

GLOSSARY



Chapter 1

Asset Allocation: the mix of investments within a portfolio that a person chooses; typically it is designed to balance risk and return needs

Bureau of Labor Statistics: division of the U.S. Department of Labor that calculates the Consumer Price Index

Capital Gains: an increase in value of property or of an investment over its purchase price. Note that if the property or investment has been sold, it is called a “realized capital gain;” otherwise it is an “unrealized capital gain”

Consumer Price Index (CPI): a monthly price series showing the inflation rate for a market basket of goods and services

Cost of Living: the amount of money needed to sustain a certain standard of living

Disposable Income: the amount of money left for spending or saving after paying living expenses and taxes

Diversify: putting money into a variety of investments

Inflation Rate: the annual percentage increase in the prices of goods and services

Market Basket of Goods and Services: items that people typically spend money on including food, housing, clothing, transportation, medical care, recreation, education, communication, and miscellaneous goods and services

Portfolio: the entire collection of a person’s investments

Price Series: uses a set inflation rate along with actual prices to determine the hypothetical price of the same goods/services in the future

Projection: an estimate of future value

Purchasing Power: the value of money based on the amount and quality of goods and services it can buy

Risk: the probability that something negative might happen

Risk Tolerance: the degree of variability in investment returns that an investor is willing to withstand

Chapter 2

Bond: a loan made by an investor to a government or company with the promise that the principal amount borrowed will be repaid, usually with interest, at a specific time, usually a year or more in the future

Bondholder: the person or company who purchases the bond

Callable Bond: a bond that can be repaid by the issuer prior to its maturity date

Certificate: a document issued by a government or company that includes the name of the bond issuer, the coupon rate, and the bond’s maturity date

Collateral: property or an asset that is presented as payment in case of default on a loan

Coupon Payments: interest payments made by the bond issuer to the bondholder

Coupon Rate: the annual percentage interest rate paid on the bond

Default: failure to pay a debt, including a coupon payment on a bond

Discount Factor: the amount that \$1 at some point in the future is worth today

Earnings: money earned through paid employment, as profit, or from investments

Face Value: the amount of money borrowed by the issuer

Fair Market Price: the price that a reasonable investor would expect to pay for the bond

High-yield: in bond terms, a debt that pays high potential rates of interest but has a corresponding level of risk

Issuer: the government or company that borrows the money

Market Fluctuation: change in the marketplace value of bonds



Maturity Date: date by which the issuer must repay the principal amount borrowed

Par Value: same as face value

Present Value: the value of money right now, today

Primary Market: initial offering of a bond by the entity that is taking the loan

Secondary Market: where investors buy and sell bonds after their initial sale by the issuer

Yield to Maturity: the total return anticipated on a bond if the bond is held until it matures, relative to the initial investment

Chapter 3

Annual Return: the return an investment provides over a period of time, expressed as an annual percentage

Brokerage Account: an arrangement between an investor and a licensed brokerage firm permitting the investor to deposit funds with the firm and place investment orders through the brokerage

Buy Limit Order: the highest price at which an investor will purchase a specific stock

Capital Gains: an increase in value of property or of an investment over its purchase price. Note that if the property or investment has been sold, it is called a “realized capital gain;” otherwise it is an “unrealized capital gain”

Commission: a fee for services rendered based on a percentage of an amount received or collected or agreed to be paid

Dividend: amount of money that is paid to an investor by a company for each share of stock owned

Dividend Return: value of stock dividends received over time as a percentage of the stock price

Dividend Yield: the dividend per share, divided by the price per share

Exchange: organization established for the purpose of arranging the buying and selling of various companies' stocks

Floor Broker: a person who works on the stock exchange floor and communicates buy and sell directions with the specialist

Issued Shares: the total number of shares available in the marketplace to be purchased or owned by stockholders

Last Price: the price of a specific stock at the time the market closes

Long-term Trend: what happens to an investment over a period of several years

Market Order: a buy or sell order to purchase or sell at whatever price is available in the market

Market Value: the last reported sale price or current bid/asking price for a particular stock

Online Brokerage: company that people can use as an agent through which they can buy and sell stocks online

Online Trading: use of the internet to buy and sell stocks

Portfolio: collection of investments owned by an investor

Positive Correlation: the tendency of stock prices to move up or down together

Price Return: change in a stock's price over time

Public: when a company has issued stock available for purchase by the general public, as opposed to a private company that is owned by an individual or small group

Return on Investment (ROI): earnings expressed as a percentage of the original cost

Securities Firm: a company where an account is maintained for the purpose of buying and selling stocks

Sell Limit Order: the lowest price at which an investor will sell a specific stock

Share: a unit of stock owned by an investor

Shareholder: a person who owns one or more shares of stock

Specialist: a member of a stock exchange who facilitates trading in certain stocks

Stock: ownership in a corporation

Stock Price Index: a measure of stock market performance

Stockbroker: employee of a securities firm who acts as an agent to initiate an investor's orders to buy or sell stock

Ticker Symbol: unique abbreviation used to identify a company traded on a stock exchange

Total Annual Return: the return a stock provides over a period of time, including share value and dividends, expressed as an annual percentage



Total Return: the amount of value an investor earns from a stock over a specific period, including all dividends, interest, and capital gains

Transaction Cost: fee paid to stockbroker for each trade that is made

Uncorrelated: changes in stock prices that have no relationship to the performance of other investments

Unrealized Capital Gain: earnings that have not been converted to cash; e.g., when a stock gains value but you haven't sold it yet

Upward Trend: the tendency for a stock price to rise over time

Volatility: a statistical measure of the range of returns for a given security; the higher the volatility, the riskier the security

Chapter 4

Actively Managed: mutual funds that have a manager or team of managers who make investment decisions for a fund based on analytical research, forecasts, and their own experience



Asset: anything you own to which a monetary value can be assigned; in mutual funds it refers to the investment vehicles (stocks, bonds, etc.) that the fund puts its money into

Asset Allocation: a way to divide investments among various categories according to goals, risk tolerance, and investment timeframe

Asset Mix: how the invested amounts are split among different categories (e.g., cash, stocks, bonds, real estate)

Equity Fund: a mutual fund that invests principally in stocks

Exchange-Traded Fund (ETF): an investment fund that is traded on an exchange like stocks

Expense Ratio: total cost of managing a fund expressed as a percentage of assets

Fixed Income Fund: a mutual fund that owns fixed income securities such as U.S. Treasuries, corporate bonds, municipal bonds, etc.

Hybrid Fund: a mutual fund that invests in more than one type of investment security, such as both stocks and bonds

Index Fund: a fund comprised of assets that track those in the index

Mutual Fund: a portfolio of many different investments pooled from multiple investors managed by professionals and subject to laws and regulations designed to protect individual investors

Mutual Fund Share: a very small fraction of each individual stock or bond in the fund; when people invest in mutual funds, they receive shares of the fund, based on the amount of their investment

Net Asset Value (NAV): the price at which you can buy or sell one share of the mutual fund. It is equal to the sum of the market value of the fund (including cash) less any liabilities, divided by the number of shares

Net Investment: money placed in the fund after the sales load (if any) has been deducted

No Load: funds that do not require you to pay a sales load for purchasing shares

Passively Managed: a fund that is left to grow with very little adjustment to its asset mix (e.g., an index fund)

Sales Load: a fee charged when you invest in the mutual fund

Target Date Fund: a mutual fund designed to balance risk and return based on a set end-time; generally with greater risk and more growth in the first few years and less risk as it gets closer to the target date

Total Expense: the sum of all periodic expenses for a fund

Total Market Value: the sum of the value of all assets a fund has invested in, including any cash that the fund may have