Common Financial Terms

When working with a financial planner, analyst or accountant, there will be terms that he or she will share with a client. It is important to understand what these terms mean in order to best do business with a financial professional.

Terms and Definitions

10-K: An annual audited financial statement sent to the SEC detailing a publicly traded company's financial status. The 10-K includes financial information on company status, profits or losses, outstanding shares, stock performance, letters from the management team and the board of directors, as well as a great deal of other data. The 10-K report is often well over a hundred pages in length.

10-Q: An unaudited financial statement submitted to the SEC on a quarterly basis by publicly traded companies.

1035 Exchange A tax-exempt exchange of one cash value life-insurance policy or annuity for another life-insurance policy or annuity.

12b-1 Fee: A marketing fee associated with loaded mutual funds. The 12b-1 fee is used to pay the selling broker a "trail" of commissions to encourage him or her to sell the particular mutual fund. Fees can be as much as one percent of the value of the account.

401(k): A qualified retirement plan that meets the requirements of section 401(k) of the internal revenue code. This type of plan allows the individual to save for retirement. Private sector employers often offer this type of plan.

403(b): A qualified retirement plan that meets the requirements of section 403(b) of the internal revenue code. This type of plan is offered by school systems and tax-exempt organizations. Under current law, 403(b) contribution limits are the same as those for a 401(k) plan.

457: A nonqualified plan that can be adopted by a government subdivision or tax-exempt organization other than a church. It allows pretax contributions to tax-deferred retirement accounts and generally functions like the more common 401(k) plan.

529: The 529 plan is a qualified state tuition plan that allows very large contributions to taxfree accounts to be used to pay for college expenses. Under current law, "education expenses" are very liberal. The plan also serves as an effective estate-planning tool.

7-Pay Test: A test of life-insurance premiums that compares the premiums paid during the first seven years the policy is in force to the amount of net level premium to what would have been paid, so as to keep the policy in force for the insured's lifetime. A policy that fails to pass the 7-pay test is considered a modified endowment contract.

A Share: A class of mutual fund shares sold by brokers. The commission on "A" shares can run as high as 8.5 percent with 5 percent being average. On a purchase of $1,000 of "A" shares the commission will usually run $50, reducing the net investment to $950.

ADR (American Depository Receipt): An artificial security created by American banks and backed by a block of stock in a foreign company. ADRs allow Americans to be invested in foreign stocks without taking on the additional risk associated with exchange rates since the position is denominated in dollars as opposed to a foreign currency.

Active Management: A style of mutual funds management that involves evaluating stocks or securities on an ongoing basis to determine what to buy and sell, target prices and holding periods. This style of management is usually not tax efficient, and often under-performs the market.

Analyst: An analyst is an individual whose function is to analyze companies and or governments as to their ability to provide an acceptable return or repay their debt. Analysts are often employed by the brokerage industry. It is usually their research on which purchase and sell recommendations are based.

Annuity: An annuity is an agreement to make payments to a beneficiary for a period of time, such as for the life of the beneficiary; the lives of the beneficiary and another individual; or for a specific period. Annuities are sometimes included in retirement plans and are most often sold by insurance companies.

Asset Allocation: The process of dividing up an investment portfolio between different types of investments such as stocks, bonds, cash and alternative investments. Asset allocation can also refer to the structure of an existing portfolio.

Averaging Down: Purchasing a given number or dollar amount of additional shares each time the price of a stock declines.

B Share: A class of mutual fund shares sold by brokers that charges no up-front commission. This class of fund charges higher management fees and has a redemption fee if the fund is sold within a period of 3 to 8 years.

Basis: The original purchase cost of an item or security. Basis includes commissions and dividends used to purchase additional shares of securities. It is increased by amounts used to improve a tangible property. Basis is only applicable to investments or property in taxable accounts. It can be reduced by redemptions or depreciation.

Bearer Bond: A non-registered bond that pays interest to the bearer, it is most often known as a coupon bond.

Beta: A measure of an investment's volatility compared to a relevant index. A beta higher than one indicates an investment that is more volatile than the underlying index.

Bond: A unit of debt issued by a company or a government to finance operations. Bonds are most often issued at $1,000 face value and pay a stated interest rate. The values of bonds move inversely with interest rates.

Broker: An individual who has obtained the Series 6, Series 7 or other license allowing that individual to sell investment products.

Budget: A monthly or annual spending plan often aimed at keeping expenses below income that takes into account income, discretionary and non-discretionary spending.

CFA (Chartered Financial Analyst): A professional designation issued by the Association for Investment Management Research. It is a credential that signifies that the holder has achieved advanced training and expertise in financial analysis as measured by experience, three years of course work and completion of three comprehensive exams. Most mutual fund managers hold the CFA designation.

CFP (Certified Financial Planner): Designation indicates that the holder has advanced expertise in the field of financial planning, has completed a two-year training program, subjected himself or herself to the CFP Board's ethical and continuing education requirement and passed a two-day comprehensive exam. It is the most prestigious and difficult to obtain financial-planning related designation.

CLU (Chartered Life Underwriter): An insurance industry designation issued by the American College. CLU holders must complete a program of eight classes and abide by the College's code of ethics.

CLUT (Charitable Lead Unit Trust): A trust that makes yearly payments based on then-current account values to a charity during the life of an individual or for a specific term of years. It then pays the remainder to a designated beneficiary. CLUTs are often used in estate planning to reduce estate taxes.

CMFC (Chartered Mutual Fund Counselor): An investment designation offered by the College for Financial Planning. To obtain the CMFC designation an individual must complete one class, pass a final examination and sign a code of ethics commitment.

CODA (Cash or Deferred Arrangement): An acronym referring to a retirement plan that allows a choice between receiving cash when earned or deferring receipt through deposits in the plan. 401(k) plans are CODA plans.

CPA (Certified Public Accountant): A state licensed expert with advanced knowledge of generally accepted accounting principles, individual, corporate, estate and trust taxes, and bookkeeping and auditing.

CRAT (Charitable Remainder Annuity Trust): A trust that makes yearly payments in equal amounts to a beneficiary for life or for a specific term of years. After the death of the income beneficiary or the expiration of the term, the trust then disburses to the charity. CRATs are often used in estate planning to reduce estate taxes.

CRUT (Charitable Remainder Unit Trust): A trust that makes yearly payments based on thencurrent account values to a designated beneficiary for life or a period of years. After the death of the income beneficiary or when the term has elapsed it then pays the remainder to the designated charity. CRUTs are often used in estate planning to reduce estate taxes.

Call: A call is a financial agreement between two parties based on some underlying security. It allows the purchasing party to require the selling party to sell the underlying security to the purchaser at a price agreed upon at the time the call was purchased. Calls are often used to reduce risk and increase return.

Call Feature: A characteristic of some bonds. It allows the seller (issuer) of the bond to require the purchaser to sell the bond back to the issuer at some premium.

Capital Gains: Increases in value of a security or tangible property due to marketconditions.

Capital Loss Offset: Allows an investor to offset up to $3,000 of capital losses against ordinary income.

Capital Losses: Capital losses are losses associated with the declining value of a security or tangibleproperty due to market conditions.

Cash Flow: The movement of cash into and out of a position or account. Cash flow can be negative, neutral or positive.

Catch-up Provision: Found in some retirement plans and allows older workers to add more than the normal amount to their retirement accounts without penalty.

Certificate of Deposit (CD): A certificate issued for a period of months or years that pays a stated rate of interest during the term. It is a money product fully insured, up to $100,000, by the FDIC and is most often sold by banks.

ChFC (Chartered Financial Consultant): A designation issued by the American College. CHFC holders must complete an eight-class course of study, though no comprehensive examination is required. Insurance professionals often carry this designation.

Charting: A form of technical analysis based on the theory that past performance can create patterns in returns that can be used to determine or project future stock prices or market levels.

Collateralized Mortgage Obligation (CMO): An investment product made up of portions of a block of mortgages that have been divided up by maturity. In a CMO a group of mortgages are divided into "tranches" with different maturities. As with any mortgage-backed security, the holder receives interest and principal payments. With a CMO, only the tranch with the shortest maturity receives principal payments. When the shortest maturity tranch is repaid, the next shortest tranch is then paid principal as well as interest.

Commercial Paper: Very short-term debt of corporations.

Commission: A fee paid to a broker for selling a security.

Commodity: A commodity is a product that is interchangeable with other products of the same type; it usually trades on a commodity exchange. Foods, grains, metals, foreign currencies and some financial instruments are commodities.

Common Stock: Ownership in a corporation and carries voting rights. It has an inferior claim on dividends and liquidation when compared to preferred stock and bonds.

Convertible Bonds: An instrument that allows the bond to be traded in to the issuing company for a specific number of shares of the issuer's common stock at or within a specified time.

Coupon Bond: A bond that comes with coupons attached to it that must be mailed in to receive interest.

Coverdell Account: The new name of the old Education IRA. This change took place with the tax act of 2001. The Coverdell account allows an individual to contribute up to $3,000 a year for the education expenses of a named beneficiary. The amounts contributed become the property of the beneficiary.

Credit Risk: The chance that a bond issuer will be unable to make timely interest or principal payments.

DOW Jones Index: An index of 30 large companies whose aggregate stock makes up the Dow Jones Industrial Average.

Debenture: Unsecured Debt. Debt backed only by the promise to pay.

Decedent: A person who has died.

Defined Benefit Plan: A qualified retirement plan characterized by guaranteed benefits based on years of service, income during service and retirement age. These types of plans are most often paid for by the employer and the employer assumes the risk of plan assets not performing well. A pension plan is a defined benefit plan. Defined benefit plans are becoming less common with many employers switching to defined contribution plans.

Defined Contribution: A qualified retirement plan characterized by separate accounts that allow the employee to contribute a set amount or percentage of income for retirement. Oftentimes, employers match a percentage of employee contributions. In a defined contribution plan, the employee takes on the risk of the plan assets not being sufficient at retirement. A 401(k) is a defined contribution plan.

Delist: To remove a stock from an exchange, usually as a result of a violation or due to failure to meet financial requirements.

Discount: The amount by which a bond's par value exceeds its market value. A sales price below market value.

Discount Point: A discount point is a fee charged by a mortgage lender equal to one percent of the mortgage that is used to reduce the interest rate on the mortgage.

Diversification: A portfolio strategy designed to reduce risk by owning different types of investments that do not move in tandem, such as stock, bonds and real estate.

Dividend: A payment by a company out of current or retained earnings voted on and approved by the board of directors. Payments are usually quarterly and in cash, though some dividends are paid as additional shares of stock.

Dollar Cost Averaging: Investing the same dollar amount each month in a particular investment. Dollar cost averaging purchases fewer shares when the price of a security is high and more shares when the price is low.

Duration: The average period of time required for an investor to receive all interest and principal payments on a bond.

Employee Stock Ownership Plan (ESOP): Qualified retirement accounts in which employee's accounts are invested in employer stock.

Equity: A stock or share of stock.

FOLIO: Relatively new investment baskets, similar in operation to mutual funds. They allow an individual to, with a single purchase, obtain a diversified portfolio of investments.

Fair Market Value: The current price of an item in an "arms length" transaction between unrelated parties.

Fannie Mae: The Federal National Mortgage Association is a quasi-government agency that purchases FHA and VA loans from lenders on the secondary market and uses them to create mortgage-backed securities that are sold to investors.

Fiduciary: A person or organization that occupies a position of trust with respect to financial assets for another individual or organization.

Financial Planner/Advisor: Most often a professional broker or advisor who sells stocks, bonds, other investments, or manages client accounts.

Freddie Mac: The Federal Home Loan Mortgage Corporation is a federally chartered corporation owned by the savings association industry. Freddie Mac purchases both conventional loans and FHA/VA loans and converts them to securities for sale in the open market. Freddie Mac securities are backed by their unconditional guarantee.

Fund Family: A company that operates a group of mutual funds. Some well-known fund families are Vanguard, Fidelity, Janus and Dreyfus.

Fundamental Analysis: Analysis of a company based on performance, return, growth and other factors to determine the relative attractiveness of owning its stock.

GRAT :Grantor Retained Annuity Trust): A trust in which the grantor retains the right to receive equal payments from the trust for a period of years or life.

GRUT (Grantor Retained Unit Trust): A trust in which the grantor retains the right to receive annual payments based on the then-current account balance for life or a term of years.

Geometric Return: The geometric return is a measure of compound rate of growth that takes into account interest on interest.

Ginnie Mae Government National Mortgage Association: A Ginnie Mae is also a federally backed fixed income security that represents a pool of mortgages.

Global Fund: A type of mutual fund that gives the managers discretion as to which country's stocks to purchase. Global funds are often confused with international funds, the distinction being that while an international fund typically does not invest in the U.S. market, a global fund may.

HELO (Home Equity Loan): A loan other than a primary mortgage based on the built-up equity in the house. Home equity loans are popular sources for funding children's educations and home improvements.

HELOC (Home Equity Line of Credit): Similar to a HELO in that it is backed by the equity in a home. While a HELO is a loan, a HELOC is a credit account. With a HELOC an individual gets a credit limit and can use the funds up to that limit making payments only on the outstanding balance. The interest of HELOCs is almost always variable.

Hazard Insurance: Insurance on tangible property that covers damage such as wind, rain or hail.

Hedge Fund: A fund restricted to 100 shareholders that can invest much more aggressively than mutual funds. Very wealthy investors often use hedge funds.

Heir: An heir is usually a child or spouse. An heir is the person who receives a portion or all of a decedent's estate.

Holding Period: The length of time an asset is held before being sold. The holding period may determine the tax treatment for the sale of an asset. Gain on assets owned for less than one year are taxed as ordinary income, while long-term assets, those held for at least one year, receive lower capital gains treatment.

Home Equity: The amount remaining when the mortgage on a home is subtracted from the home's value. Home Equity is a measure of how much of the house an individual owns and is the basis on which the maximum amount of home equity loans and lines of credit are based.

Homeowner's Insurance: Insurance used to protect the home from damage and loss of use due to perils.

House: A company involved in investment banking or brokerage services. Merrill Lynch is a brokerage house. Most securities are held "in house," meaning that the owner of the security does not receive a certificate of ownership; rather the brokerage house holds the securities in electronic format.

Hypothecation Pledging a security as collateral for a loan, usually in margin accounts.

ILIT (Irrevocable Life Insurance Trust): A trust that takes ownership of life-insurance policies, usually removing the insurance proceeds from the decedent's estate.

IPO (Initial Public Offering): It is the first offering to the public of a firm's securities.

IRA (Individual Retirement Account): In general, a tax-deferred retirement account that allows individuals to make contributions to an account that grows tax-deferred until distributed.

Immunization: A method of protecting a portfolio by insuring that assets and liabilities are of equal duration.

Intestate The state of dying without disposing of all assets either through a will or by will substitutes such as beneficiary designations or operation of law.

Index: A statistical indicator that provides a representation of the securities that constitute it. Indexes are often used as benchmarks to measure security or fund performance. Some of the more well-known indexes are the Dow Jones Industrial Index, the S&P 500 and the NASDAQ Composite Index.

Inflation: Inflation is generally an increase in prices over time.

Inflation Risk The risk that inflation will reduce the purchasing power of assets over time.

Inflation-Indexed Bond: A bond issued by the treasury in denominations from $50 to $10,000 that pays two separate interest rates: a fixed rate guaranteed for the life of the bond and a semiannual inflation rate that can vary every six months.

Institutional Shares: Mutual fund shares available to institutions that carry no commissions or 12-b1 fees.

Interest: The fee charged by a lending institution to borrow money. Also, the earnings on an investment.

International Fund: A mutual fund that invests its assets in the securities of foreign countries.

Joint Account: An account owned by more than one person that allows either party to access the account balance.

Joint Ownership: A form of ownership in which two or more entities share ownership.

Joint Return: A tax return filed by spouses that creates joint and several liability for any tax due.

Joint Tenancy with Rights of Survivorship: A form of property ownership in which survivors automatically receive a decedent's interests.

Joint Tenants in Common: A form of property ownership in which each owner may dispose of his share of the property without regard to the other owners.

Joint and Several Liability: A state where each individual is held liable individually and as a group. For instance, on a tax return filed jointly by spouses, each spouse is jointly and severally liable for the return.

Judgment: A decision by a court of law.

Junk Bond: A bond that is not investment grade, characterized by a rating below BBB, having high relative yields and greater likelihood of default.

Keogh: A qualified retirement plan usually set up by a self-employed individual.

Liquidity: The ease and speed with which an asset can be converted to cash with little or no loss in value.

Long-Term Capital Gains: Gains from the sale of an appreciated asset held more than one year that are taxed at the lower long-term rates. The maximum long-term capital gains rate is 15 percent.

Managed Account: An account established for high net-worth individuals wherein a professional manages the assets to achieve a specific goal. Managed accounts function something like private mutual funds.

Management Fee: A fee paid to a registered investment advisor to manage a client's investment assets.

Margin: The amount that can be borrowed based on the market value of an account. Use of money borrowed from a broker to purchase stock.

Margin Account: A brokerage account that allows the account holder to borrow from the broker. Under current rules an account holder may borrow up to a level equal to the fair market value of his account.

Margin Call: A call from a broker to a customer requiring the customer to deposit additional funds into an account to keep a margin position open. Margin calls occur when the value of the margin position and the investor's equity decreases below a specific level.

Marginable Security: A security that can be purchased on margin.

Market: A place where one buys and sells. The stock market.

Market Cap: The total value of a company's stock.

Market Risk: The risk associated with being in the market or the risk associated with an entire class of assets. Also called systemic risk.

Maturity: The point in time when a debt is due for payment.

Modern Portfolio Theory: An investment strategy that seeks to construct an optimal portfolio using objective data on risk and return.

Modified Endowment Contract: A modified endowment contract is a life-insurance policy that is over-funded to the extent that its primary purpose is no longer providing life insurance protection but rather is used as a tax-deferred savings vehicle. Distributions from a modified endowment contract are included as ordinary income as are loans and any amounts pledged as collateral for a loan.

Money Market: A mutual fund that invests only in very short-term instruments, such as commercial paper and T-bills. The share price on MMMFs is usually $1 but interest rates do vary.

Money Purchase Pension Plan: A simple qualified retirement plan characterized by individual accounts and relatively high contribution limits.

Mortgage Bond: A bond backed by specific property such as a factory or office building.

Muni: A municipal bond is a bond issued by a city, state or other nonfederal government entity. Interest on municipal bonds usually is exempt from federal income taxes.

Mutual Fund: A company that aggregates client investments using the funds to purchase a group of assets that conform to an investment style. NASDAQ National Association of Securities Dealers Automated Quotation System. An over-thecounter computerized stock exchange.

NYSE (New York Stock Exchange): Located on Wall Street in New York City. It is the world's largest stock exchange.

Net Asset Value (NAV): The current value of a mutual fund calculated by subtracting debts of underlying securities from the market value of assets of underlying securities and dividing the result by the number of shares outstanding without regard to fees or commissions.

Net Worth: Assets minus liabilities.

Note: A note is an intermediate term debt instrument with maturities generally of more than one year and less than five years. Also, a document that obligates a borrower to repay a lender at a specified interest rate for a specific period.

Odd Lot: A group of stocks purchased or sold in units of other than a multiple of 100.

Option: The right, but not the obligation, to purchase or to sell a security at a specified price for a specific time.

Ordinary Income: Income from whatever source that is taxed as though it were earned during the current tax year. Capital gains, if received from appreciated property held less than a year and a day are considered ordinary income.

PBGC (Pension Benefit Guarantee Corporation): A federal corporation created to insure vested pension benefits.

PFS (Personal Financial Specialist): A CPA who offers financial planning services. A PFS must complete a course of study, pass an exam and have three years experience.

Par Value: The face value of a bond, usually $1,000. The nominal value assigned to a security.

Passive Management: A portfolio management technique that seeks to match an index in risk and return characteristics.

Pension: A defined benefit retirement plan in which an employer promises to pay a specific amount per year to a retiree.

Premium: An amount over the fair market value paid to purchase an item; the amount paid to purchase an option; the amount a stock or bond exceeds its par value; or the amount paid to keep an insurance policy in force.

Price/Earnings Ratio: The ratio obtained by dividing the price of a stock by the earnings per share.

Profit Sharing Plan: A qualified defined contribution retirement plan characterized by employer contributions and individual accounts for employees.

Prospectus: A document that spells out a mutual fund's investment strategy, holdings and expenses. Prospectuses are usually received at the time of purchase. Prospectuses are also issued with an IPO of new stock.

Put: The right, but not the obligation, to sell a stock to another person at a specific price for a specific time period.

QSTP (Qualified State Tuition Plan): The formal name of the section 529 college savings plan.

Qualified Plan: A retirement plan that satisfies section 401(a) of the Internal Revenue Code. A qualified plan can be either a pension (defined benefit plan) or a CODA (cash or deferred plan/401(k)) type plan.

R-squared: A measurement of how closely an investment correlates to movement in an index. An Rsquared of one indicates an investment that moves exactly as the index.

REIT (Real Estate Investment Trust): An investment vehicle that invests exclusively in real estate or mortgages that is required to distribute most of its income.

RIA (Registered Investment Advisor): Generally a person with a series 66 and 7 license, a series 65 license or a CFP designation. It is a violation of securities laws for an investment adviser to have the initials "RIA" on his business card or letterhead.

RMD (Required Minimum Distribution): From a qualified plan or IRA. RMDs are required to begin the year following the year in which a retirement account holder reaches age 70 and a half.

ROTH IRA: An IRA named after the congressman who wrote the bill that created them. The ROTH allows tax-free withdrawals after age 59 and a half, in contrast to withdrawals that are taxable from a traditional IRA.

Rabbi Trust: A nonqualified deferred compensation arrangement usually reserved for key employees or officers. In a Rabbi Trust, retirement assets are contributed to an account for the beneficiary but are still available for creditors of the entity that created the trust in the event of bankruptcy or default.

Red Herring: A non-final prospectus providing information on an upcoming initial public offering.

Reverse Stock Split: An action whereby several shares of company stock are recharacterized as fewer or one share of stock. Reverse splits are often used to increase the price of stocks that have declined significantly in price and may be used as a means to keep the stock from being delisted by an exchange.

Revocable Trust: A grantor trust that may be terminated by the individual who created it for another person. A revocable trust is not a separate tax entity and any income earned by the trust passes through to the grantor.

Risk-Adjusted Return: A measure of investment return with respect to the amount of risk taken to achieve the return. Used to compare high-risk/high-return investments and low-risk/low-return investments.

Risk Free Rate of Return: The return that can be expected with no risk of loss. The risk free rate of return is most often considered to be the return on short-term T-Bills.

Round Lot: One hundred shares of a stock that are either sold or purchased. Transaction costs are usually lower with round lots than odd lots.

S&P 500 Standard & Poor's: Index of 500 Large company stocks. It publishes the prices of 500 large-cap common stocks actively traded in the United States.

SEC (Securities and Exchange Commission): A regulatory organization that oversees brokers and the securities markets.

SEP (Simplified Employee Pension): Wherein an employer makes contributions to employees' IRA accounts. The funds contributed are immediately vested and available to the employee. SEP plans are limited to employers with less than 101 employees.

SIMPLE (Savings Incentive Match Plan for Employees): A retirement plan that allows employee contributions and matching employer contributions to employee IRAs.

SIPC (Securities Investor Protection Corporation): Insures brokerage accounts in the event of a brokerage company's bankruptcy, for up to $500,000 (including $100,000 of claims for cash).

Savings Bonds: Generally, any bond of series EE, HH or I issued by the treasury. Savings bonds are sold at a discount and mature at some later date. Savings bonds often allow tax-free redemptions if used to fund college expenses.

Secular Trust: A trust set up as a retirement plan for a key employee that segregates the assets deposited in the trust from the company funds. A secular trust protects the funds from the employer's creditors usually without triggering a tax liability for the employee until the funds are actually received.

Serial Bonds: A set of bonds issued by the same company at the same time that have different maturity dates.

Series 24: Registered representative principal license, required to supervise stockbrokers.

Series 6: A limited representative license that allows the holder to sell mutual funds and variable insurance products.

Series 63: A "Blue Sky" license required by the states to sell securities.

Series 65: A license required to provide investment advice that is not incidental to the sale of a product. One of two licenses required of Registered Investment Advisors.

Series 66: A combination of the series 65 and 63 licenses and the second or alternative license required for Registered Investment Advisors.

Series 7: General securities representative license required to sell all securities except commodities.

Series EE Bonds: Savings bonds issued by the government sold at a discount to face value. EE bonds escape state taxes and may escape all taxes if used to pay for college expenses.

Series HH Bonds: Bonds issued only in exchange for Series EE bonds. They are available in denominations of $500, $1,000, $5,000 and $10,000.

Series I Bonds: Savings bonds whose returns are adjustable by inflation. I bonds are purchased at face value and interest is paid at maturity in two parts, a guaranteed return and an inflationadjusted return.

Share: A unit of ownership in a corporation or mutual fund.

Sharp Ratio: A risk-adjusted measure of unit return, per unit of risk, using standard deviation. In general, a higher sharp ratio indicates a better performing security.

Short: A bearish position on a stock whereby an investor sells shares borrowed from a broker with the expectation that the shares will decline in value. After a decline occurs, the individual then purchases the stock to repay the borrowed shares and earns the difference of the original sales price and the sale price. A short makes money when the price of the security declines.

Spread: The difference between the offering price and the asking price of a security.

Standard Deviation: A statistical measure of the variation of data points in a series around an average.

Star Rating: A rating created by Morningstar indicating the relative performance of a mutual fund versus other funds of the same type.

Stock: Certificate indicating ownership of a corporation that represents a claim on corporate assets and income.

Stock Bonus Plan: A profit-sharing plan that pays benefits to employees in stock instead of cash.

Stock Option: An option to purchase a stock at an agreed price for an agreed time period. Options are often issued by employers as compensation or incentive pay.

Stock Split: An increase in the number of shares of a company stock such that the price of the stock declines by the same proportion that the number of shares increase. Stocks often split after large gains in value.

Strip: Coupon bond that has had the coupons removed to be sold individually. With a strip an investor can purchase the interest portion of the bond or the principal portion.

T-bill: Very short-term debt issued by the Department of the Treasury. T-bills pay the lowest interest rate of any investment and are considered risk free.

Tax Deferred: An income whose taxes are paid at a later date. Examples are earnings from 401(k), 403(b), 457 and IRA plans.

Tax Exempt: Income that is never taxed. For instance, proceeds from a Roth IRA.

Tax-free Bond: A bond that escapes either federal or state taxes.

Technical Analysis: A method of evaluating stocks that uses charts and graphs to determine trend lines, purchase and sell positions.

Term: The period of a loan.

Term Life: A life-insurance policy that provides coverage for only a specific amount of time, generally one year. Term life policies usually provide the highest death benefits per dollar of premium.

Thrift Plan: A qualified retirement plan in which employees make after-tax contributions to the plan and employers make matching tax-deferred contributions.

Ticker: A scrolling display of security prices or volume.

Ticker Symbol: A system of letters used to identify stock and mutual funds. Mutual fund symbols contain five letters and end in "X."

Time Value of Money: A concept relating the value of a dollar today to the value of a dollar in the future. A dollar today is worth more than a dollar in the future due to the fact that a dollar today can be invested and earn interest.

Total Return: The return of an investment that is equal to the sum of the dividends and the appreciation or depreciation of the security.

Transaction Fee: A cost incurred due to buying or selling such as a commission.

Treasury: The U. S. Department of the Treasury. Also a debt instrument issued by the Treasury.

Treynor Index: A measure of a portfolio's excess return per unit of risk. A higher Treynor Index indicates a better performing security.

Trust: A legal document in which a trustor (one who establishes a trust) gives legal control of assets to a person or institution (the trustee) for the benefit of named beneficiaries.

UGMA (Uniform Gift to Minors Account): A custodial account often established by a parent for a child.

UTMA (Uniform Transfers to Minors Account): A custodial account that allows transfers to minors of an expanded list of property when compared to the UGMA account.

Unit Investment Trust: An investment company that purchases an unmanaged pool of investments and then sells shares of the trust to investors.

Universal Life: A permanent life insurance characterized by combining the low-cost coverage associated with term insurance and a savings vehicle.

Variable Annuity: An annuity that allows the owner to invest the cash account in subaccounts. The future payments from the annuity are based on investment performance.

Variable Life: A form of permanent cash-value life insurance in which the premium is, in part, determined by the performance of the underlying investment choices. Variable life products also provide tax-deferred investment growth.

Variable Universal Life: A permanent life insurance policy that combines some of the features of a universal life policy, such as flexibility in premiums and death benefits, with the benefits of a variable policy.

Volume: The total number of shares that trade hands during a trading day.

Wash Sale: The sale of a stock at a loss and the subsequent repurchase of the same stock within 30 days. Tax rules on wash sales disallow the recognition of the loss.

Whole Life: A permanent form of life insurance that includes a savings component that can be used for wealth accumulation.

Wrap Account: An account in which a broker or advisor manages client funds for an annual fee. There are usually no commissions associated with wrap accounts, though fees do vary.

Yield: The annual return on an investment expressed as a percentage.

Yield Curve: A curve that shows the relationship between yields and maturities.

Yield to Call: The projected yield that would be realized if the issuer called for the bonds to be redeemed at the call date.

Yield to Maturity: Yield that would be realized on a bond if it were held to its maturity date.

Zero Coupon Bond: A bond that pays no coupons, is sold at a deep discount and pays accrued interest upon maturity.

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