

## Basic Investment Terms

**ANNUITY** – A financial product sold by financial institutions pay out a stream of payments to the individual at a later point; primarily used as a means of providing guaranteed cash flow for an individual during their retirement years.

**ASSETS** – Resources with economic value owned by a company, fund, or individual, especially those that can be converted to cash; i.e. real estate, automobiles, investments (stocks and bonds), materials, inventories, etc.

**ASSET CLASS** – An investment category; i.e. equities (stocks), fixed income (bonds), or money market (cash). Asset classes can be divided into size (small, mid and large capitalization stocks), geographic location (international, emerging markets, etc.), and other (real estate, commodities, hedge funds, etc.).

**BEAR OR BULL MARKET** – A bear market is a prolonged market period where investment prices fall, usually accompanied by widespread pessimism, as a result of economic recession, high unemployment, or rising inflation (the Depression and Tech Bust of 2000 are examples). A bull market is a prolonged period where investment prices rise faster than their historical average, as a result of economic recovery, boom, or investor psychology; these terms are most often used to refer to the stock market, but can be applied to anything that is traded, such as bonds, currencies, and commodities, i.e. Tech Boom of the late 1990's.

**BOND** – A debt security issued for a period longer than one year by corporations, governments, or their agencies, with the intent of raising capital by borrowing; a bond is the promise to repay the principal along with interest on a specified date; some bonds do not pay interest, but all bonds require a repayment of principal.

**CAPITAL GAIN** – The amount that an asset's selling price exceeds its initial purchase price; a realized capital gain is an investment that has been sold at a profit, while an unrealized capital gain is an investment that has not been sold yet, but would result in a profit if it was to be sold.

**CAPITAL LOSS** – A decrease in the value of an investment or asset from the initial purchase price; opposite of *Capital Gain*. A realized capital loss is an investment that has been sold at a loss, while an unrealized capital loss is an investment that has not been sold yet, but would result in a loss if it was to be sold.

**COMMODITY** – A tradable, physical substance that can generally be further processed and sold, and is interchangeable with other products of the same type for investors to buy and sell; the prices of commodities are subject to supply and demand; i.e. oil, metals, wheat, coal, etc.

**COMPOUND INTEREST** – Interest which is calculated on both the principal and interest previously earned in prior periods.

**DIVERSIFICATION** – Spreading money among several investment options or asset classes for the purpose of reducing company and industry risk in a portfolio; combining a variety of investments (stocks, bonds, real estate), which are unlikely to all move in the same direction at the same time or at the same rate; reduces both upside and downside potential and allows for more consistent performance under a wide range of economic conditions.

**DIVIDEND** – A taxable payment paid to a company's shareholders out of the current or retained earnings, usually quarterly; usually distributed as cash, but can also take the form of stock or other property; provide an incentive to own stock in stable companies; usually paid by companies that have progressed beyond their growth phase and no longer sufficiently benefit by reinvesting their profits.

**DOW JONES INDEX** – The most widely used indicator of the overall condition of the U.S stock market; a price-weighted average of 30 actively traded blue chip stocks.

**EQUITIES** – Types of securities that represent ownership in a corporation and represent a claim on a proportionate share of the corporation's assets and profits, i.e. stocks.

**FIXED INCOME** – A security that pays a specific interest rate, i.e. bonds, preferred stock.

**INDEX** – A numerical measure of price movement in financial markets; a barometer for a given market or industry and benchmarks against which financial or economic performance is measured, i.e. the S&P 500 index.

**INDIVIDUAL RETIREMENT ACCOUNT/ARRANGEMENT (IRA)** – A personal savings account established at a bank, mutual fund, or brokerage that allows wage-earning individuals to make tax-deferred contributions to a personal retirement fund and invest the savings; withdrawals begin at age 59 1/2 or later (or earlier, with a 10% penalty), with the exact amount depending on the year and the age of the individual; some contributions qualify as a deduction against income earned earlier in the year.

**INFLATION** – An overall general increase in the price of goods and services resulting in a decrease in your ability to buy as much for the same amount of money and a fall in the value of the dollar; measured by the Consumer Price Index and maintained by the Fed at usually 2-3% annually, but can vary depending on circumstances.

**INVESTMENT** – A financial product or other asset or item of value acquired for the purpose and expectation of increasing its value through growth (increase in price) or income (dividends or interest) with favorable future returns.

**LIQUIDITY** – The ability of an investment to be easily converted into cash with little-to no loss of capital, no price discount, and a minimum of delay.

**MARKET** – A public place where buyers and sellers conduct transactions, either directly or via intermediaries.

**MUTUAL FUND** – An open-ended fund operated by an investment company that raises money from shareholders and invests it in stocks, bonds, options, commodities or money market securities in accordance with a stated set of objectives; shareholders are free to sell their shares at any time, although the price will fluctuate daily depending on the performance and securities held by the fund.

**NATIONAL ASSOCIATION OF SECURITIES DEALERS AUTOMATED QUOTATIONS (NASDAQ)** – A computerized New York-based U.S. stock exchange, usually primarily representing a market for technology companies; all trading is done over computer networks and via telephone, as there is no trading floor uniting buyers and sellers.

**OPTION** – An agreement that conveys the right, but not the obligation, to the holder to buy or sell a particular security at a stipulated price within a stated period of time; if the option is used, the seller is responsible for delivering the shares to the appropriate party; if the option is not exercised, the option will expire and the money spent to purchase the option is lost.

**PORTFOLIO** – An investor's collection of investment holdings, usually with reference to its composition; these often include stocks, bonds, and mutual funds.

**PROSPECTUS** – A legal document, required by the Securities Act of 1933, setting forth the complete history and current status of a security or fund, terms, issuer, objectives, financial statements, and planned use of money to help an investor decide whether the investment is appropriate for him/her; it must be made available whenever an offer to sell is made to the public.

**REAL ESTATE INVESTMENT TRUST (REIT)** – A trust that uses pooled money to invest in property and/or mortgage loans; REIT's are granted special tax considerations and are traded on major exchanges; there are several benefits over actually owning properties, and they pay dividends no matter how the shares perform and are valued based on measures similar to stocks.

**RETURN** – The amount of money earned or lost from an investment in a particular period, usually expressed as a percentage of the total amount invested.

**RISK** – The measurable likelihood of loss or less-than-expected returns.

**SECURITIES AND EXCHANGE COMMISSION (SEC)** – The U.S. regulatory authority and independent agency for the securities industry, promoting full disclosure and protecting investors against fraud and manipulative practices in investing.

**SECURITY** – The paper right to a tradable asset that offers evidence of debt or equity issued by a corporation, government or organization.

**SIMPLE INTEREST** – Interest calculated on a principal sum, not compounded on earned interest.

**STANDARD & POOR'S 500 Index (S&P 500)** – A well known index computed by Standard & Poor's Corporation, determined by the price action of 500 widely held large corporations from different sectors of the economy; it is frequently considered representative of the stock market as a whole.

**STOCK** – A type of security that indicates ownership (equity) in a corporation and represents a claim on the proportional share in the company's profits and assets; ownership of a company is determined by the number of shares a person owns divided by the number of outstanding shares; many stocks also include voting rights, which allow shareholders to participate in corporate decisions.

**TAX-DEFERRED** – A term to describe an investment whose earnings are free from taxation until they are withdrawn by the investor; taxes on income that can be postponed.

**TIME HORIZON** – The length of time an amount of money is expected to be invested.

**TOTAL RETURN** – The amount of interest and gain or loss (selling price minus cost) earned on an investment over a given time period (generally one year).

**VOLATILITY** – The extent of fluctuation in share price, interest rates, etc.; the higher the volatility (price of stock moving up and down rapidly over short time periods), the less certain an investor is of return; therefore, volatility is one measure of risk.

## **Types of Investment Accounts**

### **401(k)**

- An employer sponsored retirement plan.
- Allows an employee to save for retirement and defer income taxes on the saved money until withdrawal.
- The employer may or may not make matching contributions up to a specified dollar or percent limit.
- *See also: Roth 401(k).*

### **403(b)**

- A qualified retirement plan similar to 401(k) plans designed for non-profit organizations.
- Pre-tax dollars are invested up to certain limits.
- Withdrawals are taxable.
- The employer may or may not make matching contributions up to a specified dollar or purchase limit.

### **457 PLAN**

- A qualified retirement plan for state employees and employees of certain tax-exempt organizations.
- Pre-tax contributions.
- Contributions in these plans grow tax-deferred.

### **529 PLAN**

- A type of investment designed to encourage saving for the future higher education expenses.
- The account holder can specify where funds are to be spent by the beneficiary (usually the account holder's child or grandchild) of the account.
- Contributions are generally tax free.
- Growth is tax-deferred.
- Qualified withdrawals can be made tax free.

### **BROKERAGE ACCOUNT**

- An account with a brokerage firm that holds your investments, allowing you to buy and sell securities.

### **CASH ACCOUNT**

- A type of brokerage account that requires you to pay for trades in full by the settlement date.
- By law, IRA's and Custodial accounts for minors must be cash accounts.

### **CERTIFICATE OF DEPOSIT (CD)**

- An agreement with a commercial bank that promises a fixed interest rate on funds deposited for a specified period of time.
- Issued in denominations ranging from \$100 to \$100,000.
- Maturities range from a few weeks to several years.
- Typically earn compound interest.
- Insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

- There may be a penalty if funds are withdrawn before reaching maturity.

#### **CUSTODIAL ACCOUNT**

- An account for the benefit of a minor with an adult as the custodian.

#### **DEFINED BENEFIT PLAN**

- A company retirement plan in which you expect to receive a fixed amount on a regular basis from your employer (i.e. a pension plan).
- The employer is responsible for investing.

#### **INDIVIDUAL RETIREMENT ACCOUNT (IRA)**

- A tax-deferred retirement account for individuals.
- Earns potential income on their investments and defer the taxes until withdrawals begin.
- *See also: Roth IRA.*

#### **KEOGH PLAN**

- A tax-deferred defined benefit or defined contribution plan that is established by a self-employed individual for him/herself and his/her employees.

#### **MARGIN ACCOUNT**

- A type of brokerage account that allows you to borrow funds using your own marginable securities as collateral.
- The borrowed funds may be used for any purpose, including buying more securities.

#### **MONEY MARKET ACCOUNT**

- An account in which accumulated funds are invested in various short-term securities.
- Very liquid—can make withdrawals whenever funds are needed.
- Earns a higher rate of return than savings accounts.
- May require a minimum balance to earn interest.

#### **NONQUALIFIED PLAN**

- A retirement or employee benefit plan that does not meet the requirements of Section 401(a) under the Internal Revenue Code and therefore is not eligible for favorable tax treatment.

#### **PENSION**

- An employer-provided qualified retirement plan.

#### **ROLLOVER IRA**

- A tax-free transfer of assets from one qualified retirement plan to another.

#### **ROTH IRA**

- A type of retirement account that allows retirement savings to grow tax-free.

- Taxes are paid on contributions, but not on qualified withdrawals.

### **ROTH 401(k)**

- A type of retirement account that combines some of the most advantageous aspects of both the 401(k) and the Roth IRA.
- Employees can decide to contribute funds on a post-tax elective deferral basis, in addition to, or instead of, pre-tax elective deferrals under their traditional 401(k) plans.

### **SAVINGS ACCOUNT**

- Guaranteed to earn interest.
- Low rates of return.
- Federally insured.
- Can withdraw funds whenever needed without penalty.

### **SEP-IRA (Simplified Employee Pension IRA)**

- An IRA set up by a small business employer or by a self employed person.
- Certain requirements must be met, and no 401(k) plan in place.
- SEP-IRA's are funded by contributions from the employer.

### **SIMPLE-IRA (Savings Incentive Match Plan IRA)**

- A retirement plan for employees of companies that do not have a 401(k) plan and have fewer than 100 employees.
- A SIMPLE IRA allows employees to set aside a percentage of their pre-tax wages into an IRA.
- The employer is required to contribute to the employees plan.
- All contributions and earnings grow tax-deferred until withdrawn.

### **US SAVINGS BOND**

- Considered to be one of the safest investments.
- Fixed interest.
- Earnings are exempt from state and local taxes, but are taxed federally.
- Mature in 1-30 years, with a penalty for selling them early.

### **US TREASURY BILL (T-BILL)**

- Loans to the federal government and considered to be a safe investment.
- Subjected to federal income tax, but not state and local taxes.
- Maturity dates are usually one year or less, and generally, bills with longer maturities have a higher rate of return.