state for individuals to pursue and conduct insurance business.

liquidity

The ability of an asset to be converted into cash quickly and without any price discount.

living benefits riders

Options available when purchasing a variable annuity. Two types of living benefits riders are: guaranteed minimum withdrawal benefit and guaranteed minimum income benefit. These give annuitants the ability to protect their retirement investments against downside market risk by allowing the annuitant the right to withdraw a maximum percentage or to a specific income amount of their investment.

loaded fund

A mutual fund that charges a sales fee or commission, which is paid to the broker who sold the shares. The load may be up front or deferred.

Long Term Care Insurance (LTCI)

An insurance policy that provides benefits for the chronically ill or disabled over a long period of time.

M

maintenance fee

A charge assessed on some types of brokerage accounts, at a fixed frequency, usually annually.

management fee

A charge paid to managers of a mutual fund for their services; usually also includes fund administration costs and investor relations. Typically a certain percentage of assets under management.

margin

Using money borrowed from a broker/dealer to purchase securities; here also called buying on margin.

market capitalization

Market capitalization represents the aggregate value of a company or stock. It is obtained by multiplying the number of shares outstanding by their current price per share.

mid cap stock

Any company with a market capitalization of \$1 billion to \$8 billion

money market accounts

A savings account which shares some of the characteristics of a money market fund. Money market accounts offer many of the same services as checking accounts although transactions may be somewhat more limited. They are very safe and highly liquid investments, but offer a lower interest rate than most other investments.

money market funds

An open-end mutual fund which invests only in money markets. These funds invest in short term (one day to one year) debt obligations such as Treasury Bills, Certificates of Deposit, and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends.

Moody's Investors Services

Analyzes and rates investments including bonds along with Standard and Poors.

municipal bonds

Also known as munis, these bonds are issued by state and local governments to finance a variety of projects such as road construction, new schools, and so on. They are often repaid out of tax revenue. When bought by residents in the jurisdiction, these bonds are free from federal, state, and local income tax.

mutual funds

Funds that represent a group of individuals who have pooled their money and hired a professional management company to invest their money. Each mutual fund has specific goals and objectives that drive its buy and sell decisions. Mutual funds may invest in stocks, bonds, or both.

N

Nasdaq

A computerized system established by the NASD to facilitate trading by providing broker/dealers with current bid and ask price quotes on over-the-counter stocks and some listed stocks. Unlike the Amex and the NYSE, the Nasdaq (once an acronym for the National Association of Securities Dealers Automated Quotation system) does not have a physical trading floor that brings together buyers and sellers. Instead, all trading on the Nasdaq exchange is done over a network of computers and telephones.

Nasdaq Composite Index

An index that covers the Nasdaq market of more than 5,000 stocks.

National Association of Securities Dealers (NASD)

A self-regulated body of securities' brokers that is supervised by the Securities and Exchange Commission. The NASD licenses and examines brokers and handles consumer complaints.

Net Asset Value (NAV)

The dollar value of a single mutual fund share, based on the value of the underlying assets of the fund minus its liabilities, divided by the number of shares outstanding. Calculated at the end of each business day.

New York Stock Exchange

The oldest and most prestigious of all stock exchanges. The NYSE is home to most of the "blue chip" companies.

New York Stock Exchange Index

Covers all the stocks on the NYSE, making it a broad measurement of larger companies.

No-Load Fund

A mutual fund which doesn't impose a sales or redemption charge, selling and redeeming its shares at net asset value; opposite of load fund.

nonqualified retirement plan

These plans are not recognized by the IRS and don't enjoy all the tax benefits of qualified retirement plans. However, some products, such as annuities, do allow earnings to grow tax deferred until withdrawn.

P

par value

The original amount of a bond at full price.

passive fund

Managers of a passive fund make virtually no investment decisions. An index fund would be a passive fund.

preferred stock

As the name implies, preferred stock is a different class of stock with additional rights not granted to common stock owners. Among these rights is first call on dividends.

Price/Earnings Growth Ratio (PEG)

Investors use the PEG to look into the future relationship of earnings and growth. It is calculated by dividing forward earnings estimates into the P/E.

Price/Earnings Ratio (P/E)

One of the most important measurements of a stock's value, the P/E is a way to show how a company's earnings relate to the stock price. The P/E is calculated by dividing the current price of the stock by the annual earnings per share.

principal

The amount borrowed, or the part of the amount borrowed which remains unpaid (excluding interest); here also called principal amount.

profit sharing plan

An arrangement in which an employer shares some of its profits with its employees. The compensation can be stocks, bonds, or cash, and can be immediate or deferred until retirement. Profit-sharing allows for changing contributions each year. Unless the plans are defined as an elective deferral plan, the contributions are not tax deductible. Contributions and earnings can grow tax-deferred until withdrawal.

prospectus

A legal document offering securities or mutual fund shares for sale, required by the Securities Act of 1933. It must explain the offer, including the terms, issuer, objectives (if mutual fund) or planned use of the money (if securities), historical financial statements, and other information that could help an individual decide whether the investment is appropriate for him/her; also called offering circular or circular.



qualified retirement plan

A plan that meets the requirements of Internal Revenue Code Section 401(a) and the Employee Retirement Income Security Act of 1974 (ERISA) and is thus eligible for favorable tax treatment. These plans offer several tax benefits: they allow employers to deduct annual allowable contributions for each participant; contributions and earnings on those contributions are tax-deferred until withdrawn for each participant; and some of the taxes can be deferred even further through a transfer into a different type of IRA; opposite of non-qualified retirement plan.



rate sensitive

A product or service that is affected by changes in interest rates.

ratio

A comparison of the relationship between financial items.

Real Estate Investment Trusts (REITs)

Similar to mutual funds in that they are traded as securities, making them more liquid than other forms of real estate investments.

recession

A general downturn in the nation's economy. Economists define a recession by two consecutive quarters of negative growth in the country's Gross Domestic Product (GDP).

redemption

Financial talk for the term used in the mutual fund industry to describe selling shares. Unlike stocks, which are bought and sold on the open market, mutual fund shares are bought from the mutual fund company and sold (or redeemed) back to the company when you want to cash out.

Registered Health Underwriter (RHU)

a designation signifying an individual specializes in disability and health insurance.

revolving credit

A form of short-term loan that replenishes itself as the customer pays off outstanding balances.

risk

A measurement of the possibility that an investment will not earn the anticipated return or that you will lose some or all of your investment.

risk premium

What an investment should return in exchange for the amount of risk associated with the product. The riskier the product, the higher the risk premium should be.

risk tolerance

A way to judge how much risk you are willing to take to achieve an investment goal. The higher your risk tolerance, the more risk you are willing to take.

rollover

A tax-free reinvestment of a distribution from a qualified retirement plan into an IRA or other qualified plan within a specific time frame, usually 60 days. These transfers can happen when leaving a job at an employer who offered a retirement plan such as a 401(k) plan. The company can issue a check for the amount minus 20% in withheld taxes. To avoid this penalty, the rollover must be done trustee to trustee, meaning that the check is made out to the new trustee or custodian of the rollover IRA. The company will provide the check and the participant must deposit the check into the new account within 60 days; also called IRA rollover.

Roth 401(k) plan

Identical in most ways to a traditional 401(k) except contributions are taken from after-tax dollars. Distributions from the plan are tax-free.

Roth IRA

A new type of IRA, which allows taxpayers, subject to certain income limits, to save for retirement while allowing the savings to grow tax-free. Taxes are paid on contributions, but withdrawals, subject to certain rules, are not taxed at all.



S&P 500 Index

An index developed by Standard and Poors that measure the health of the market's larger companies. Because it is a broader measure (500 companies), many consider it reflective of the market's condition. It is the benchmark used by most financial professionals to represent "the market." When a mutual fund boasts that it "beat the market," it is most often the S&P 500 index they are referencing.

saving

The passive placement of your money where safety is more important than return.

Savings Incentive Match Plan for Employees IRA (SIMPLE-IRA)

The SIMPLE-IRA is a qualified retirement plan offered by small businesses that lets employees contribute a portion of their salary to a special IRA account.

sector mutual funds

Funds that invest in various sectors of the economy such as technology or health care.

Securities and Exchange Commission (SEC)

The chief regulatory body over the stock markets and companies that are publicly traded.

Securities Investor Protection Corporation (SIPC)

A private government-sponsored agency that provides insurance to protect your assets at a brokerage firm in the event the brokerage fails. Coverage is up to \$500,000 per account. The insurance does not protect against trading losses.

Separately Managed Accounts (SMAs)

A portfolio of assets under the management of a professional investment firm. In the U.S., the vast majority of such firms are called Registered Investment Advisors (RIAs), and operate under the regulatory auspices of the Investment Advisors Act of 1940 and the purview of the U.S. Securities and Exchange Commission (SEC). One or more portfolio managers are responsible for day-to-day investment decisions, supported by a team of analysts, operations and administrative staff. Each portfolio is unique to a single account.

Series 3 license

Futures and Commodities. License required for those performing certain functions in the commodities business.

Series 4 license (CROP)

Compliance Registered Options Principal. License required to approve and monitor customer options trading levels. Individuals must also hold a Series 7 license.

Series 6 license

Investment Company/Variable Contracts. License required for those performing certain functions for investment companies including mutual funds and variable contracts.

Series 7 license

General Securities Representative. License required for those performing certain functions in the brokerage business (general securities).

Series 8 or 9/10 license

General Sales Supervisor. License required for supervisory roles in the securities industry. Individuals must also hold a Series 7 license.

Series 63 license

Uniform Securities Agent State Law. The state license required for both Series 6 and Series 7 registered individuals.

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Series 65 license

Registered Investment Advisor. License required for individuals acting as investment advisors.

Simplified Employee Plan (SEP)

Designed for self-employed people, partnerships, or unincorporated businesses. The employer sets up an IRA for each employee, but the employee owns and controls it. The employer may or may not make contributions.

small cap stock

A company with a market capitalization of \$1 billion or less.

socially responsible mutual funds

A mutual fund that only invests in companies that meet certain ethical and moral standards. Socially responsible funds try to maximize returns while staying within these self-imposed boundaries.

spousal IRA

A traditional IRA or Roth IRA set up by a married person in the name of his/her spouse who has little or no compensation. There is a \$3,000 limit on Spousal IRA contributions, but the working spouse can contribute an additional \$3,000 to an individual IRA. Couples must file jointly in that year.

spread

The difference between the current bid and the current ask (in over-the-counter trading) or offered (in exchange trading) of a given security; also called bid/ask spread.

Standard and Poors

An investment research service that provides a number of market indexes including the S&P 500. They also provide a rating service for bonds.

Statement of Cash Flow

This report is part of the annual report and describes the source of a company's cash and how that has changed from the previous year.

stockbroker

Also known as a broker, a person licensed and authorized to buy and sell securities.

They are required to pass examinations and meet certain standards of conduct set by the National Association of Securities Dealers (NASD).

T

tax-deferred

Income whose taxes can be postponed until a later date. Examples include IRA, 401(k), Keogh Plan, annuity, Savings Bond and Employee Stock Ownership Plan.

technical analysis

A method of picking buy and sell points that focuses on the supply and demand for a stock and tries to predict future moves in the price.

Treasury Inflation-Protected Security (TIPS)

A bond issued by the U.S. Treasury. TIPS has a fixed rate of return, but the principal is adjusted according to changes in the Consumer Price Index.

transaction fees

The fees charged for just about any service provided by a financial institution involving buying or selling of securities such as stocks, bonds, and mutual funds.

turnover

The percentage of a mutual fund's holdings that are bought and sold each year. The higher the turnover, the higher the fund's expense ratio and tax liabilities may be.

U

umbrella policy

Liability protection that begins after your automobile or homeowners liability protection has been exhausted. It covers a variety of liability issues including libel and slander cases.

Unified Managed Accounts (UMAs)

A professionally managed private investment account that is rebalanced regularly and can encompass every investment vehicle (e.g. mutual funds, stocks, bonds and exchange traded funds) in an investor's portfolio, all in a single account.

Unit Investment Trusts (UIT)

A hybrid mutual fund that buys a fixed portfolio of stocks or bonds and never sells or buys any more. They are sold by brokers and traded on the open market.

U.S. Treasury Bill

A negotiable debt obligation issued by the U.S. government and backed by its full faith and credit, having a maturity of one year or less. U.S. Treasury Bills are exempt from state and local taxes. These securities do not pay a coupon rate of interest, and the interest earned is estimated by taking the difference between the price paid and the par value of the bond, and calculating that rate of return on an annual basis. Treasury Bills are considered the safest securities available to the U.S. investor, and so the yield on these securities are considered the risk-free rate of return.

U.S. Treasury Bond

A negotiable, coupon-bearing debt obligation issued by the U.S. government and backed by its full faith and credit. Interest is paid semi-annually. U.S. Treasury Bonds are exempt from state and local taxes. These securities have the longest maturity of any bond issued by the U.S. Treasury, from 10 to 30 years. U.S. Treasury Bonds pay interest every 6 months at a fixed coupon rate. These bonds are not callable, but some older U.S. Treasury Bonds available on the secondary market are callable within five years of the maturity date.

U.S. Treasury Note

A negotiable debt obligation issued by the U.S. government and backed by its full faith and credit, having a maturity of between 1 and 10 years. U.S. Treasury Notes are safe investments and are actively traded in the secondary market.

U.S. Treasury Strips

A special security sold by brokerage firms and other financial institutions that are U.S. Treasury issues with no periodic interest and are sold at a discount to face value. The interest is realized when the bond is redeemed for the full face value.

V

value investing

An investment style which favors good stocks at great prices over great stocks at good prices. Utilizes such valuation measures as price to book ratio, price/earnings ratio and yield.

Y

yield to maturity

Yield that would be realized on a bond or other fixed income security if the bond was held until the maturity date. It is greater than the current yield if the bond is selling at a discount and less than the current yield if the bond is selling at a premium.

Z

zero coupon bonds

A bond which pays no coupons, is sold at a deep discount to its face value, and matures at its face value. A zero-coupon bond has the important advantage of being free of reinvestment risk, though the downside is that there is no opportunity to enjoy the effects of a rise in market interest rates. Also, such bonds tend to be very sensitive to changes in interest rates, since there are no coupon payments to reduce the impact of interest rate changes. In addition, markets for zero-coupon bonds are relatively illiquid. Under U.S. tax law, the imputed interest on a zero-coupon bond is taxable as it accrues, even though there is no cash flow.

Sources:

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- Personal Finance Desk Reference, Appendix B.
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