Key Terminology and Definition

Annual report - The yearly audited record of a corporation or a mutual fund's condition and performance that is distributed to shareholders.

Appreciation - The increase in value of a financial asset.

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

Blue chip - A high quality, relatively low-risk investment; the term usually refers to stocks of large, well-established companies that have performed well over a long period. The term Blue Chip is borrowed from poker, where the blue chips are the most valuable.

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

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

Capital - The funds invested in a company on a long-term basis and obtained by issuing preferred or common stock, retaining a portion of the company’s earnings from the date of incorporation and by long-term borrowing.

Capital gain - The difference between a selling price and purchase price of a Stock, when the difference is positive. When the difference is negative, that is Capital Loss.

Capitalization - The market value of a company, calculated by multiplying the number of shares outstanding by the price per share.

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

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

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

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

Cut-off time - The time of day when a transaction can no longer be accepted for that trading day.

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

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

Dividend paid - Amount paid to the shareholder of record a security or mutual fund.

Dividend yield - Annual percentage of return earned by a mutual fund. The yield is determined by dividing the amount of the annual dividends per share by the current net asset value or public offering price.

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

EPS - The portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability.

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

Ex-Dividend - The interval between the announcement and the payment of the next dividend for a stock.

Ex-Dividend date - The date on which a stock goes ex-dividend — typically about three weeks before the dividend is paid to shareholders of record.

Fund - A pool of money from a group of investors in order to buy securities. The two major ways funds may be offered are (1) by companies in the securities business (these funds are called mutual funds) and (2) by bank trust departments (these are called collective funds).

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

Hedge funds - Alternative investments using pooled funds that employ different strategies to earn active return for their investors.

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

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

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

Investment grade bonds - A bond generally considered suitable for purchase by prudent investors.

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

Leverage - The use of financial instruments or borrowed funds to amplify performance. In an upward- or downward-trending market, a leveraged investment that is on the correct side of the trend will see magnified gains, while one on the wrong side of the trend will see magnified losses.

Liquidity - The ability to have ready access to invested money. Mutual funds are liquid because their shares can be redeemed for current value (which may be more or less than the original cost) on any business day.

Market price - The current price of an asset.

Market risk - The possibility that an investment will not achieve its target.

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

Maturity - The date specified in a note or bond on which the debt is due and payable.

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

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

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

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

P/B Ratio - The price per share of a stock divided by its book value (net worth) per share. For a stock portfolio, the ratio is the weighted average price-to-book ratio of the stocks it holds.

Par value - Par value is the amount originally paid for a bond and the amount that will be repaid at maturity. Bonds are typically sold in multiples of $1,000.

Portfolio - A collection of investments owned by one organization or individual and managed as a collective whole, with specific investment goals in mind.

Portfolio allocation - Amount of assets in a portfolio specifically designated for a certain type of investment.

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

Premium - The amount by which a bond or stock sells above its par value.

Price-to-book - The price per share of a stock divided by its book value (net worth) per share. For a stock portfolio, the ratio is the weighted average price-to-book ratio of the stocks it holds.

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

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

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

Recession - A downturn in economic activity defined by many economists as at least two consecutive quarters of decline in a country's gross domestic product.

Risk tolerance - The degree to which you can tolerate volatility in your investment values.

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

Share - A unit of ownership in an investment such as a share of a stock or a mutual fund.

Short-term investment - Asset purchased with an investment life of less than a year.

Standard Deviation - A statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution.

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

Time horizon - The amount of time that you expect to stay invested in an asset or security.

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

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

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

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

Valuation - An estimate of the value or worth of a company; the price investors assign to an individual stock.

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

Value stock - Typically an overlooked or underpriced company that is growing at slower rates.

Volatility - The amount and frequency with which an investment fluctuates in value.

YTD - Year-to-date return on an investment including appreciation and dividends or interest.

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

Yield to maturity - Concept used to determine the rate of return an investor will receive if a long-term, interest-bearing investment, such as a bond, is held to its maturity date.

52 Week High - A security's trading high point over the last 52-week period.

52 Week Low - A security's trading low point over the last 52-week period.