

AARP: American Association of Retired Persons.

Absolute total return (investment) management: A investment management style that is not constrained by benchmarks, indexes, asset allocation models or other investing tools that could impede its ability to perform in any market environment. All investing is really about making money and preserving wealth , absolute managers manage funds with such a mandate, often having only a numerical value at risk measurement or normal investment management , mutual fund or regulatory constraint's .

Administrator: Individual or entity responsible for reporting to and complying with all Internal Revenue Service and Department of Labor requirements in the administration of retirement plans.

age-driven dispositions: Part of an estate plan that distributes assets once a beneficiary attains a certain age. See also event driven distributions.

agent: One who acts for another, also called a *principal*. One who represents another from whom he or she has derived authority.

aggressive growth fund: A stock-oriented mutual fund with an investment objective of substantial capital gains and little income over the long term.

AMT: Alternative minimum tax. This is a tax calculation that uses a separate accounting method with its own unique rules that govern the recognition of income and expenses. It was originally designed to ensure that taxpayers with substantial income are not able to avoid paying tax by the inclusion of certain tax preference items.

annual mutual fund expense ratio: Yearly mutual fund fee assessed to cover the fund's expenses including management fees, transaction fees, and marketing expenses. Annual expense ratios usually vary from 0.20% to about 3% of a fund's net asset value. The expense ratio is deducted from each shareholder's holdings.

annual renewable term (ART): A form of pure protection life insurance that guarantees the right to renew coverage each year without evidence of insurability (physical examination), usually to age 65.

annual report: The formal financial and important information statement issued yearly by a corporation, trust, or other entity. The annual report shows assets, liabilities, earnings, standing of the company at the close of the business year, performance of

the company with regard to profits during the year, and other information of interest to shareowners.

annuity: An immediate vehicle that provides for the payment of a specific sum of money at uniform intervals (usually monthly). It provides the annuitant with a guaranteed income either immediately or at retirement. Annuities usually pay until death or for a specific period and can provide protection against outliving your financial resources.

arbitrage: Dealing in differences, for example, buying on one exchange while simultaneously selling short on another market at a higher price.

ASCLU: American Society of Chartered Life Underwriters (insurance agents, salespeople, and education association).

asset: On a balance sheet, that which is owned or receivable.

asset allocation: An investment tool similar to diversification that can be used to manage risk (and reward) in portfolios.

association insurance: A form of group insurance. However, instead of being an employee, the insured is a member of a trade or professional association. Associations exist for most professions such as the American Medical Association and for common social causes such as the American Association of Retired Persons. Typically, the member pays dues or membership fees to the association, and as a benefit the member may purchase various types of insurance such as disability and life insurance at group rate discounts and favorable group underwriting requirements.

back-end load: A commission or fee charged to investors by some commission broker-sold mutual funds when the investors sell their shares in the fund. The fees, which range from about 1% to 6%, typically reduce by about 1% for each year the investor holds the fund. For instance, a fund with a maximum 5% back-end load will charge the full 5% the first year. But the fee normally drops to 4% the second year, 3% the third year, 2% the fourth year, 1% the fifth year, and nothing after the fifth year. The two types of back-end loads are deferred sales charges and redemption fees. Funds with deferred sales fees base charges on the net asset value of the shares when they were purchased, whereas redemption fees are based on the prices of the shares at the time they are sold. Thus, if a fund has a strong gain, much more is paid in redemption fees than in deferred sales charges. Back-end loads are a bad deal; avoid funds with

back-end loads. *See also* **load, no-load, front-end load, redemption fee, deferred sales charge.**

balanced fund: A mutual fund that usually keeps within a flexible range of its total assets invested in senior securities such as bonds, stocks, and other assets. Balanced funds have some flexibility and can change their portfolio's characteristics to manage the risk desired by the fund's investment policy.

behavioral finance: A theory stating that important psychological and behavioral variables are involved in investing in the stock market and other investment markets that provide opportunities for smart investors to profit. This theory is in opposition to theories that assert that markets are efficient. Proponents of efficient market theory say that any new information relevant to an investment's value is quickly priced into the market through the process of arbitrage. By contrast, behavioral finance proponents argue that people do not behave rationally and that they let emotions, inertia and biases affect their investment behavior. Understanding that such effects exist can help investors benefit from the irrational behavior of other participants in the markets. *See also* endowment behavior and recency effect.

Bond: A fixed income security issued by an entity, such as a government or company that has a stated maturity date and interest payment.

Bond ladder: A tool in the management of a bond portfolio that can be used to increase rewards or reduce risks by laddering a number of bonds over time to mature at different dates. For example buying 5 , 10 , 15 ,20 year maturity bonds of equal value would be a bond ladder. If the manager had ascertained that interest rates would be rising then she or he might have a ladder equally invested in 1, 2, 3, 4, year maturity bonds. If a manager felt interest rates might be stable or falling and/or because longer term bonds had better yields , she or he might have a bond ladder of investments in bonds maturing in 10, 15 ,20 , 25 and 30 years.

call: An option to buy a specified amount (number of shares of stock) of a certain investment at a certain price within a specified period of time.

callable: A bond or preferred stock issue, all or part of which may be redeemed by the issuing corporation or government under specific conditions before maturity.

cannibalizing assets: Funds that pay part of their distributions out of principal cannibalize their assets. This depletes the fund's asset base. Funds cannibalize assets to maintain a dividend and keep shareholders happy. However, like feeding a cow its own milk, this practice cannot go on forever.

capital gain or capital loss: Profit or loss from the sale of a capital investment asset.

CEBS: Certified employee benefits specialist.

CFP: Certified financial planner.

charitable gift: A charitable gift is a contribution of either cash, usually in the form of a check, or capital, often in the form of a security, to a not-for-profit organization qualified under Internal Revenue rules. Contributions to qualified charities are, with some limitations, deductible for income tax purposes.

charitable lead trust: A trust in which excess income is given to a charity, and ultimately the income and asset return to the grantor.

charitable remainder trust: A trust in which income usually goes to its grantors and at death, the principal is donated to a charity.

ChFC: Chartered Financial Consultant (insurance, sales, and training association designation).

CIC: Certified Insurance Counselor.

classes of mutual fund shares: Many mutual fund companies issue fund shares with several pricing classifications. For example the American funds group has 9 levels of sales charges for its class "a" shares, ranging from "0" for the shares brokers can buy for themselves to 5.75% of the sale, their "no front end load-back end load funds have a 7 year declining contingent deferred sales charge and they have other iterations of their funds making it so that there are up to 22 different all in fee and commission iterations on their funds. Ethics aside Buyer beware when purchasing anything from a company that creates a "class" system for their funds The shares, which normally are referred to as "A" class, "B" class, "C" class, "R" retirement class, levied on the fund's shares.. For instance, A shares may have a front-end sales load and a lower annual expense ratio, whereas B shares may have a back-end load and a higher annual expense ratio; C shares may have no sales load but a very high annual expense ratio, and D or "R" shares may be geared to institutional, large retirement plans, and affluent investors with very low fees and may require a minimum investment of \$100,000 or more. See also !2(B)1 fees, commissions, no – load funds.

CLU: Chartered Life Underwriter (insurance).

COLA: Cost-of-living adjustment.

College for Financial Planning: An organization that offers professional training leading to the granting of the Certified Financial Planner designation. Courses include financial planning, risk management, investments, tax planning, retirement, estate planning, and others.

commission: The salesperson's or broker's fee for purchasing or selling securities, property, or insurance for a client.

commodities: Real or hard assets and other staple products that are usually traded in bulk form. Examples include platinum, corn, copper, meats, and lumber.

common stocks: Certificates representing an undivided ownership interest in the assets of a corporation with no predetermined set rate of return. Ownership of common stock provides for corporate voting rights and an interest or share of the future profit (or loss) of the company. Common stockholders, in short, get what is left.

compensation: In a Retirement plan an employee's compensation is the basic factor that employers use to determine the amount of contributions that will be allocated to a participant's account under a defined contribution plan (e.g., a profit-sharing plan) or the amount of benefits that a participant will receive upon retirement. The term is usually broadly defined in the plan and includes, but is not limited to, base salary, commissions, bonuses, overtime, and vacation pay. The Internal Revenue Service requires that the definition used in the retirement plan not be discriminatory (i.e., favoring highly compensated employees over lower-paid employees). Further, a ceiling may apply to the amount of compensation that may be taken into account under certain types of plans. For individual retirement account purposes, taxable alimony is treated as compensation.

competitive analysis (investing): The process of analyzing the positioning and comparative strengths and weaknesses of competitors in the marketplace. It may include current and potential product and service development and marketing strategies.

CTFA: Certified Trust and Financial Advisor (estate and trust administration).

currency risk: One of the key risks and potential rewards to consider when investing in foreign stocks or bonds. Changes in the currency exchange rate can have a material positive or negative impact on the return of a foreign investment when the investment is sold and converted back into the original currency.

deferred annuity fixed: Deferred fixed annuities are insurance contracts (policies) issued by insurance companies usually to individuals. The annuity policies are called *deferred* because income taxes are not paid on the interest earned until it is distributed, usually after many years. Distributions on the accumulated interest of policy values are subject to income tax, and unless certain exemptions are met (death, disability, age 59 and one half, and Rule 72t), may be subject to tax penalties. Additionally, insurance company surrender charges may apply to distributions taken in the early years of the annuity policy. The policies are described as *fixed* because they receive an interest rate declared by the company and do not drop in value.

deferred annuity variable: Insurance contracts (policies) issued by insurance companies, usually to individuals. They can be issued with very low fees and no back end fees or contingent deferred sales charges or with significant expenses and commissions represented by a back end charge. The annuity policies are called *deferred* because income taxes are not paid on the accumulation until it is distributed, usually after many years. Distributions on the appreciation of policy values are subject to income tax, and unless certain exemptions are met (death, disability, age 59 and one half, and Rule 72t), may be subject to tax penalties. Additionally, insurance company surrender charges may apply to distributions taken in the early years of the annuity policy. The policies are described as *variable* because the value of the policies can fluctuate up or down based on the performance of the separate accounts within the policy. The separate accounts are similar to mutual funds, and most variable annuities offer many separate accounts with various investment objectives such as balanced, growth, and income. Shares of the variable annuity are called *units* and are priced each day based on the value of the underlying securities in the separate accounts. See also deferred sales charge.

deferred sales charge: An unnecessary and some would say unethical commission or sales fee, often called a *back-end load*, charged to shareholders by some mutual funds and annuity companies, when the shareholders sell their fund shares (Deferred sales charges are a way of hiding the commission). See **back-end load**.

defined benefit plan: A type of qualified retirement plan that determines a participant's benefit based on a preset benefit formula that assumes the participant will continue to work until retirement age.

depreciation: Taxpayers may deduct a reasonable allowance for the exhaustion or wear and tear of property used in a trade or business or property held for the production of income. Depreciation is a bookkeeping entry; it does not represent any cash outlay. It does not apply to stock in trade, inventories, land, or personal assets.

director: A person elected by stockholders or shareholders to establish, monitor, and maintain a company's policies. The directors elect the president, vice president, and all other operating officers. Directors decide, among other matters, if and when dividends will be paid and if the company is being a good corporate citizen.

discount: (1) The amount by which a preferred stock or bond may sell below its par value. (2) Refers to a closed-end fund trading at a market price below its net asset value.

discount broker: A securities or real estate broker who provides lower rates compared with those for so called full service offerings.

discretionary account/authority: An investment account in which the customer gives an investment advisor, lawyer, broker, or someone else discretion, either complete or within specific limits, as to the purchase and sale of real estate, securities, commodities, or other assets including selection, timing, amount, and price to be paid or received. Discretion should only be given to competent fiduciaries that have experience, training, and education.

discretionary formula plan: A profit-sharing retirement plan that provides for the amount of each year's contribution to be determined by the board of directors (or responsible officials) of the sponsoring employer, in its discretion. (Contributions must be recurring and substantial to keep the plan in a qualified status.)

discrimination: Where a retirement or other employee benefit plan, or employer, through its provisions or through its operations, favors officers, shareholders, or highly compensated employees to the detriment of other employees.

disqualification: Loss of qualified (tax-favored) status by a retirement plan, generally resulting from operation of the plan in a manner contrary to the provisions of the plan or that discriminates against rank-and-file employees. *See also* **discrimination**.

dividend: The payment designated by the board of directors to be distributed pro rata among the shares outstanding. On preferred shares, it is generally a fixed amount. On

common shares, the dividend varies and may be omitted if business is poor or if the directors determine to withhold earnings to invest in plant equipment. Sometimes a company will pay a dividend out of past earnings, even if it is not currently operating at a profit. Mutual funds holding dividend-paying stocks pass those dividends on to shareholders in lump sum payments either monthly, quarterly, semiannually, or annually, depending on the fund. Investors in most funds may have the option to have dividends automatically reinvested in additional shares.

dividend reinvestment plan: A mutual fund share account or stock plan for companies. With this type of account, dividends are automatically reinvested in additional shares, as are capital gains distributions.

dividend yield: The annual dividend payment divided by the market price per share. If a stock is trading at \$10 per share and it pays a \$.50 dividend, the dividend yield is 5%.

DOL: Department of Labor. The non-tax (regulatory and administrative) provisions of the Employee Retirement Income Security Act are administered by the Department of Labor. The department issues opinion letters and other pronouncements affecting employee benefit plans such as retirement plans and requires certain information forms to be filed.

dollar-cost averaging: A system of buying specific securities at specific, regular intervals with a fixed dollar amount. Under this system the investor buys by the dollars worth rather than by the number of shares. If each investment is the same number of dollars, payments buy more when the price is low and fewer when it rises. Temporary downswings in price thus can benefit the investor if periodic purchases continue to be made in both good times and bad and if the price at which the shares are sold is more than their average cost.

double taxation: The federal government taxes corporate profits first as corporate income; any part of the remaining profits distributed as dividends to stockholders may be taxed again as income to the stockholder.

earmarking: Allowing a participant in a defined contribution plan to direct the investment of his or her account.

EBITDA: Earnings before interest, tax, depreciation, and amortization expenses. A common metric used to analyze a company's operating profitability before non-

operating expenses (such as interest expense) and non-cash charges (such as depreciation). *See* **EV/EBITDA**.

employee: An individual who provides services to an employer for compensation and whose duties are under the control of the employer.

endowment behavior: An area of behavioral finance that studies the relationship between the investor and his or her investments. All things being equal, or not close to similar, an investor will tend to favor holding and keeping what he or she has over another investment even if the held investment is inferior. This behavior can be devastating for investors, who will justify holding investments that have outlived their usefulness and whose prospects going forward are much poorer than they were in the past. Investors influenced by endowment behavior will hold onto inherited investments even though they would have never bought the investments as part of their investment program on their own. An example is when investors holding stocks, real estate or other investments, that have fallen in price tend to hold onto such investments because they feel entitled or endowed with the prior higher values. Yet those same investors are not likely to buy more of the investment or an equivalent investment after it has fallen similarly, even though its price is better.

enterprise value (EV): One measure of a company's value. The standard EV calculation is market capitalization (number of shares outstanding times the current share price) plus debt and preferred stock minus cash and cash equivalents. In effect, EV measures how much it would cost to actually purchase the (whole) company. Enterprise value is often used when comparing companies with different capital structures. *See* **EV/EBITDA**.

equity (stocks): The ownership interest of common and preferred stockholders in a company. Also refers to excess of value of securities over the debit balance in a margin account property. Also, the value of a property that remains after all liens and other charges against the property are paid.

equity investment: A security (usually common stock, convertibles, warrants, or convertible preferred stock) that represents a share of ownership in a business entity (usually a corporation).

ERISA: Employee Retirement Income Security Act of 1974. This is the basic law covering qualified plans and incorporates both the pertinent Internal Revenue Code provisions and labor law provisions.

ESOP: An employee stock ownership plan is a type of defined contribution benefit plan in the United States that buys and holds company stock. ESOPs are often used in closely held companies to buy part or all of the shares of existing owners, but they also are used in public companies. Related to ESOPs are Section 401(k) plans, which may be used alone or in conjunction with ESOPs to hold company stock. Several features make ESOPs unique as compared with other employee benefit plans. First, only an ESOP is required by law to invest primarily in the securities of the sponsoring employer. Second, an ESOP is unique among qualified employee benefit plans in its ability to borrow money. As a result, leveraged ESOPs may be used as a technique of corporate finance.

estate: All of a person's owned property.

estate planning: A system of planning designed to ensure that your estate will go to whom you want and how you want with confidentiality, limited red tape, and the most favorable tax treatment to benefit your heirs, charities, and other beneficiaries.

estate tax: A tax assessed on the transfer of wealth in an estate.

EV/EBITDA: Equity Value/Earnings Before Interest, Taxes, Depreciation & Amortization. A commonly used valuation ratio to compare companies on an "apples-to-apples" basis. The ratio uses a measure allowing for differences in capital structure (EV) divided by a measure of core operating profitability (EBITDA).

event-driven disposition: Part of an estate planning trust or will that releases assets to a beneficiary based upon an event such as marriage, college graduation, or other milestone. See also age driven distribution

event risk: An unexpected occurrence such as a leveraged buyout that reduces the creditworthiness of a company's debt, causing its bond prices to drop sharply.

Exchange Traded [mutual] Fund: A type of mutual fund that is listed on an exchange and continuously offers and redeems shares at the intra-day price-rather than only at the end of day price available on open ended mutual funds.

exclusive benefit rule: Retirement plan fiduciaries must discharge their duties solely in the interest of participants and beneficiaries for the exclusive purpose of providing benefits to participants and beneficiaries and paying administration expenses. *See also fiduciary*)

executor: A person named in a will to carry out the provisions of the will.

face value: Bonds' face value is ordinarily the amount the issuing company promises to pay at maturity. Face value is not an indication of market value. It is sometimes called par value (insurance). It is also the death benefit or a life insurance policy.

family limited partnership: Often used as an estate planning tool to transfer family property intergenerationally without the matriarch and patriarch losing control prematurely. Percentage ownership is transferred to children and grandchildren without voting rights. The percentage ownership allows for substantial discounting of the property for estate tax purposes.

family of funds: A system of mutual funds managed by the same company that provides the option of switching investments from one type of fund to another with a different risk characteristic either for free or for a small fee.

family trust: A trust that provides income to a spouse and, upon the spouse's death, is automatically disbursed to children.

Federal Deposit Insurance Corporation (FDIC): A corporation established by federal authority to provide insurance on demand and time deposits in participating banks up to a maximum of \$100,000 for each depositor.

fee and commission advisor: An investment or financial advisor who can receive commissions in addition to receiving or charging fees. This advisor usually emphasizes his or her ability to be objective by charging a fee for the advice, and then getting a commission to implement the insurance, investments and retirement plans—that allegedly “you would have to pay anyway.” Fee and commission practices are usually not the most professionally managed or ethically driven practices due to the fact of the obfuscation of the conflicts of interest imbedded in any practice that can receive commissions. The so called objective advice is usually found to be designed to line the pocket of the fee-plus-commission advisor. See also contingent deferred sales charge, fee only advisor, NAPFA.

fee-based advisor: A securities licensed financial representative who also is an investment advisor representative. This financial representative can both earn commissions and charge fees to clients.

fee-only advisor: A common term for an investment advisor or financial advisor who believes that commissions taint an advisor's objectivity and, thus, cause his or her

advice to be less efficient or more costly. A fee-only advisor refuses any and all commissions or remuneration from anyone other than the investor/client. The National Association of Personal Financial Advisors champions the fee-only approach as the best deal for the consumer.

fiduciary: A person who has the ability to make decisions about a person's wellbeing, or exercises any discretionary authority or control over the management or disposition of an individual's investments or a retirement plan's assets. Any person who renders advice, management, or assistance in regard to a qualified retirement plan, trust, or corporation is usually considered a fiduciary.

fiduciary duty (board member): The responsibility of the board member to owe the non-profit or for profit entity an absolute duty of utmost good faith, competent right action, oversight and to act solely in the entity's best interest. This includes making the appropriate disclosures of all conflicts of interest or other material facts that might impede the ability to be objective or to be competent as a duty bound board member...

fiduciary duty (executor): It is the responsibility of the executor (personal representative) to inventory the estate assets, manage the assets prudently during the period of administration, pay all valid claims and debts against the estate, pay funeral expenses, file estate and income taxes, and distribute the assets pursuant to the decedent's will.

fiduciary duty (investment manager): The legal responsibility for investing money or acting wisely on behalf and in the best interest of the beneficiary; to act responsibly and appropriately on behalf of another party including but not limited to standards of competent right action, foresight, creativity, appropriate conduct, business judgment, prudence, opportunity and risk management. Retirement plan trustees often delegate the task of the day to day management of investment portfolios to a seasoned, capable, disciplined, registered investment advisor with a good track record as part of their fiduciary duty. Managers of charitable entities have a fiduciary duty to the charity, a general partner has a fiduciary duty to the limited partners, and trustees have a fiduciary duty to the beneficiaries of a trust; the obligation also exists to manage assets in the same way a prudent person would manage his or her own assets.

fiduciary duty (trustee): It is the responsibility of the trustee to manage the remaining assets of the trust, collect the income, and disburse income or principal to the beneficiaries as set forth in the trust document. The trustee distributes to the executor amounts necessary to satisfy specific bequests, inheritance and estate taxes, funeral expenses, and claims or debts against the estate. Assets remaining after the payment of these amounts constitute the trust estate. The trust will generally define the powers

of the trustee. Most states have adopted the Restatement of the Law of Trusts (Prudent Investor Rule) as the guide for trust administration.

forfeitures: The benefits that a participant loses if he or she terminates employment before becoming eligible for full retirement benefits under a retirement plan. For example, a participant who leaves the service of an employer at a time when he or she will receive only 60% of benefits forfeits the remaining 40%. Under a profit-sharing plan, forfeitures are usually allocated among the remaining participants. Under a defined benefit, money purchase, or target benefit pension plan, the forfeitures are used to reduce employer contributions.

401(k) plan: A type of profit-sharing plan that allows employees to set aside for retirement part of their gross pay (maximum \$16,500 for 2009 if you're under age 50. Over age 50 \$22,000) before-tax, into a tax-deferred trust until it is withdrawn.

403(b) plan: A non-qualified deferred compensation program offered to employees of tax-exempt organizations under Internal Revenue Code (c)(3)501 for employees of certain educational organizations. These are very similar to qualified plans such as 401(k)s but have some important differences.

free/commission-based advisor: Some unethical commissioned salespeople charge no fee for their advice saying that it is free, but they expect that financial products will be purchased to compensate for his or her time.

front-end load: The sales fee a mutual fund charges investors to buy shares of the fund. The commission (usually in the range of 3% to 8.5%) is deducted directly from the investor's contribution, to be paid to the broker and for other marketing costs. For instance, a \$100,000 investment in a fund with a 5% front-end load would result in \$5,000 on load fees and \$95,000 in actual fund shares. See also contingent deferred sales load, no-load funds, and classes of mutual fund shares.

frozen plan: A qualified pension or profit-sharing plan that continues to exist even though employer contributions have been discontinued and benefits are no longer accrued by participants. The plan is "frozen" for purposes of distribution of benefits under the terms of the plan.

FSA: Fellow of the Society of Actuaries (pension plans).

fully managed fund: A mutual fund whose investment policy gives its management complete flexibility as to the types of investments made and the proportions of each. Management is restricted only to the extent that federal or state laws require. These funds are usually long term oriented, and seek absolute total returns and are not constrained by indexes, an asset allocation model or benchmarks. See also; absolute total return (mutual) funds.

general partner: The individual(s) with unlimited liability in a partnership. Usually distinguished from a limited partner in a real estate, hedge fund, or tax-shelter investment. A general partner's obligation is to carry out the duties ascribed to him or her and the person should have the experience, training, education, and resources to succeed at the task.

gift non-taxable: Anyone can give away tax-free up to \$11,000. A married couple may give \$22,000. There are no restrictions on who may be a recipient. All gifts between spouses are free of taxes. In addition to these non-taxable gifts, one may choose to use their qualified exclusion as guided by their lawyer or tax advisor. Normally you would use the exclusion amount in a highly leveraged gift such as a qualified personal residence trust. Gifts using the qualified exclusion amount require the filing of a Gift Tax Return Form 709.

gift tax: A tax levied on the transfer of property as a gift. It may be paid by the giver or donor.

gift taxable: Once you have used up your qualified exemption amount, your gifts (with the exclusion of the \$11,000 annual exclusion) are subject to gift tax.

group living: An arrangement wherein a group of persons rent or buy a dwelling and share equally in expenses. Sometimes a community sponsors the arrangement and a paid professional supervises the running of the household.

government bonds: Obligations of a government, regarded as the highest grade issues in existence in that country. Safety is naturally dependent on the country of issue.

growth fund: A broad category of aggressive and sometimes speculative mutual funds which have in common the investment objective of longer term capital growth and capital gains. Usually growth funds are common stock oriented funds seeking long-term capital growth and future income rather than current income, with little regard to short-term volatility. Growth funds are best suited for investors with time horizons of 6 year or longer using dollar cost averaging. Growth funds can be managed for absolute total returns or designed to model or enhance the returns of a benchmark or

an index such as the S&P 500 or an international basket of stocks. There are thousands of growth funds to choose from.

growth investments: Usually include growth stocks, mutual funds, raw land, collectibles, and equities, among others.

growth stock: One of the two general types of common stock. Growth stocks seek selling price increases rather than income in the form of dividends for shareholders by reinvesting earnings to grow the company. *See* **income stock**.

group insurance: Group insurance is usually offered through an employer. The common group insurance benefit is health insurance. As part of the group, an employee is provided coverage, usually after 30 to 60 days of employment, without underwriting such as a medical physical or history. Because the employee is a member of a larger group, coverage is usually provided at a discount. A downside of group insurance is the lack of portability should the employee leave the group. Under most situations, the group insurance ends when employment terminates.

guaranteed renewable: An insurance policy renewable at the option of the insured to a stated age, usually 60 or 65.

hard assets: Investments that are tangible, such as precious metals, gems, art, stamps, and collectibles.

hedge fund: Similar to a private expensive mutual fund, hedge funds pool investors' money to invest. Unlike a mutual fund, a hedge fund is a vehicle typically organized as a private limited partnership that often provides more investment flexibility than most mutual funds do. . Some hedge funds have only recently been required to register with the Securities and Exchange Commission. Most are unregulated entities and many are very speculative, largely due to the lack of regulations surrounding these funds. High net-worth individuals and institutions are often the primary investors. Originally managers of hedge funds sought out investments that were not highly correlated with the general market. Today's funds range from "go anywhere" absolute return funds to targeted asset class (such as bank stocks) funds that only invest in one area, or that utilize one strategy (buying shorting and leveraging a stock portfolio). Fees paid to the fund by its investors often include an annual management fee assessed at 1% to 3% of the assets as well as an incentive fee, which is assessed on annual gains over a certain hurdle mark (this fee is typically 20%).

home sharing: An arrangement in which homeowners are matched with a sharer-renter who shares in living expenses and/or services.

incentive trusts: Part of an estate plan that gives a beneficiary an “incentive” to behave a certain way, in other words, to get a job, stay off drugs, and so on.

income fund: A mutual fund with an investment objective of current income, consistent long term income, or growing income, rather than capital growth. Bond funds, equity income and convertible oriented funds are usually considered income funds.

income stock: One of the two types of common stocks. Income stocks seek current income rather than selling-price increase or capital growth and usually pay out much of their earnings. *See growth stock.*

inefficient market: Markets do not fully reflect all available information causing security prices to be over- or undervalued. Skill used in actively seeking out these pricing deviations will result in market out-performance.

inflation: An economic condition of increasing prices or wages.

integrated plan: A retirement plan that takes into account either benefits or contributions under Social Security. Social Security benefits are used to integrate a defined benefit plan, whereas Social Security contributions are used with defined contribution plans.

intrinsic value or investment value: What an investment is really worth independent of its current market price. Intrinsic value is the end product of the fundamental analysis of a company.

investment: The use of money for the purpose of making more money: to gain income or increased capital or both.

investment advisor: A broad term used to describe a professional who is selected to manage investments, usually regulated by the Securities and Exchange Commission.

investment club: A way to join with other novice investors and pool small dollar amounts to buy stocks and at the same time learn more about the stock market.

investment counsel: One whose principal business consists of acting as investment advisor and rendering investment supervisory services.

investment manager: Investment portfolio fiduciary who has the power to manage, acquire, or dispose of investments in the portfolio.

investment options (retirement plan): The different “buckets” or pools of managed or unmanaged investments that can be chosen by retirement plan participants. Each bucket should have its own investment policy statement, ideally with a value-at-risk explanation. Most plans should have an income stock, preferred, and bond-oriented account with a lower value-at-risk percentage of 10% to 20%, a balanced, more equity-oriented account with a variable 20% to 30%, and a mostly equity-oriented account with a higher value at risk.

investor: An individual who attempts to put his assets to work; in other words, to make money and not lose it.. Often an investor’s concerns are income, safety of investment, and/or capital appreciation.

IRA: Individual Retirement Account.

JD: Doctor of Jurisprudence (attorney).

joint and survivor annuity: An annuity paid for the life of the retirement participant with a survivor annuity for his or her spouse. The survivor annuity must be at least 50%, but not more than 100% of the annuity received by the participant during his or her lifetime. Also, the joint and survivor annuity must be the actuarial equivalent of a single life annuity that would have been paid to the participant.

joint and two thirds survivor annuity: An annuity under which joint annuitants receive payments during a joint lifetime. After the demise of one of the annuitants, the other receives two thirds of the annuity payments in effect during the joint lifetime.

Keogh plan: Slang for *qualified retirement plan*, either a defined contribution plan or a defined benefit plan that is available to self-employed persons and their employees.

land contract: A form of creative finance used in real estate wherein the seller retains legal title to the property until the buyer makes an agreed-upon number of payments to the seller.

large-cap stock: Refers to stocks with the largest market capitalization. Although the exact level can vary, it usually refers to companies having a market capitalization between \$10 billion and \$200 billion. Sometimes the largest of these stocks are called mega-caps. These are the biggest companies of the financial world. Examples include, Toyota, Nestles, Wal-Mart®, Microsoft, Shell Oil®, and General Electric®. Keep in mind that classifications such as *large-cap* or *small-cap* are only approximations that vary from source to source and change over time.

lease: A contract, similar to renting, between owner and user of the asset setting forth conditions upon which the lesser may use the property stating terms of the lease.

level term: A form of pure protection insurance (term) in which the face value and the premiums remain level for a certain period or for the life of the policy.

leverage investment: Make use of borrowed capital to finance all or a portion of an investment.

leverage stock: The effect on the per share earnings of the common stock of a company when large sums must be paid for bond interest or preferred stock dividends or both before the common stock is entitled to share in earnings. Leverage is risky but may be advantageous for the common stock when earnings are good; however, it will work against the common stockholders when earnings decline. Leverage also refers to the amount of debts compared with the income and assets of people or businesses.

limited partner: In this context, a participant in a hedge fund or venture that has been organized as a limited partnership. *See limited partnership.*

limited partnership: A form of business organization in which some partners exchange their right to participate in management for a limitation on their liability for partnership losses. Commonly, limited partners have liability only to the extent of their investment in the venture. To establish limited liability, there must be at least one general partner who is fully liable for all claims against the business. A limited partnership is a popular organizational form for tax-sheltered programs or hedge funds because of the ease with which tax benefits flow through the partnership to the individual partners.

liquidity investment: The ability of the market in a particular security to absorb a reasonable amount of buying or selling at reasonable price changes. Liquidity is one of the most important characteristics of a good efficiently trading market. Less liquid markets often can have greater fluctuations in price and thus can create enhanced

opportunities created by greater price fluctuation, compared to more liquid markets or securities..

listed stock: The stock of a company that is traded on a securities exchange and for which a listing application and a registration statement giving detailed information about the company and its operations have been filed with the Securities and Exchange regulators, unless otherwise exempted, and with the exchange itself.

liquidity (personal): The financial flexibility gained from an estate that has a low debt-to-asset ratio or significant assets that can be turned into liquid cash through a sale or by borrowing against them. Personal liquidity is important because it allows an easy transition between jobs, in disability, or in periods when cash is needed quickly. Often, liquidity is simply provided by a large line of credit.

LLC: Limited Liability Corporation. A business entity that combines the limited liability of a corporation with the partnership treatment for federal tax purposes.

load: A commission sales fee often charged to mutual fund investors, who buy load funds. Loads normally vary from about 3% to 8.5% of the total purchase amount. They can be immediate or hidden as a back-out charge where the commission is charged over time, often called a 12b-1 fee for mutual funds. See also no-load funds.

long: Signifies ownership of securities. "I am long gold," means you own gold (opposite of short).

management fee: The fee paid to the investment manager of an investment partnership, mutual fund or investment portfolio for managing the assets to achieve the entity's goals. It is usually about one half of 1% to 1.5% of average net assets annually. Not to be confused with a mutual fund's sales charge, 12b-1 fees, trustee fees, brokerage commissions, or other investment management expenses. Management fees are what goes to the investment manager. They vary based on what the manager is supposed to do. If a manager is merely complying with a mandate that requires he or she model an index or benchmark, the fees are usually very low, since really the manager is exercising little skill or expertise, or adding little value. Actively managed Global funds seeking *go anywhere* total returns will tend to have higher expenses due to the added research, need for skilled pros, etc.

margin call: A demand upon a customer to put up money or securities with the broker. The call is made when a purchase is made or when a customer's equity in a margin account declines below a minimum standard set by the exchange or by the firm.

market capitalization: The total market value of a publicly traded company. It equals the product of its per share price and the number of shares outstanding. For example, a company selling at \$10 per share with 10 million shares outstanding would have a market capitalization, or total market value, of \$100 million. *See also large-cap stocks, small-cap stocks.*

market multiple: The valuation matrix for different indexes or benchmarks represented as a number . price to book: price to cash flow: price to EBTDA and the most followed price to earnings are some of the market multiple's investors follow. For example the price/earnings ratio (or P/E) for the overall market as measured, by the P/E for Standard and Poor's 500 Index or the Dow Jones Index. The market multiple provides an important indicator of the overall level of stock values, and is a good indicator of future price performance. Markets sporting high normalized market multiples tend to have poorer future performance than when their normalized market multiple is lower.

market order: An order to buy or sell a stated amount of a security at the current price offered.

market price: In the case of a security, market price is usually considered the last reported price at which the stock or bond sold.

maturity: The date on which a loan or a bond becomes due and is to be paid off.

MBA: Master of Business Administration (advanced business degree).

minimum funding retirement: The minimum amount that must be contributed by an employer who has a defined benefit, money purchase, or target benefit pension plan. The minimum is made up of amounts that go to cover normal costs (for the benefits earned by employees for the current year) plus other plan liabilities, such as past service costs—liabilities for benefits that have been earned for services performed prior to the adoption of the plan. If the employer fails to meet these minimum standards, in the absence of a waiver from the Internal Revenue Service, an excise tax is imposed on the amount of the deficiency.

modern portfolio theory: A theory on how risk-averse investors can construct portfolios in order to optimize market risk for expected returns, emphasizing that risk is an inherent part of higher reward. Also called *portfolio theory* or *portfolio management theory*. According to this theory, it is possible to construct an “efficient frontier” of optimal portfolios offering the maximum possible expected return for a given level of

risk. This theory was pioneered by Harry Markowitz in “Portfolio Selection” (*Journal of Finance*. 1952;7[1]:77-91). There are four basic steps involved in portfolio construction:

- (1) security valuation, (2) asset allocation, (3) portfolio optimization, (4) performance measurement

Modern portfolio theory is a theory and not a way to manage money.

money market fund: A mutual fund that invests in high-quality, short-term debt instruments such as treasury bills, commercial paper, and/or certificates of deposit. Money market fund investors earn a steady stream of interest income that varies with short-term interest rates, and generally may be cashed out at any time through checking, credit card sweep, or wire withdrawals.

money purchase pension plan: A defined contribution pension plan in which the employer must contribute a certain percentage of each employee’s salary each year, regardless of the company’s profit.

mortgage: An instrument by which the borrower (mortgagor) gives the lender (mortgagee) a lien on real estate as security for a loan. The borrower can use the property, and when the loan is repaid, the lien is removed or satisfied.

mortgage bond: A bond secured by a mortgage on a property. The value of the property may or may not equal the value of the so-called mortgage bonds issued against it.

municipal bond: A bond issued by a state or a political subdivision such as a county, city, town, or village. The term also designates bonds issued by state agencies and authorities. In general, interest paid on municipal bonds is exempt from federal income taxes and from state and local income taxes within the state of issue.

mutual fund: A mutual fund is a company that invests in a diversified portfolio of securities. People who buy shares of a mutual fund are its owners or shareholders. Their investments provide the money for a mutual fund to buy securities such as stocks and bonds. A mutual fund can make money from its securities in two ways: a security can pay dividends or interest to the fund, or a security can rise in value. A fund can also lose money and drop in value. There are thousands of funds available that are designed for just about any investor or speculator to use as an investment for achieving their investment goals.

NAPFA: National Association of Personal Financial Advisors; fee-only financial advisors with very strict member requirements.

NASD: National Association of Securities Dealers is an association of brokers and dealers in the over-the-counter securities business. The association has the power to expel members who have been declared guilty of unethical practices. Like most securities exchanges worldwide, the NASD is dedicated to, among other objectives, “adopt, administer, and enforce rules of fair practice and rules to prevent fraudulent and manipulative acts and practices, and in general to promote just and equitable principles of trade for the protection of investors.”

NASDAQ: National Association of Securities Dealers Automated Quotations; an automated information network that provides brokers and dealers with price quotations on securities trades over-the-counter.

net asset value: A term usually used in connection with investment companies (mutual funds), meaning net asset value per share. It is common for a mutual fund to compute its assets daily by totaling the market value of all securities owned. All liabilities are deducted, and the balance is divided by the number of shares outstanding. The resulting figure is the net asset value per share.

net change: The change in the price of a security from one period to another.

net return: The total return after taxes, fees, commissions, duties, and inflation earned by the investment over a period of expectation.

new issue: A stock or bond sold for a corporation for the first time. Proceeds may be issued to retire outstanding securities of the company, for new plant or equipment, for additional working capital, or to go to a selling shareholder.

non-cancelable: Policies or contracts that may not be canceled (during a specified term) by the issuer or insurer, but the term *non-can* usually is not applied to disability or health policies unless they are also guaranteed renewable.

nonqualified retirement plan: A retirement plan that is not regulated by a government agency such as the Internal Revenue Service or the Department of Labor, for example. These plans, normally sold by commission insurance agents, are frequently inefficient because of high commissions. They purport to have the following benefits: (1) privacy, (2) no maximum contributions, (3) no tax on gains due to the insurance policies' tax-deferred status, (4) no tax on withdrawals because of loan

provisions, and (5) possible estate tax benefits. Beware of nonqualified retirement plans suggested by commission advisors or fee and commission advisors.

normal retirement age: The point at which a participant attains retirement age under a retirement plan. Usually it is age 65; however, it may be a different age (as set forth in the plan) and may also require a stated period of plan participation. Full vesting is required when a participant attains normal retirement age.

odd lot: An amount of stock less than the established 1,000-, 100-, or 10-share units of trading stocks or certain investments. Often the price is higher for odd lots.

no-load fund: A mutual fund that charges no sales fee to buy and sell. No-load funds are usually the best to buy because there are no commission or professional management expenses. Beware the mutual fund associations and regulators have allowed funds to be called no-load while charging 12b-1 marketing expenses. Also, brokers will call funds no-load even when they have significant commission and marketing expenses. *See also load, front-end load, back-end load. classes of shares*

open-end investment company: By definition under the 1940 Act, a highly regulated investment company (mutual funds) that has outstanding redeemable shares. Also generally applied to those investment companies such as mutual funds that continuously offer new shares to the public and stand ready at any time to redeem their outstanding shares.

open-end mutual fund: A mutual fund that allows investors to buy shares directly from the mutual fund company and stands ready to redeem shares whenever shareholders are ready to sell. Open-end funds may issue new shares any time there is a demand for more shares from investors. Shareholders buy and sell shares at the fund's net asset value (plus a possible sales fee), in contrast to a closed-end mutual fund, which trades like stock on a stock exchange. Rather than selling at net asset value, closed-end funds share trade at whatever price the market is willing to pay.

option: A right to buy or sell specific securities or properties at a specified price within a specified time.

ordinary life insurance: A life insurance product also known as *straight life*, *permanent life*, or *whole life*. Premiums are computed to be paid for life. Usually the last tool to consider in estate planning or insurance planning.

overbought: An opinion as to volume and its relationship to price levels. May refer to a security that has had a sharp rise or to the market as a whole after a period of vigorous buying that, at least in the short term, has left prices too high. Used as a signal to sell.

oversold: The reverse of overbought. A single security or a market that has declined to an unreasonable level. Used as a signal to buy.

over-the-counter (OTC): A market for investments made up of securities dealers who may or may not be members of a security exchange. Over-the-counter is mainly a market made electronically and over the telephone. Thousands of companies have insufficient shares outstanding, stockholders, or earnings to warrant application for listing on a major exchange. Securities of these companies are traded in the over-the-counter market between dealers who act either as principals (i.e., represent themselves) or as brokers for customers. Today, the OTC market is very sophisticated, and many large companies choose to be listed OTC.

paper profit: An unrealized profit on an unsold investment. Paper profits become realized profits when the security is sold.

partnership: A partnership is usually a contract of two or more persons to unite their property, labor, or skill or for some of them, to share the profits and risks.

PBGC: Pension Benefit Guarantee Corporation. A wholly owned government corporation created to administer the termination rules and insuring benefits under the Employee Retirement Income Security Act. The plan is funded with premiums paid by plan sponsors.

PEG ratio: Price/earnings-to-growth ratio. One valuation tool used to measure growth stocks. A PEG is calculated by taking the price/earnings ratio divided by the earnings growth rate projected for the company.

penny stocks: Low-priced issues, often highly speculative, selling at \$1 to \$5 per share. Frequently used as a term of disparagement, although a few penny stocks have developed into investment-caliber issues. Many international companies have low-priced stocks that upon the currency conversion equate to a few cents a share because of the customs of their markets and should not be confused with US or Canadian - issued (speculative) penny stocks. Just because a stock's share price is low does not mean it is speculative – just because a shares price is high does not mean it is safe. A

stocks safety has to do with the company and what it does and with the price you pay for that safety(?) based on it's entity value. See also entity value price to entity .

pension plan: Qualified retirement plans established by an employer for its employees, including profit-sharing plans, stock bonus plans, thrift plans, target benefit plans, money purchase plans, defined benefit plans, and employee stock ownership plans.

plan administrator: The person designated by the plan documentation as administrator. If no designation is made, the plan administrator is the employer. The plan administrator is the person responsible for managing the day-to-day affairs of the plan. The person or corporation choosing a plan administrator must do so with diligence and prudent analysis of the administrator's competencies, systems, and ability to deliver.

plan participant: An employee who has met the age, service, and other requirements of his or her employer's retirement plan. Plan participants are protected by the Employee Retirement Income Security Act, fiduciary protections, and other regulations.

point: In the case of stock, a point means \$1. If *ABC* shares rise three points, each share has risen \$3. With bonds, a point means \$10. A bond is quoted as a percentage of \$1,000. In the case of market averages, the word *point* means merely that. If, for example, the Dow Jones Industrial Average rises from 10,870 to 10,871, it has risen a point. A point in this average is not equivalent to \$1.

pooled income fund: A type of annuity that pools the assets of a number of people, each sharing the income in proportion to ownership.

portfolio: Holdings of securities by an individual or institution. A portfolio may contain international and domestic bonds and stocks, real estate, metals, and commodities. A portfolio is usually constructed around an investment philosophy to achieve specific goals. A bunch of investments does not mean a portfolio any more than two intravenous drips and a bed equals a hospital.

preferred stock: A senior class of stock with a claim on the company's earnings before payment may be made on the common stock and usually entitled to priority over common stock if the company liquidates. It is usually entitled to dividends at a specified rate when declared by the board of directors, depending on the terms of the issue.

premium: The amount by which a preferred stock or bond may sell above its par value. In the case of a new issue of bonds or stocks, premium is the amount the market price rises over the original selling price.

price/earnings ratio (P/E): The price of a share of common stock divided by its earnings per share for a 12-month period. This is Wall Street's most commonly used ratio to determine a stock's value to investors. A company with a stock price of \$20 and earnings per share of \$1 has a 20 P/E (\$20 divided by \$1), whereas a company with a stock price of \$10 and the same \$1 in earnings per share has a 10 P/E. The higher a stock's P/E, the more expensive the stock is relative to its earnings. Companies that are perceived to grow slowly into the future will tend to have lower P/Es than those that have fast growth expectations. *See also* **PEG ratio**.

price-to-book ratio (PBR): Commonly used valuation ratio that compares a stock's market value with its net assets (assets minus liabilities).

price-to-cash flow (EBIT) Earning Before Interest and Taxes: Commonly used valuation ratio that compares a stock's market value to its annual cash flow. Because cash flow is not as subject to accounting manipulation as earnings, investors often focus on this ratio when evaluating a stock.

price-NAV ratio (P/NAV): The market price of a closed-end fund divided by its net asset value (NAV). P/NAV serves as a valuation indicator. Closed-end funds selling at a discount will have P/NAV ratios below 100%; those at a premium will have P/NAV ratios in excess of 100%.

product strategy analysis (investing): The comprehensive study of a company's product or service. This involves evaluating the growth prospects, barriers to entry, competitive forces, marketing plans, profitability, sustainability, and so on to pinpoint which products or services have the greatest investment potential.

profit-sharing plan: A type of defined contribution retirement plan whereby employers agree to make discretionary contributions to eligible employees each year.

property and casualty insurance: Insurance coverage to provide for the replacement of or to compensate for, property lost, stolen, damaged, or destroyed.

prospectus: A document containing important information that offers a new issue or continuously issued securities like mutual funds to the public. It is required under the Securities Act of 1933. It is a good read for investors and should be reviewed completely when looking at an investment. Mutual funds will have important information as to performance, fees, commissions, benchmark risks, index risks, and general rewards and risks of investing in the fund.

proxy: Written authorization given by a shareholder to someone else to represent him or her and vote at a shareholders' meeting. Investment advisors often act as a client's proxy when voting corporate resolutions to help coordinate the voting and reduce the burden placed on the client in relation to understanding all of the issues addressed at the meeting.

proxy statement: Important information required by the Securities and Exchange Commission to be given to stockholders as a prerequisite to solicitation of proxies for a security, subject to the requirements of Securities Exchange Act.

prudent-man rule: The standard under which a fiduciary must act. The fiduciary is required to act "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." This general rule requires a retirement plan, trust, or investment fiduciary to exercise "care, skill, and prudence," creativity, forward looking analysis, common sense, creativity and independent thinking in relation to the management of investment assets in a qualified retirement plan, or other funds that are under his or her direction or care. Just because everyone is doing it does not mean it meets this rule. Often investors think they are being prudent just because they have subscribed to some rule of thumb, asset allocation, passive, benchmarking or indexing system that may have worked in the past. Prudent investing is about managing risk and risk is best managed by a disciplined forward looking active, ongoing, **management** process that is global, unencumbered by constraints that could limit a portfolio's returns, or fixed policies that could cause the portfolio to hold speculative investments – due to price or changes in their prospects. Any fiduciary guidelines should benchmark off the fact that the price you pay for an investment is as important as the investments merits.

put: An option to sell a specified number of shares or quantity of an investment at a specified price within a specified period. The opposite of a call.

QPA: Qualified Pension Administrator (pension plans).

qualified domestic relations order (QDRO): A court order issued under a state's domestic relations law that relates to the payment of child support or alimony or to marital property rights. A QDRO creates or recognizes an alternate payee's right or assigns to an alternate payee the right to receive plan benefits payable to a participant. The alternate payee may be, for example, the participant's spouse, former spouse, or dependent.

qualified pension plan (tax-qualified plan): A plan that meets the requirements of the Internal Revenue Code, generally Section 401(a). The advantage of qualification is that the plan is eligible for special tax considerations. For example, employers and/or participants are permitted to deduct contributions to the plan even though the benefits provided under the plan are deferred to a later date.

quotation; Often shortened to *quote*. The highest bid to buy and the lowest offer to sell a security in a given market at a given time. If you ask your broker for a quote on a stock, he or she may come back with something like "20 and one half to 21." This means that \$20.50 is the highest price any buyer wanted to pay at the time the quote was given and that \$21 was the lowest price any seller would take at the same time.

rally: A quick rise in the general price level of a market or in an individual investment.

real estate investment trust (REIT): An equity trust that can hold real estate income and growth properties and offer shares that are publicly traded.

redemption fee: Sales fee or back-end load charged by some mutual funds or annuities to shareholders when they sell their shares. Redemption fees are a bad deal if they originate because of commissions. Funds with redemption fees usually have higher overall expenses than true no-load, no 12(b)1, no deferred sales charge, no-commission funds. *See* **back-end load**.

red herring: A preliminary prospectus used to obtain indications of interest from prospective buyers of a new issue of stock.

registered representative: Usually a full-time employee of a broker who has met the requirements of an exchange with regard to background and knowledge of the securities business.

reinvestment risk: One of the risks facing holders of fixed-income securities such as bonds and certificates of deposit during periods of falling interest rates. The risk is that the investor will be forced to reinvest interest or principal payments at lower interest rates. For example, if you have a maturing certificate of deposit that had a relatively high interest rate, you are forced to reinvest at a lower rate if interest rates have fallen.

return: Another term for yield.

reverse mortgage: A financing arrangement for older homeowners to use their equity to remain in their homes. The homeowner borrows from a lending institution an amount equal to 60% to 80% of the home value, and the institution pays out the loan funds monthly for a certain period. At the end of the loan period, the homeowner has to repay the loan, usually by sale of the home. If the homeowner dies before the end of the loan payment period, the house is sold to satisfy the debt. Private reverse mortgages between extremely responsible, well-off children and their parents are useful tools to help parents stay in their homes.

RIA: Registered Investment Advisor (investment, money management). An advisor registered with the Securities and Exchange Commission to give investment advice. The RIA can be anyone. There are no competency requirements for RIAs.

rights: When a company wants to raise more funds by issuing additional securities, it may give its stockholders the opportunity, ahead of others, to buy the new securities in proportion to the number of shares each owns. The piece of paper evidencing this privilege is called a *right*. Because the additional stock is usually offered to stockholders below the current market price, rights ordinarily have a market value of their own and are actively traded. In most cases, they must be exercised within a relatively short period. Failure to exercise or sell rights may result in actual loss to the holder.

Risk-investing: All investing has risks. There are two main types of risks. The risks imbedded in the individual security investors buy – for example companies might fail because of competition or poor management. The other risk has to do with the investment style or manager risk. Management risk is imbedded in a manager's skills, biases, philosophy and style of investing. For example a manager might be rigidly tied to an asset allocation system that is dependent on indexing. Indexing / asset allocation systems are often based on past investment performance correlations and well meaning theories such as Modern Portfolio Theory with little influence of price or value in the investing process. Such rigid systems are often championed as “disciplined” however the investment world is constantly changing and any rigid system has of course significant “management risk.”

rollover: A method of avoiding the substantial tax bite of a lump sum retirement plan payment, allowing it to be rolled over into an individual retirement account, another retirement plan, or similar vehicle to continue its deferred tax status.

rollover IRA account: An individual retirement account (IRA) that is established to receive a distribution from a qualified plan so that the income tax on the distribution will be deferred.

round lot: A unit of trading or a multiple thereof. On most US exchanges, the unit of trading is 100 shares in the case of stocks and \$1,000 par value in the case of bonds. In some inactive stocks, the unit of trading is 10 shares. Global exchanges may have round lots of between 1 and 10,000 shares.

rule of 72: A rough financial formula for calculating the amount of time it takes an investment to double at any rate of return. Divide the rate of return by 72. For example, at 10%, money will double in approximately 7.2 years.

second home: A home that is owned and does not meet the primary residency requirements set forth by the Internal Revenue Service.

segregated account: A separate sub-account within a retirement plan trust consisting of only one plan participant's account balance and not affected by the investment performance of the rest of the plan investments.

SAR/SEP: Salary reduction/simplified employee pension plan. A salary reduction plan that is available only to companies with 25 or fewer employees that allows employees to contribute into an individual retirement account on a pretax basis. No new SAR/SEPs may be established after 1997, although those created prior to 1997 can continue to be funded.

selling short: An investment management tool whereby the investor sells stock not owned. An often risky technique of borrowing stock in anticipation of a drop in stock value that will bring rewards. Instead of looking for market winners, the short seller looks for losers. Short selling can also be used to hedge a portfolio and reduce a portfolio's overall risk.

simplified employee pension plan (SEP): An easy to establish, easy to administer, tax-favored retirement plan that takes the form of individual retirement accounts

established on behalf of eligible employees (subject to special rules on contributions and eligibility) and funded by the employer.

SIPC excess insurance: Additional brokerage account coverage above the Securities Investor Protection Corporation (SIPC) limit. The amount of excess insurance will vary among brokerage firms.

SIPC insurance: The Securities Investor Protection Corporation (SIPC) offers brokerage account securities coverage up to \$500,000 per customer including a \$100,000 limit on cash. This protection sets in when a troubled SPIC member firm fails to meet its financial liabilities.

small-cap stock: Refers to stocks with a relatively small market capitalization. The definition of small cap can vary, but generally in the USA or larger European markets it is a company with a market capitalization of \$300 million to \$2 billion. One of the biggest advantages of investing in small-cap stocks is the opportunity to beat institutional investors. Because mutual funds have restrictions that limit them from buying large portions of any one issuer's outstanding shares, some, especially very large billion dollar mutual funds, would not be able to give the small-cap a meaningful position in the fund. To overcome these limitations, the fund would usually have to file with the Securities and Exchange Commission, which means tipping their hand and inflating the previously attractive price.

Keep in mind that classifications such as large-cap or small-cap are only approximations that vary from source to source and change over time. Many feel that anything is small cap that is under \$100,000,000 in value, so the definition is generally for a smaller company.

socially conscious investor: An investor who allows his or her values or religious, social, or environmental philosophies to influence investing. Avoiding tobacco, alcohol, arms makers, polluters, unethical companies or companies with unethical management and the like is one way such investors exercise their might. Another is to invest in companies that "do good," such as those with good employee relations, that produce alternate energy, or are good corporate citizens. *See values-neutral investing.*

social mutual funds: Mutual funds that are driven not just by profit potential but also by principles and values.

speculator: One who is willing to assume a relatively large risk in the hope of gain. A speculator's principal concern is to increase capital without too much reflection on the possibility of loss or risk. Classical investors tend to take a common sense

“whole brained” approach to investing that does not speculate on (what?). Naturally all investing is about the future, and we do not know what the future holds-but we know with reasonable certainty that the sun will set in the west and investors will invest where they are well compensated for taking on risks. Usually a speculator is one who does not look at the price in relationship to the value on what he or she buys but merely on its recent past performance. Everything is speculative at a price-everything. Thus a speculator ignores this fact.

split: The division of the outstanding shares of a company into a larger number of shares. A 3- for-1 split by a company with 1 million shares outstanding results in 3 million shares outstanding after the split. Each holder of 100 shares before the 3- to-1 split would have 300 shares, although proportionate equity in the company would remain the same; 100 parts of 1 million are the equivalent of 300 parts of 3 million, for example. Stock splits make a company’s stock easier to trade by keeping its stock price lower than it would be without the split, thus making it less costly to buy a round lot of shares. Stock splits do not increase a company’s value. If a broker calls you and tells you to buy a stock because it is about to split, fire the person and transfer your account immediately.

sponsor: Employer or company that elects to establish a qualified retirement plan and be responsible for the cost of funding and maintaining the retirement trust with contributions and the payment of expenses.

spousal IRA: An individual retirement account (IRA) that is established for the nonworking spouse of an employee and funded with contributions based on the other spouse’s earned income. The contribution is limited to \$4,000 (2005) for each spouse, plus an additional contribution of \$500 if either spouse is age 50 or older.

spread: The difference between the bid price and the offering price.

stock bonus plan: A defined contribution retirement plan that is similar to a profit-sharing plan except that the employer’s contributions do not have to be made out of profits, and benefit payments generally must be made in employer company stock.

street name: Securities held under strict guidelines in the name of a broker instead of the customer’s name are said to be carried in a street name account. This occurs when the securities have been bought on margin or, when the customer wishes, for convenience and security, to have the security held by a broker.

subchapter S corporation: Business with a legal corporate form that pays income taxes like a sole proprietor.

suitability rule: The rule of fair practice that requires an investment seller to have reasonable grounds for believing that a recommendation to a customer is suitable on the basis of the person's financial objectives, risk tolerance, net worth, and ability to handle risk.

summary annual report: A summary of the financial activity within a qualified plan on any given plan year, which each plan participant is required to receive from the plan administrator.

summary plan description (SPD): A detailed, but hopefully, easily understood document describing a pension plan's provisions that must be provided to participants and plan beneficiaries.

sustainable management systems (investing): A system for managing sustainable, total return investment portfolios to deliver consistent economic returns over time, through a disciplined intentional approach to management of portfolios.

target benefit plan: A cross between a defined benefit plan and a money purchase retirement plan. Similar to a defined benefit plan in that the annual contribution is determined by the amount needed each year to accumulate a fund sufficient to pay a targeted retirement benefit to each participant on reaching retirement. Similar to a money purchase plan in that contributions are allocated to separate accounts maintained for each participant. *See also* **defined benefit plan** and **money purchase pension plan**.

tax-deductible: Expenses and items that are able to reduce the amount of taxable income. Examples include medical expenses, individual retirement account contributions, charitable deductions, and deductible interest paid.

tax deferral: A method that defers the payment of taxes on income until a future time. The rationale is that while future tax brackets may be higher or lower, tax deferral enables one to compound the tax savings.

tax incentive: Corporate or venture vehicle that includes major tax incentives to invest.

tax-sheltered investment: An investment that has an expectation of economic profit, made even more attractive because of the timing of the profit or the way it is taxed, generally having some or all of the following characteristics: (a) capital gains opportunities, (b) high deductions, (c) deferral of income, (d) depletion, (e)

accelerated depreciation, and (f) leverage. The flow-through of tax benefits is a material factor, regardless of whether the entity is organized as a private or public program. Common forms of tax-sheltered investments include cattle breeding, cattle feeding, equipment leasing, oil and gas, and real estate.

tax shelter plan: A slang term used to describe a qualified retirement plan that has been established for the benefit of the owner or specific officers.

tender offer: An offer to buy securities at a specific price. Can be used by a closed-end fund or company to buy back some of its shares because it believes that shares are at bargain levels. Tender offers can also be used by raiders to try to acquire shares of a target company.

time diversification: The idea that the longer securities are held, the lower their risk because good market periods are averaged in with bad ones. However, often the opposite can be true if an investment, due to price to its real value, causes the investment to become speculative in its valuation.

time-sharing: A creative real estate financing technique that allows the use of property on a time-shared basis while building equity for all of the owners. There are two types: right-to-use (membership right) and interval ownership (purchase of a particular week or weeks each year).

top down: An investment strategy whereby the investor looks at broad global economic trends to find which types of industries, countries, and security classes seem to be best positioned to perform well in the future and then the top down investor would select individual investments based on that assessment. It is the opposite of a bottom-up strategy in which an investor assesses an individual investment strictly on its own merits, irrespective of the overall economy, or financial climate. Bottom-up and top-down analysis is often used in tandem to make good investment decisions. *See also bottom up.*

TPA: Third-party administrator (employee benefits).

trader: Someone who buys and sells for his or her own account for short-term profit.

treasury bills (T-Bills): Short-term US government investments with no stated interest rate, sold at a discount with competitive bidding. For example, a treasury bill may be sold at \$9,500 with a value at maturity of \$10,000 in one year.

treasury bonds: Government bonds issued in \$1,000 units (in the USA) with a maturity of 5 years or longer. They are traded on the market like other bonds.

treasury notes: Government bonds, not legally restricted as to interest rates, with maturities of from one to five years.

treasury stock: Stock issued by a company but later reacquired. It may be held in the company's treasury indefinitely, reissued to the public, or retired. Treasury stock receives no dividends and has no vote while held by the company.

trust: A fund established under local trust law to hold and administer assets.

trust (estate planning): A trust is a document created during your lifetime that can be revocable or irrevocable, but continues upon your death or disability. Upon death, it becomes irrevocable and provides for a successor to yourself or your spouse to manage your assets for a specified period or circumstance. It may include provisions for disabled children, spendthrift family members, tax planning, charitable intent, intergenerational distributions, or the like. The successor trustee may be an individual or corporate trustee. Much like a corporation, it has a life of its own as set forth in the document.

trustee: Individual or entity that assumes and accepts the fiduciary responsibility to safeguard and administer the assets of a trust for the benefit of its beneficiaries.

trustees (retirement): The parties named in the trust instrument or plan authorized to hold the assets of the plan for the benefit of the participants. The trustees may function merely in the capacity of custodian of the assets, or they may also be given authority over the investment of the assets. Their function is determined by the trust instrument or, if no separate trust agreement is executed, under the trust provisions of the plan.

TSA: Slang for tax-sheltered annuity, 403(b) retirement plan available to employees of some schools, hospitals, and other charities. Insurance term for the product used by insurance agents to fund 403(b) plan.

12b-1 fee: A modest to very large fee assessed annually by some mutual funds to cover commissions, advertising, sales, and marketing expenses. The fee is deducted directly from each shareholder's holdings, reducing its return by that amount, and usually represents 0.25% to 1% of net asset value. 12b-1 fees can up to double or more of a funds expenses. Beware of these fees. Funds can call themselves no-load and charge 12b-1 fees. See classes of investing

umbrella liability: Insurance coverage in excess of underlying liability policies; provides coverage for many situations excluded by underlying policies and may also include excess major medical expense coverage.

unlisted: A security not listed on a stock exchange.

Value-at-risk: A technique that uses the statistical analysis of historical market trends and volatilities to estimate a given portfolio's potential loss

value investing: An investment philosophy that places primary emphasis on finding bargains through price compared with value as opposed to forecasted earnings growth. Value investors look for companies with good prospects at bargain prices, closed-end funds at attractive discounts, and other investments that seem like bargains be they motels, real estate, bonds, currencies, stocks or something else.

values-neutral investing: Investors who, based on their ethical framework, do not allow values to influence their investing. Indexes, passive funds, and most mutual funds and thus their companies, are managed under a values-neutral methodology that disregards ethics, violence, exploitation, environmental issues, and sustainable practices, perhaps more than their influence on their short term bottom line profit, etc. Values neutral is a value.

variable annuity: An annuity that has the (possible) benefits of higher yield than available on a fixed annuity by allowing the annuitant to invest in mutual fund-type portfolios (stocks, bonds, etc).

variable rate mortgage: A financing technique in real estate that allows the interest charged on the mortgage to fluctuate with the rise and fall of market interest rates.

vested benefits: Accrued benefits of a participant that have become non-forfeitable under the vesting schedule adopted by the plan. Thus, for example, if the schedule provided for vesting at the rate of 10% per year, a participant who has been credited with 6 years of service has a right to 60% of the accrued benefit. If the participant terminates service without being credited with any additional years of service, he or she is entitled to receive 60% of the accrued benefits.

vesting: The non-forfeitable right that a participant has in his or her account balance of a qualified retirement plan trust. This right is accrued based on the number of hours the participant works for the sponsor for a given number of years.

voting right: The stockholders' right to vote their own stock in the affairs of their company. Most common shares have one vote each. Preferred stock usually has the right to vote when preferred dividends are in default for a specified period. The right to vote may be delegated by the stockholder to another person, for example, the portfolio manager.

warrant: A certificate giving the holder the right to purchase securities at a stipulated price within a specified time limit or perpetually. Sometimes a warrant is offered with securities as an inducement to buy.

when issued: A short form of *when, as, and if issued*. The term indicates a conditional transaction in a security authorized for issuance but not yet actually issued. And when issued, transactions are on an “if” basis, to be settled if and when the actual security is issued and the exchange or National Association of Securities Dealers rules that the transactions are to be settled.

yield: Also known as *income return*. The usually annual dividends or interest paid by a company expressed as a percentage of the current price. A stock with a current market value of \$20 per share that has paid \$1 in dividends in the preceding 12 months is said to yield 5% ($\$1/\20). The current return on a bond or other investment is figured the same way.

yield to call: The rate of return earned by a bondholder when purchasing a bond at the current market price and holding until the call date. The date on which a bond can be called by its issuer is referred to as the call date.

yield to maturity: The total return that would be realized if a bond were purchased at its present price and held to maturity. In order to earn the yield to maturity, the investor must also reinvest all interest payments at a rate equal to the yield to maturity. This also assumes that the issuer will make all promised payments on time and in full.

Source: This glossary was compiled and written by Financial and Investment Management Group management team. Contributors include Zach Liggett, Suzanne Stepan, Judy McCorkle, Kevin Russell, Jeff Lokken, Barry Hyman, Jon Mohrhardt, Barry Couturier, Andi Dolan, and Paul Sutherland.