

A

Annualized rate of return - The average annual return over a period of years, taking into account the effect of compounding. Annualized rate of return also can be called compound growth rate.

Appreciation - The increase in value of a financial asset.

Asset allocation - The process of dividing investments among cash, income and growth buckets to optimize the balance between risk and reward based on investment needs.

Asset class - Securities with similar features. The most common asset classes are stocks, bonds and cash equivalents.

Annuity- a fixed sum of money paid to someone each year, typically for the rest of their life.

B

Balanced fund - Mutual funds that seek both growth and income in a portfolio with a mix of common stock, preferred stock or bonds. The companies selected typically are in different industries and different geographic regions.

Basis Point

One one-hundredth (.01) of a percentage point. For example, eight percent is equal to 800 basis points.

Bear market - A bear market is a prolonged period of falling stock prices, usually marked by a decline of 20% or more. A market in which prices decline sharply against a background of widespread pessimism, growing unemployment or business recession. The opposite of a bull market.

Benchmark - A standard, usually an unmanaged index, used for comparative purposes in assessing performance of a portfolio or mutual fund.

Bond - A bond acts like a loan or an IOU that is issued by a corporation, municipality or the U.S. government. The issuer promises to repay the full amount of the loan on a specific date and pay a specified rate of return for the use of the money to the investor at specific time intervals.

Bond fund - A mutual fund that invests exclusively in bonds.

Breakpoint - The level of dollar investment in a mutual fund at which an investor becomes eligible for a discounted sales fee. This level may be achieved through a single purchase or a series of smaller purchases.

Bull market - Any market in which prices are advancing in an upward trend. In general, someone is bullish if they believe the value of a security or market will rise. The opposite of a bear market.

C

Capital gain - The difference between a security's purchase price and its selling price, when the difference is positive.

Capital loss - The amount by which the proceeds from a sale of a security are less than its purchase price.

Cash equivalent - A short-term money-market instrument, such as a Treasury bill or repurchase agreement, of such high liquidity and safety that it is easily converted into cash.

Common stock - Securities that represent ownership in a corporation; must be issued by a corporation.

Corporate bond - A long-term bond issued by a corporation to raise outside capital.

D

Diversification - The process of owning different investments that tend to perform well at different times in order to reduce the effects of volatility in a portfolio, and also increase the potential for increasing returns.

Dividend - A dividend is a portion of a company's profit paid to common and preferred shareholders. Dividends provide an incentive to own stock in stable companies even if they are not experiencing much growth. Companies are not required to pay dividends.

Dollar cost averaging - Investing the same amount of money at regular intervals over an extended period of time, regardless of the share price. By investing a fixed amount, you purchase more shares when prices are low, and fewer shares when prices are high. This may reduce your overall average cost of investing.

Dow Jones Industrial Average (Dow) - The most commonly used indicator of stock market performance, based on prices of 30 actively traded blue chip stocks, primarily major industrial companies. The Average is the sum of the current market price of 30 major industrial companies' stocks divided by a number that has been adjusted to take into account stocks splits and changes in stock composition.

E

Employee Retirement Income Security Act (ERISA)

The Employee Retirement Income Security Act of 1974, which is administered by the U.S. Department of Labor. ERISA does not require employers to offer a pension plan. But it does require employers...

Equities - Shares issued by a company which represent ownership in it. Ownership of property, usually in the form of common stocks, as distinguished from fixed-income securities such as bonds or mortgages. Stock funds may vary depending on the fund's investment objective.

Equity fund - A mutual fund/collective fund in which the money is invested primarily in common and/or preferred stock. Stock funds may vary, depending on the fund's investment objective.

Exchange-Traded Fund (ETF)

Exchange-traded funds (ETFs) are SEC-registered investment companies that offer investors a way to pool their money in a fund that invests in stocks, bonds, or other assets. In return, investors...

Expense ratio - The ratio between a mutual fund's operating expenses for the year and the average value of its net assets.

Expense ratio (date) - Amount, expressed as a percentage of total investment that shareholders pay annually for mutual fund operating expenses and management fees.

F

Federal Funds Rate (Fed Funds Rate) - The interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the prime rate and the discount rate, which are periodically changed by banks and by the Federal Reserve Board.

Federal Reserve Board (The Fed) - The governing board of the Federal Reserve System, it regulates the nation's money supply by setting the discount rate, tightening or easing the availability of credit in the economy.

Fixed income fund - A fund or portfolio where bonds are primarily purchased as investments. There is no fixed maturity date and no repayment guarantee.

Fixed income security - A security that pays a set rate of interest on a regular basis.

Form 1099, Investment Income (Interest and Dividends)

The federal tax laws require brokerage firms, mutual funds, and other entities to report on Form 1099 all investment income, usually interest or dividends, they have paid to investors during the...

G

Growth investing - Investment strategy that focuses on stocks of companies and stock funds where earnings are growing rapidly and are expected to continue growing.

Growth stock - Typically a well-known, successful company that is experiencing rapid growth in earnings and revenue, and usually pays little or no dividend.

Growth-style funds - Growth funds focus on future gains. A growth fund manager will typically invest in stocks with earnings that outperform the current market. The manager attempts to achieve success by focusing on rapidly growing sectors of the economy and investing in leading companies with consistent earnings growth. The fund grows primarily as individual share prices climb.

H

I

Index - An investment index tracks the performance of many investments as a way of measuring the overall performance of a particular investment type or category. The S&P 500 is widely considered the benchmark for large-stock investors. It tracks the performance of 500 large U.S. company stocks.

Individual Retirement Account (IRA) - A tax-deferred account to which an eligible individual can make annual contributions up to \$3,000 (\$6,000 for a single-income married couple filing a joint income tax return).

Inflation - A rise in the prices of goods and services, often equated with loss of purchasing power.

Initial Public Offering (IPO)

An initial public offering, or IPO, generally refers to when a company first sells its shares to the public. For more information about IPOs generally, see our ...

Interest rate - The fixed amount of money that an issuer agrees to pay the bondholders. It is most often a percentage of the face value of the bond. Interest rates constitute one of the self-regulating mechanisms of the market, falling in response to economic weakness and rising on strength.

Investment company - A corporation, trust or partnership that invests pooled shareholder dollars in securities appropriate to the organization's objective. Mutual funds, closed-end funds and unit investment trusts are the three types of investment companies.

J

Junk bond - A lower-rated, usually higher-yielding bond, with a credit rating of BB or lower.

Large-cap - The market capitalization of the stocks of companies with market values greater than \$10 billion.

K

L

Lifecycle Funds

A diversified mutual fund that automatically shifts towards a more conservative mix of investments as it approaches a particular year in the future, known as its "target date." A lifecycle fund...

M

Management fee - The amount paid by a mutual fund to the investment advisor for its services.

Market timing - A risky investment strategy that calls for buying and selling securities in anticipation of market conditions.

Mid-cap - The market capitalization of the stocks of companies with market values between \$3 to \$10 billion.

Money market mutual fund - A short-term investment that seeks to protect principal and generate income by investing in Treasury bills, CDs with maturities less than one year and other conservative investments.

Mutual fund - Fund operated by an investment company that raises money from shareholders and invests it in stocks, bonds, options, commodities or money market securities.

N

NASDAQ - National Association of Securities Dealers Automated Quotations system, which is owned and operated by the National Association of Securities Dealers. NASDAQ is a computerized system that provides brokers and dealers with price quotations for securities traded over-the-counter as well as for many New York Stock Exchange listed securities.

Net Asset Value per share (NAV) - The current dollar value of a single mutual fund share; also known as share price. The fund's NAV is calculated daily by taking the fund's total assets, subtracting the fund's liabilities, and dividing by the number of shares outstanding. The NAV does not include the sales charge. The process of calculating the NAV is called pricing.

O

P

Preferred stock - A class of stock with a fixed dividend that has preference over a company's common stock in the payment of dividends and the liquidation of assets. There are several kinds of preferred stock, among them adjustable-rate and convertible.

Price-to-earnings (P/E) Ratio - A stock's price divided by its earnings per share, which indicates how much investors are paying for a company's earning power.

Prospectus - Formal written offer to sell securities that sets forth the plan for proposed business enterprise or the facts concerning an existing one that an investor needs to make an informed decision. Prospectuses are also issued by mutual funds, containing information required by the SEC, such as history, background of managers, fund objectives and policies, financial statement, risks, services and fees.

Proxy - A shareholder vote on matters that require shareholders' approval.

Q

R

Roth 401(k) Plan

An employer-sponsored Roth 401(k) plan is similar to a traditional plan with one major exception. Contributions by employees are not tax deferred but are made with after-tax dollars. Income earned.

S

Sector - A group of similar securities, such as equities in a specific industry.

Sector breakdown - Breakdown of securities in a portfolio by industry categories.

Securities - Another name for investments such as stocks or bonds. The name 'securities' comes from the documents that certify an investor's ownership of particular stocks or bonds.

Securities and Exchange Commission (SEC) - The federal agency created by the Securities and Exchange Act of 1934 that administers the laws governing the securities industry, including the registration and distribution of mutual fund shares.

Small-cap - The market capitalization of the stocks of companies with market values less than \$3 billion.

Standard & Poor's Depository Receipts (SPDR) Trust

An ETF designed to replicate the performance of the Standard & Poor's 500 Index. Because of its acronym, the SPDR instrument is referred to as a "spider."

Standard & Poor's Index - Broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks commonly known as the Standard & Poor's 500 or S&P 500.

Stockholder - The owner of common or preferred stock of a corporation. Also called 'shareholder.'

Systematic investment plan - A service option that allows investors to buy mutual fund shares on a regular schedule, usually through bank account deductions.

T

Target Date Fund

A diversified mutual fund that automatically shifts towards a more conservative mix of investments as it approaches a particular year in the future, known as its "target date." A target date fund...

Total return - Accounts for all of the dividends and interest earned before deductions for fees and expenses, in addition to any changes in the value of the principal, including share price, assuming the funds' dividends and capital gains are reinvested. Often, this percentage is presented in a specified period of time (one, five, ten years and/or life of fund). Also, a method of calculating an investment's return that takes share price changes and dividends into account.

Treasury bill - Negotiable short-term (one year or less) debt obligations issued by the U.S. government and backed by its full faith and credit.

Treasury bond - Negotiable long-term (10 years or longer) debt obligations issued by the U.S. government and backed by its full faith and credit.

Treasury note - Negotiable medium-term (one year to 10 years) debt obligations issued by the U.S. government and backed by its full faith and credit.

Treasury security - Securities issued by the U.S. Treasury Department and backed by the U.S. government.

U

V

Value investing - A strategy whereby investors purchase equity securities that they believe are selling below estimated true value. The investor can profit by buying these securities then selling them once they appreciate to their real value.

Value-style funds - Value-style funds typically hold company stocks that are undervalued in the market. Fundamentally strong companies whose stocks are inexpensive but trending upward may also be selected for value funds.

W

Wash Sales

A wash sale occurs when you sell or trade securities at a loss and within 30 days before or after the sale you: Buy substantially identical securities, Acquire substantially identical securities in.

X

Y

Yield - Annual percentage rate of return on capital. The dividend or interest paid by a company expressed as a percentage of the current price.

Z

#

401(k) Plan

An employer-sponsored retirement savings plan that gives employees a choice of investment options, typically mutual funds. Employees who participate in a traditional 401(k) plan have a portion of...

403(B) Plan

A type of tax-deferred retirement savings program available to employees of public schools, certain non-profits, and some members of the clergy.

529 Education Savings Plan

A type of 529 plan that lets an account owner open an investment account to save for the account beneficiary's qualified higher education expenses or tuition for elementary or secondary public,...