Expertise, experience and independence.

Combined experience—financial and fiduciary. Educated and timely decision making based on deep and extensive research and market knowledge. Dedicated, skilled professionals. These are some of the key elements to achieving your organization’s portfolio goals.

Drawing on the knowledge and experience of your partners is something you should be able to count on. Every day. In changing market conditions, both short- and long-term financial objectives face daily threats. With Arthur J. Gallagher & Co., you have an experienced advisor when it comes to your institutional investments—a team of senior investment and fiduciary professionals who conduct the analysis and work directly with you.

Our services include:

- Institutional investment advice & guidance
- Portfolio design/implementation
- Traditional & discretionary consulting services
- Investment Policy Statement development/implementation
- Asset allocation/liability modeling
- Spending policy analysis
- Risk analysis & management
- Investment manager evaluation/selection
- Investment performance monitoring
- Socially responsible investment guidelines
- Fiduciary decision making
- Client/fiduciary education
12b-1 Asset-Based Fees:
A provision of the Investment Company Act of 1940 that allows a mutual fund to collect a fee for the promotion, sale or other activity connected with the distribution of its shares. The fee must be reasonable (typically up to 1% of net assets managed).

401(k) / 403(b) / 457 Plans:
Types of defined contribution plans that allow employees to divert a portion of salary to an employer-sponsored tax-sheltered savings account, thus deferring taxes until retirement. See also “Defined Contribution Plan”.

Accrued Interest:
The interest that has accumulated since the last interest payment up to, but not including, the settlement date plus the contract price of a bond transaction. There are two methods for calculating accrued interest: the 30-day month (360-day-year) method for corporate and municipal bonds, and the actual calendar days (365-day-year) method for government bonds. Income bonds, bonds in default and zero-coupon bonds trade without accrued interest (flat). See also “Flat”.

Active Management:
A portfolio strategy that strives to enhance investment returns by tactically repositioning portfolios to take advantage of the most favorable opportunities; a money-management approach that seeks to outperform the market through the application of informed, independent investment judgment. The opposite of passive management, or “indexing,” which seeks to replicate market performance through the construction of a portfolio mirroring the composition of the market.

Aggressive Growth Fund:
Seeks rapid growth of capital, often through investment in smaller companies and with investment techniques involving greater-than-average risk, such as short-selling, leveraging and frequent trading.

Alpha (manager impact):
A measure of the manager's contribution to performance is expressed as an annual compounded rate of return, adjusted for risk. Alpha represents the difference between the actual performance and the expected performance of a fund given its volatility (or risk). The expected value for alpha is zero. If positive, the fund has achieved a return above that expected for its volatility. A negative alpha reflects fund performance below that expected for its volatility.

Alternative Investments:
Strategies including Real Estate, Commodities, Hedge Funds and Private Equity that seek to generate different return patterns than traditional investments and are used to enhance portfolio diversification.

Yield to Call:
Yield on a bond, assuming the bond will be redeemed by the issuer, at the first call date specified in the indenture agreement.

Yield to Maturity:
The return a bond earns on the price at which it was purchased if it were held to maturity. It assumes that coupon payments can be reinvested at the yield to maturity.

Yield Spread:
The relationship between bond yields and the particular features on various bonds such as quality, capability and taxes.

Zero-Coupon Bond:
A bond with no coupons that is sold at a deep discount from par value; zero-coupon bonds increase in value over time at a compound rate of return so that at maturity they are worth considerably more than their initial cost.
American Depository Receipts (ADRs):
Securities representing an ownership interest in the equities of foreign companies. A bank holds the shares in trust and issues depository receipts to American shareholders of the foreign companies. ADRs trade much like other securities.

American Stock Exchange (AMEX) Index:
A measure of the current price behavior of stocks listed on the AMEX relative to a base of 100, set 8/31/73.

Amortization:
The gradual extinguishment of any amount over a period of time, as in the periodic write down of a bond premium to par, or of a mortgage balance to zero.

Annualized Return:
The geometric mean of the returns with respect to one year.

Annual Report:
The formal financial statement issued yearly by a corporation to its shareholders. The annual report shows assets, liabilities, earnings, how the company stood at the close of the business year and how it fared profit wise during the year.

Annuity:
A contract between an insurance company and an individual; it generally guarantees lifetime income to the individual on whose life the contract is based in return for either a lump sum or a periodic payment to the insurance company. The contract holder’s objective is usually retirement income.

Arbitrage:
Profiting from differences in price when the same security, currency or commodity is traded on two or more markets. By taking advantage of monetary disparities in price between markets, arbitrageurs perform the economic function of making those markets trade more efficiently.

Arithmetic Mean Return:
Simple average obtained by adding a series of return periods and dividing by the number of periods. The return measure will always be higher than the Geometric mean, except when all returns are constant. See “Geometric Mean Return”.

Ask (Ask Price):
See “Offer”.

Asset Allocation:
The appropriation of funds to different asset classes, such as stocks, bonds, alternative investments and cash equivalents. It affects both risk and return and is a central concept in investment management.
**Asset Allocation Fund:**
Seeks total return by placing top priority on the decision as to which types of securities will be held, often based on an analysis of business-cycle trends.

**Asset-Backed Security:**
A public or private security issued to finance a portfolio of receivables (usually consumer loans), independent of the financial status of the originator or issuer. Credit enhancement is provided to protect investors from defaults and to raise the inherent credit quality of the asset pool usually to Triple-A.

**Asset Class:**
Category of assets, such as cash equivalents, stocks, bonds and their subcategories, as well as tangible assets, such as real estate, precious metals and collectibles.

**Assets:**
Everything that a corporation owns or that is due it: cash, investments, money due it, materials and inventories (known as current assets); buildings and machinery (known as fixed assets); and patents and goodwill (known as intangible assets).

**Auction Market:**
System by which securities are bought and sold through brokers on the securities exchanges, as distinguished from the over-the-counter market, where trades are negotiated.

**Average Life:**
Also referred to as weighted average life (WAL). The average number of years that a principal dollar is expected to remain outstanding. For bonds with no principal payments during the life of the bond, the average life equals the stated maturity. For bonds with principal paydowns, such as asset-backed securities and mortgage-backed bonds, the average life is significantly shorter than the stated maturity.

**Average Maturity:**
Average amount of time until debt instruments mature. The shorter the average maturity, the less sensitive the portfolio is to market interest rate changes.

**Back-End Load:**
A fee incurred on the sale of shares in a mutual fund, levied when the units are sold.

**Balance Sheet:**
A financial summary of a firm's assets, liabilities and shareholder's equity at a single point in time.

**Balanced Fund:**
A portfolio composed of both stocks and bonds, presumably to achieve a balance of growth and income.

**Value Stock:**
Stock selling at low prices in relation to company assets, sales and earnings power.

**Variable Annuity:**
An annuity contract that adjusts the monthly payment according to the investment experience (and sometimes the mortality experience) of the insurer.

**Variable Rate Mortgage (VRM):**
An adjustable-rate mortgage; its rate is linked to an index of lender's cost of money, calculated periodically.

**Variability:**
Dispersion in the likely outcomes.

**Velocity:**
In the most common usage, the number obtained when Gross National Product is divided by money supply. As such, it represents the number of times per year that each dollar in the money supply is spent on goods and services.

**Volatility:**
Fluctuations in a security's or portfolio's return.

**Volume:**
Total number of stock shares, bonds or commodities futures contracts traded in a particular period.

**Voting Right:**
The stockholder's right to vote their stock in the affairs of the 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.

**Warrant:**
A certificate giving the holder the right to purchase a security at a stipulated price, either for a specified period of time or perpetually.

**Wash Sale:**
Selling a security at a loss for tax purposes and, within 30 days before or after, purchasing the same or a substantially identical security. The Internal Revenue Service will disallow the claimed loss.

**Weighted Average Coupon (WAC):**
The weighted average of the interest rates on the loans underlying a mortgage pool or asset-backed security, with the balance of each loan as the weighting factor.
**Treasury Note:**
A coupon issued by the U.S. Treasury with a maturity of 1 to 10 years.

**Treasury Stock:**
The portion of shares that a company keeps in their own treasury. Treasury stock may have come from a repurchase or buyback from shareholders; or it may have never been issued to the public in the first place. These shares don't pay dividends, have no voting rights, and should not be included in shares outstanding calculations.

**True No-Load:**
This includes funds with maximum sales charges and 12b-1 charges equal to zero.

**Turnover:**
The percentage of a portfolio that has been changed over the period, in terms of the number of holdings or dollar volume, usually viewed over the trailing 12 months.

**Unconstrained Fixed Income:**
Unconstrained strategies allow managers greater flexibility to seek higher returns with less downside risk in the fixed income market. Tools include interest rate, credit and duration management.

**Undermargined:**
The condition of a margin account in which equity is less than the maintenance margin level.

**Underwriter:**
An investment banker that works with an issuer to help bring a security to the market and sell it to the public.

**Underwriting:**
The process by which investment bankers purchase an issue of securities from an issuer and resell it to the public.

**Unemployment Rate:**
Percentage of the civilian labor force actively looking for work but unable to find jobs.

**Unit Investment Trust (UIT):**
An investment company that sells redeemable shares in a professionally selected portfolio of securities. It is organized under a trust indenture, not a corporate charter.

**Unlisted Security:**
A security not listed on one of the organized exchanges or auction markets.

**Unrealized Capital Gain:**
A capital gain made only “on paper,” that is not realized until the fund’s holdings are sold; also called paper profit or paper gain.

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**Balloon:**
A principal amount retired at maturity on a sinking fund issue that is substantially larger than any sinking fund payment. See “Sinking Fund”.

**Barbelled Portfolio:**
A bond portfolio emphasizing securities with both short and long maturities, avoiding the intermediate range. Other commonly employed configurations are ladders (portfolios where maturities are evenly spaced along a continuum) and concentrated portfolios (with securities clustered around one maturity). Different maturity strategies work best in different bond markets.

**Basis Point:**
A convenient measure that denotes the change in value of a financial instrument; one hundredth of one percent (.01%).

**Batting Average:**
The ratio between the number of periods when the manager outperforms a benchmark and the total number of periods.

**Bear Market:**
A market characterized by a trend of falling prices.

**Bearer Bond:**
The holders of the bond are considered to be the owners; there is no official record of ownership kept by the issuer.

**Benchmark:**
Any one of several standards for gauging investment performance – typically, returns from comparable investments. One common benchmark of U.S. stock portfolios’ performance, for instance, is the S&P 500 Index.

**Beta (volatility):**
It measures the sensitivity of a fund's return to changes in the market index. It is commonly referred to as “market-related risk”. It measures the historical percentage change in the fund’s rate of return accompanying a 1% change in the index return. Funds with a beta of 1.00 are, by definition, as volatile as the market index. Funds with a beta of 0.50 are half as volatile.

**Bid:**
The price at which a buyer is willing to purchase a security.
**Bid Price:**
The price at which the specialist or dealer offers to buy shares.

**Blend Fund:**
A portfolio comprised of a mix of value and growth stocks.

**Block:**
A large holding or transaction of stock – typically considered to be 10,000 shares or more.

**Blue Chip Stock:**
Stock of the highest quality with long records of earnings and dividends; usually well-known, stable and mature companies.

**Bond:**
Long-term debt instrument that represents a contractual obligation on the part of the issuer to pay interest and repay principal.

**Bond Duration:**
A measurement that estimates the sensitivity of a bond or portfolio of bonds to changes in interest rates, thus reflecting the price volatility and risk of the security or portfolio. Also defined as the weighted average term-to-maturity of a bond's or bond portfolio's cash flows.

**Bond Fund:**
A mutual fund that invests in various kinds and grades of bonds with income as the primary objective.

**Bond Ladders:**
A bond investment strategy wherein an equal amount of money is invested in a series of bonds with staggered maturities – for example, an equal amount is invested in notes and bonds with maturities of 3, 6, 9, 12 and 15 years.

**Bond Ratings:**
Letters (e.g., “AAA,” “AA,” etc.) that are assigned to bonds to express their relative probability of default; letter grades that designate investment quality.

**Bond Swap:**
An investment strategy wherein an investor liquidates one of his or her current bond holdings and simultaneously buys a different issue in its place.

**Bond Yields:**
Summary measures of the return an investor would receive on a bond if it were held to maturity; reported as an annual rate of return.

**Tracking Error:**
The measure of how closely a portfolio follows its respective index, which is measured as the standard deviation of the difference between the portfolio and index returns.

**Trade Date:**
The date when a transaction is effected or executed.

**Trader:**
A person whose intention is to profit from the buying and selling, rather than the holding, of securities.

**Traditional Portfolio Management:**
An approach to portfolio management that emphasizes balancing the portfolio with a variety of stocks and/or bonds from a broad cross-section of industries.

**Transfer:**
1) The delivery of a stock certificate from the seller's broker to the buyer's broker and legal change of ownership, normally accomplished within a few days. 2) The recording of the change of ownership on the books of the corporation by the transfer agent.

**Transfer Agent:**
A transfer agent keeps a record of the name of each registered shareowner, his or her address, and the number of shares owned, and sees that certificates presented to his office for transfer are properly canceled and new certificates issued in the name of the transferee.

**Treasury Bill (T-Bill):**
A short-term money market instrument sold at a discount by the U.S. Government.

**Treasury Bond:**
A long-term bond sold by the U.S. Government.

**Treasury Fund:**
A government bond fund that seeks income by generally investing at least 80% of its assets in U.S. Treasury securities.

**Treasury Inflation-Protected Securities (TIPS):**
Treasury bonds structured to protect investors from inflation-related losses. TIPS' interest rates are fixed, but their principal, or face value, moves with the Consumer Price Index (if inflation picks up, the holder receives higher payments). TIPS tend to outperform regular Treasuries when inflation expectations rise and underperform when expectations fall.
**Tax Shelter:**
An investment vehicle that offers potential reductions of taxable income.

**Technical Analysis:**
Research into the demand and supply for securities, options, mutual funds and commodities based on trading volume and price studies.

**Term Bond:**
A bond that has a single, fairly lengthy maturity date.

**Term to Maturity:**
The remaining life of a bond.

**Third Market:**
Over-the-counter transactions made in securities listed on the New York Stock Exchange, American Stock Exchange or other organized exchanges.

**Time Deposit:**
A deposit with a maturity fixed by law of at least 30 days. Savings accounts at commercial banks also are regarded as time deposits.

**Time Premium:**
The difference between an option's price and its intrinsic value, reflecting what investors are willing to pay to speculate on future price changes.

**Total Portfolio:**
Total fund includes all investable securities such as equities, fixed-income securities, cash equivalents, as well as non-traditional investments.

**Total Return:**
All the return an investor receives on a specific investment over a stated period, including realized or unrealized capital gain or loss, and dividends or interest; expressed as a percentage of the investment's value at the beginning of the period. Total return is the true measurement of investment results, as distinct from either income yield or price appreciation alone, since total return measures the total change in value of an investment over a given period (aside from the investor's own withdrawals or additions).

**Total Risk:**
The sum of the diversifiable and non-diversifiable risk components of an investment vehicle.

**Book Value:**
The value of a corporation's equity as shown by the accounting records of the holder.

**Book Yield:**
The yield (current to maturity) of a security calculated using book value as the price.

**Bottom-up Approach to Investing:**
Search for outstanding performance of individual stocks before considering the impact of economic trends. The companies may be identified from research reports, stock screens or personal knowledge of the products and services. This approach assumes that individual companies can do well, even in an industry that is not performing well.

**Boutique:**
Small, specialized investment firm that deals with a limited clientele and offers a limited product line.

**Broker:**
A person or firm acting as an agent for buyers and sellers, charging a commission for services rendered.

**Bull Market:**
A market characterized by a trend of rising prices.

**Bullish:**
Optimistic about the market – anticipating a rise in prices.

**Business Cycle:**
An indication of the current state of the economy, it reflects change in total economic activity over time.

**Business Risk:**
The degree of uncertainty associated with an investment's earnings and the investment's ability to pay investors the returns owed them.
**Call:**
A negotiable instrument that gives the holder the right (but not the obligation) to buy shares of common stock at a stated price on or before some future date; the right that some bond issuers have to redeem a bond at stated times prior to maturity for a stated price, typically exercised when interest rates fall.

**Call Feature:**
A feature that specifies whether, and under what conditions, the issuer can retire a bond prior to maturity.

**Call Loan:**
A loan that may be terminated or "called" at any time by the lender or borrower. Used to finance the purchase of a security.

**Call Premium:**
The amount in excess of par value that a company must pay when it calls a security.

**Call Price:**
The price that must be paid when a security is called; the price the issuer must pay to retire a bond prematurely; equal to the par value plus the call premium.

**Call Privilege:**
A provision incorporated into a bond or share of preferred stock that gives the issuer the right to redeem (call) the security at a specified price. Call represents a risk for bondholders, compensated by extra yield, which or may not be adequate compensation.

**Call Provision:**
A provision of bond's indenture which gives the issuer the right to retire the debt, fully or partially, before the scheduled maturity. A call provision is detrimental to investors who run the risk of losing a high-coupon bond when interest rates begin to decline.

**Capital Asset:**
Property owned and used by the taxpayer for personal reasons, pleasure or investment.

**Capital Asset Pricing Model (CAPM):**
This model relates the required rate of return for any security with the risk for that security as measured by beta.

**Capital Gain:**
The amount by which the sale price of a security exceeds the purchase price.

**Stock Split:**
A corporate action in which a company divides its existing shares into multiple shares. Although the number of shares outstanding increases by a specific multiple, the total dollar value of the shares remains the same compared to pre-split amounts, because the split did not add any real value. The most common split ratios are 2-for-1 or 3-for-1, which means that the stockholder will have two or three shares for every share held earlier. Also known as a "forward stock split".

**Stockbrokers:**
Individuals licensed by stock exchanges to enable investors to buy and sell securities.

**Stockholder's Annual Report:**
A report published every year by every publicly held firm; contains a wide range of information including financial statements for the most recent fiscal year.

**Strike Price:**
See "Exercise Price".

**Style Box:**
Compact graphical representation of the two variables that comprise a mutual fund's or exchange-traded fund's holdings and risk; its investment methodology (growth or value) and the size of the companies in which the fund invests (capitalization).

**Super NOW Account:**
An unrestricted checking account paying money-market rates.

**Surety Bond:**
A contractual agreement under which an insurance company agrees to reimburse investors for any losses on the collateral underlying an asset-backed security.

**Swap:**
An exchange of one security for another to change the maturities of a bond portfolio or the quality of the issues in a stock or bond portfolio, or because investment objectives have shifted.

**Systematic Risk (Market Risk):**
The potential for a security to decrease in value owing to events that affect the entire market, such as interest rates and recession. Neither diversification nor any other investment strategy can eliminate this risk.

**Taft-Hartley Fund:**
Fund characterized by provisions allowing individual employees to gain credits towards pension benefits from work with multiple employers, as long as each employer has a collective bargaining agreement requiring plan contributions. Often, many employers in the same industry in a geographic area contribute toward the same multiemployer plan.

**Tariff:**
Federal tax on imports or exports usually imposed either to raise revenue or to protect domestic firms from import competition.
Spread:
The yield or price differential between different securities.

**Standard and Poor's Corporation (S&P):**
A company that rates stocks and corporate and municipal bonds according to risk profiles and that produces and tracks the S&P indexes. The company also publishes a variety of financial and investment reports.

**Standard and Poor's Index (S&P 500):**
An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. Companies in the index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. The S&P 500 is a market value weighted index – each stock's weight is proportionate to its market value.

**Standard Deviation:**
Applied to the annual rate of return of an investment to measure the investment's volatility. Standard deviation is also known as historical volatility and is used by investors as a gauge for the amount of expected volatility.

**Stock:**
A security that gives the purchaser an equity interest in a business.

**Stock Dividend:**
A payment by the corporation in shares of stock rather than cash.

**Stock Exchange:**
Organized marketplace in which stocks and common stock equivalents are traded by members of the exchange, acting both as agents and as principals.

**Stock-Index Futures:**
Futures contracts on stock indices, including the Standard & Poor's 500, the New York Stock Exchange and The Value Line Composite Index.

**Stock-Index Options:**
Option contracts on a stock market index such as the Standard & Poor's 500.

**Capital Gains Distributions:**
Payments made to mutual fund shareholders that come from the profits that a fund makes from the sale of its securities.

**Capital Loss:**
The amount by which the sale price of a capital asset is less than its purchase price.

**Capital Market:**
The universe of publicly traded securities, including stocks, Treasury and agency bonds, mortgage-related securities, corporate and municipal fixed-income securities and money-market instruments worldwide.

**Capital Market Theory:**
Describes the pricing of capital assets in the marketplace.

**Capital Spending:**
Nonresidential fixed investment in the Gross National Product (GNP); consists of business outlays on long-lived productive facilities including office building and shopping center construction, as well as purchases of such long-lived items as trucks, office equipment and/or farm equipment.

**Capital Structure:**
The division of a company's capitalization among bonds, debentures, preferred and common stock, earned surplus and retained income.

**Capitalization (Small-, Medium-, Large-Cap):**
A reference to the size of a company as a function of its number of outstanding shares times the price of its stock. Depending on the market size, "large-cap," "medium-cap" and "small-cap" are relative terms.

**Capitalization Rate:**
The rate used to convert an income stream to a present value, which can be used to estimate the value of real estate under the income approach to value.

**Cash Account:**
The most common type of brokerage account, in which a customer may make only cash transactions.

**Cash and Equivalents:**
This includes all money market funds (sweep accounts), bonds and debentures that have a maturity of less than one year at time of purchase and cash held in the income and principal accounts.
Cash Collateral Account:
A method of credit enhancement for asset-backed securities whereby cash is deposited into a separate trust account for the benefit of certificate holders.

Cash Conversion Cycle:
Elapsed time, usually expressed in days, from the outlay of cash for raw materials to the receipt of cash after the finished goods have been sold.

Cash Dividend:
Payment of a dividend in the form of cash.

Cash Management:
The management of daily-oriented financial needs, through holdings in cash or cash equivalents, as opposed to longer-term investments such as pension investments.

Cash Market:
A market in which a product or commodity changes hands in exchange for a cash price paid at the time the transaction is completed.

Certificate of Deposit (CD):
An interest-bearing negotiable time deposit of fixed maturity at a commercial bank. A savings instrument in which funds must remain on deposit for a specified period; premature withdrawals incur interest penalties.

Certified Public Accountant (CPA):
An accountant that has passed certain exams, achieved a certain amount of experience, reached a certain age and met all other statutory and licensing requirements of the U.S. state where they practice.

Chartered Financial Analyst® (CFA®):
The CFA® Program offers a global education where candidates build a fundamental knowledge of investment principles relevant to every market around the world. To become a candidate, one must have a U.S. bachelor’s (or equivalent) degree, be in the final year of the bachelor’s degree program, or have four years of qualified, professional work experience. To maintain candidate status, one must uphold a commitment to the CFA® Institute Code of Ethics and Standards of Professional Conduct. To become a charter holder, one must pass each of the Level I, II and III exams in succession.

Classified Common Stock:
Common stock issued in different classes, each of which offers different privileges and benefits to its holders.

Sharpe Ratio:
Named after investment professional William Sharpe, a measure of how much extra return an investment portfolio provides over a riskless standard, typically Treasury bills, for the risk it takes. The higher the ratio, the better the risk/return tradeoff.

Short Sale:
The sale of securities that are not currently owned, with the expectation of their repurchase at lower prices. They are usually borrowed for delivery to the buyer.

Short-Term Investment:
A type of obligation with a maturity of less than one year.

Short-Term Investment Fund (STIF):
A type of fund that invests in short term investments of high quality and low risk, with a goal of protecting capital with low-risk investments while achieving a return that exceeds a relevant benchmark, such as a Treasury bill index. Short-term investment funds include cash, bank notes, corporate notes, government bills and various short-term debt instruments.

Sinking Fund:
Money regularly set aside by a company that is used to redeem its bonds, debentures or preferred stock.

Small-Cap:
See "Capitalization".

Small Company Fund:
Seeks capital appreciation by investing primarily in stocks of small companies, as determined by either market capitalization or assets.

SMID Cap (Small/Mid):
See "Capitalization".

Socially Responsible Investing (SRI):
Socially Responsible Investing involves integrating personal values and societal concerns with investment decisions. SRI considers both the investor's financial needs and an investment's impact on society.

Sovereign Risk:
Risk that a foreign government will default on its loan or fail to honor other business commitments because of a change in national policy.

Split:
The division of the outstanding shares of a corporation 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. Ordinarily, splits must be voted by board of directors and approved by shareholders.

Split Ratings:
Different ratings given to a bond issue by the two major rating agencies.
Securities:
Stocks, bonds and notes that give evidence to, and assure the fulfillment of, an obligation.

Securities Act of 1933:
A law designed to ensure that new securities offered to the public are clearly and completely described in the registration statement and prospectus. The Securities and Exchange Commission does not guarantee that the statements are accurate, but attempts to make certain that all relevant information is fully disclosed.

Securities and Exchange Commission (SEC):
An agency created by Congress to provide laws for the protection of investors in security transactions.

Securities Exchange Act of 1934:
A law which extended the disclosure principle to trading in existing securities and provided for control over corporate insiders. This act established the Securities and Exchange Commission.

Securities Investor Protection Corporation (SIPC):
Provides funds for use, if necessary, to protect customers' cash and securities that may be on deposit with a SIPC member firm in the event the firm fails and is liquidated under the provisions of the SIPC Act. SIPC is not a government agency but is a not-for-profit membership corporation created by an Act of Congress.

Securities Market:
A market allowing suppliers and demanders of funds to make transactions; may provide trading in either money or capital.

Senior Securities:
The class of securities that occupies the highest priority in a claim for principal, interest or dividends.

Serial Bond:
An issue that matures at periodic stated intervals rather than on a single, specific date.

Settlement Date:
The date a transaction is completed; the customer is debited or credited normally three business days after the trade date for corporations, the next day for governments.

Shareholder:
Owner of one or more shares of stock, or one or more shares or units in a mutual fund.

Closed-End Fund:
A mutual fund in which the shares owned (representing an interest in the mutual funds portfolio) are fixed in number. New shares are not issued regularly and old shares cannot be redeemed. Instead, shares are traded on the open market and prices may differ from the underlying net asset value per share.

Closed-End Investment Company:
An investment company with a fixed capitalization; shares trade on exchanges and over-the-counter (OTC).

Coefficient of Determination (R-Squared):
Term that indicates, on a scale from 0 to 100, the percentage of performance that is explained by movements of its benchmark index. The higher the R², the more meaningful the beta.

Collateral:
Securities or property pledged by a borrower to secure payment of a loan.

Collateralized Mortgage Obligation (CMO):
A mortgage-backed bond that separates mortgage pools into different maturity classes, called tranches. This is accomplished by applying income from mortgages in the pool in the order that the CMOs pay out. Tranches pay different rates of interest and can mature in a few months, or as long as 20 years.

Commercial Bank:
An institution legally authorized to issue demand deposit accounts, as opposed to a thrift institution or investment bank, which are not so empowered.

Commercial Paper:
A short-term unsecured promissory note issued by corporations with a high credit standing.

Commingled Fund:
A pooling of investment funds of individual accounts, with each customer owning a share of the total fund.

Commission:
A service charge assessed by an agent in return for arranging the purchase or sale of a security. A commission must be fair and reasonable, considering all the relevant factors of the transaction.

Commodities:
Investments that provide a diversified portfolio of “real assets”. Investors gain access to commodities markets that include Energy, Precious Metals, Agriculture and Livestock.
Common Stock:
Securities that represent an ownership interest in a corporation. If the company has also issued preferred stock (both common and preferred stockholders have ownership rights), the preferred stock normally has a prior claim on dividends and, in the event of liquidation, assets. Claims of both common and preferred stockholders are junior to claims of bondholders or other creditors of the company. Common stockholders assume the greater risk, but generally exercise the greater control and may gain the greater reward in the form of dividends and capital appreciation.

Compound Interest:
An interest rate that is applicable when interest in succeeding periods is earned not only on the initial principal but also on the accumulated interest of previous periods. Compound interest is contrasted to simple interest, in which returns are not earned on interest received.

Consumer Goods:
Goods bought for personal or household use.

Consumer Price Index (CPI):
This index measures price changes at the retail level. It is based primarily on prices found in stores by specially trained "shoppers".

Conversion Feature:
The characteristic of a bond or preferred stock that allows it to be converted into common stock at the option of the convertible security holder.

Conversion Premium:
With a convertible security, the dollar difference between the market price of the security and its conversion value.

Conversion Price:
The par value of a bond or preferred stock divided by the conversion ratio.

Conversion Ratio:
The number of shares of common stock that the owner of a convertible security receives upon conversion.

Conversion Value:
A convertible security's value based on the current price of the common stock.

Convertible Bond:
A bond which, at the option of the holder, is convertible into securities of the corporation, usually into common equity. Occasionally, convertibles have been issued by one corporation convertible into the equity of another. Also, some securities have been issued which are convertible into a specified amount of an underlying commodity.

Rolling Returns:
A statistical technique for conveying a clearer picture of a long-term investing trend by presenting returns for a given period as a series of consecutive returns. Thus, 10-year rolling returns for the decade ending in 2012 would consist of returns for the periods 1994-2003, 1995-2004, etc., rather than simply the returns for each year of the decade.

Round Lot:
A unit of trading or a multiple thereof. On the New York Stock Exchange the unit of trading is generally 100 shares in stocks and $1,000 par value in the case of some bonds. In some inactive stocks, the unit of trading is 10 shares.

Russell 1000:
An index comprised of the 1,000 largest companies within the Russell 3000 index. Comprises over 90% of the total market capitalization of all listed U.S. stocks.

Russell 2000:
An index comprised of the smallest 2,000 companies in the Russell 3000 index, representing approximately 10% of the Russell 3000 total market capitalization.

Russell 3000:
An index comprised of the 3,000 largest U.S. companies by market capitalization, representing approximately 98% of the U.S. equity market.

Savings Certificate:
A deposit of a fixed maturity and amount, usually earning a higher rate of interest than a savings deposit.

Secondary Market:
The market in which securities are traded after they have been issued.

Sector:
A group of securities with similarities (for example, industry type, coupon rate, maturity date and/or rating).

Sector Neutral:
A stock portfolio that holds a combination of stocks equivalent to the sector weightings of the benchmark index.

Sector Rotator:
A "top-down" style of manager whose approach is to decide, based on macroeconomic and industry fundamentals, when certain market sectors will perform better than others and invest accordingly.
Return on Invested Capital:
Return to investors based on the amount of money actually invested in a security, rather than the value of the contract itself.

Revenue Bond:
A municipal bond backed by the revenue-generating capacity of the issuer; requires that the principal and interest be paid only if a sufficient level of revenue is generated.

Reverse Stock Split:
A maneuver in which a company reduces the number of shares outstanding by exchanging a fractional amount of a new share for each outstanding share of stock.

Right:
An option to subscribe to new shares issued by a company which enables a stockholder to maintain a proportionate ownership in the company.

Risk:
A measure of the probability of financial loss.

Risk-Adjusted:
Modified to account for risk. If a yield were lowered to account for the probability of default, it would be a "credit risk-adjusted rate of return".

Risk Aversion:
The unwillingness of investors to take risk. Since most investors are risk-adverse, they must be compensated to take additional risk.

Risk-Free Asset:
An asset with a certain expected return and a variance of return of zero.

Risk-Free Rate of Return:
The return on a riskless asset, often provided by the rate of return on Treasury securities.

Risk Premium:
The additional compensation demanded by investors, above the risk-free rate of return, for assuming risk – the larger the risk, the larger the risk premium.

Risk/Reward:
The combination of risk and reward afforded by a security. Investors attempt to obtain the most favorable mixture of risk and reward (highest reward for least risk).

Convertible Security:
Bond or preferred stock that is convertible, at the holder's option, into shares of common stock of the same corporation.

Convexity:
Measures the rate of change of a bond's price sensitivity to changes in interest rates. It is the rate of change in a bond's duration.

Corporate Bonds:
Long-term debt securities of various types sold by corporations.

Corporate Governance:
Management of a corporation for the benefit of its shareholders in compliance with laws and ethical standards.

Correlation Coefficient:
A statistical measure of the extent by which two variables are associated.

Cost Basis:
The amount paid for a capital asset, including commissions and other costs related to the purchase.

Coupon:
The annual rate of interest which the borrower promises to pay the bondholder; the face rate of a security.

Coupon Bond:
The periodic interest payments paid by the issuer to the bondholders. Most bonds are coupon bonds.

Coupon Issue:
In the Treasury market, a bond or note as opposed to a Treasury Bill.

Covariance:
An absolute measure of the extent by which two variables tend to move together.

Cumulative Preferred:
A stock which has the provision that if one or more dividends are omitted, the omitted dividends will be paid before any dividend can be paid on any junior security of the issuing company.

Cumulative Provision:
A provision on preferred stock requiring that any preferred dividends that have been omitted must be paid in full before dividends can be restored to common stockholders.

Cumulative Voting:
A system of stockholder voting, in which shareholders cast all their combined votes in any manner they wish.
**Currency Risk:**
The risk of adverse fluctuations in the relative value of one currency to another.

**Current Ratio:**
Current assets divided by current liabilities.

**Current Yield:**
The ratio of the coupon to the market price of a bond, expressed as a percentage.

**Custodial Account:**
An account in which a custodian enters trades on behalf of the beneficial owner, often a minor. See also “Custodian”.

**Custodian:**
An institution or person responsible for making all investment, management and distribution decisions in an account maintained in the best interest of another. Mutual funds and contractual plan companies have custodians responsible for safeguarding certificates and performing clerical duties. See also “Mutual Fund Custodian” and “Plan Custodian”. 

**Dealer:**
A person or firm acting as a principal in buying and selling securities; usually compensated by the spread.

**Debenture:**
An unsecured bond, backed by the general credit of a company.

**Debt:**
Funds loaned in exchange for the receipt of interest income and the promised repayment of the loan at a given future date.

**Default:**
A failure to fulfill a contract; specifically, failure to make timely payment of interest or principal on a bond or otherwise comply with any provision of the indenture.

**Deferred Annuity:**
An annuity contract in which the payments to the annuitant begin at some future date.

**Deferred Equity Securities:**
Securities initially issued in one form (warrants or convertibles) and later redeemed or converted into shares of common stock.

**Deficit:**
The amount by which expenditures exceed revenues.

**Defined Benefit Plan:**
A retirement plan that links benefits to a formula that is generally based on the level of earnings and the length of service.

**Registered Bond:**
A bond registered on the issuing company’s books in the name of the owner, unlike a bearer bond. A registered bond can be transferred only when endorsed by the registered owner.

**Reinvestment Rate:**
The rate at which an investor assumes his cash payments can be reinvested over the life of an issue.

**Reinvestment Rate Risk:**
The part of interest rate risk resulting from uncertainty about the rate at which future interest coupons can be reinvested.

**Relative Return:**
The return of an asset compared to a benchmark or index. Calculated as the difference between the asset’s absolute return and that of the benchmark or index.

**Required Rate of Return:**
The minimum expected return on an asset that an investor requires before investing.

**Required Yield:**
The current market rate demanded by investors for a particular debt security.

**Reserve Requirements:**
The percentage of deposits required to be held as reserves. This is held by the Federal Reserve Bank, within limits legislated by Congress.

**Reserves:**
A part of a financial institution’s assets held in cash or on deposit at the Federal Reserve Bank.

**Retail Price:**
Price charged to retail customers for goods and services. Retailers buy goods from wholesalers, and increase the price to cover their costs, plus a profit. Manufacturers list suggested retail prices for their products; retailers may adhere to these prices or offer discounts for them.

**Retained Earnings:**
Net profits kept to accumulate in a business after dividends are paid.

**Return on Assets:**
A fundamental measure of the firm’s profitability, equal to net income divided by total assets.

**Return on Equity:**
The rate of return on stockholders equity, equal to net income divided by equity.
**Currency Risk:**
The risk of adverse fluctuations in the relative value of one currency to another.

**Defined Contribution Plan:**
Retirement plan that defines precisely the amounts employer and employee contribute to the plan but does not specify the retirement income. See also "401(k) / 403(b) / 457 Plans".

**Deflation:**
Decline in the prices of goods and services. Deflation is the opposite of inflation. See "Inflation".

**Demand Deposit:**
A sum of money left with a bank (or borrowed from a bank and left on deposit) that the depositing customer has the right to withdraw immediately.

**Depreciation:**
A method of allocating the cost of a tangible asset over its useful life.

**Derivatives:**
Securities whose values are linked to, or derived from, other securities. These include well-established instruments like futures and options, as well as newer, more complex vehicles, many related to mortgage-backed bonds. Taken as a whole, derivatives encompass a broad array of securities that span a gamut of risk from safer than most bonds to highly speculative.

**Developed Markets:**
The capital markets of countries where economies are mature, such as the U.S., Canada, most of Western Europe and Japan; the term is also used to refer to the countries themselves. The most commonly used index of the developed foreign markets, the "EAFE" index of Europe, Australasia and the Far East, comprises 21 countries.

**Differential Return Measure (Alpha):**
The difference between what the portfolio actually earned and what it was expected to earn given its level of systematic risk.

**Discount:**
The amount by which a bond or preferred stock sells below its par or face value.

**Discount Bond:**
A bond with a market value lower than par; occurs when market rates are greater than the coupon rate.

**Discount Broker:**
A security broker who executes orders for clients at substantially reduced commissions.

**Discount Rate:**
The annual rate of return that could be earned currently on a similar investment; used when calculating present value; also called opportunity cost.

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**Prudent Man Rule:**
A standard of conduct that requires a fiduciary to discharge his duties with 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 similar character with the same aims.

**Put:**
An option to sell a specified number of shares of stock at a specified price within a specified period of time. See "Call".

**Pyramiding:**
The technique of using paper profits in margin accounts to partly or fully finance the acquisition of additional securities.

**Qualified Dollars:**
Dollars invested that are governed by the 1974 Employee Retirement Income Security Act (ERISA), which most commonly refers to company-sponsored pension assets managed on behalf of retirees.

**Quotation:**
Highest bid and lowest offer price currently available on a security or commodity.

**Real Assets:**
Tangible assets, such as gold or real estate.

**Real Estate Investment Trusts (REITs):**
A type of closed-end investment company that invests money, obtained through the sale of shares to investors, in various types of real estate and/or real estate mortgages.

**Realized Loss:**
The difference between the original cost or book value and the proceeds from the sale of a security if sold at a loss.

**Realized Return:**
The return received by an investor during the period.

**Recession:**
Two consecutive quarters of negative economic growth as measured by the Gross Domestic Product (GDP).

**Refinancing:**
The retirement of existing securities and issuing of new securities to save interest costs, consolidate debt, lengthen maturity or otherwise alter the capitalization of a company.

**Refunding:**
A redemption with funds raised through the sale of a new issue.
**Discretionary Account:**
An account in which the broker can use his or her discretion to buy or sell securities on behalf of the customer.

**Discretionary Order:**
The customer empowers the broker to act on his behalf with respect to the choice of security to be bought or sold, and/or whether any such transaction shall be one of purchase or sale.

**Diversifiable Risk:**
The portion of an investment's risk resulting from uncontrollable or random events, that can be eliminated through diversification; also called unsystematic risk.

**Diversification:**
The inclusion of a number of different investment vehicles in a portfolio in order to decrease volatility and minimize the impact of any one asset class or security on the total portfolio performance.

**Dividend:**
The only cash payment regularly made by corporations to their stockholders.

**Dividend Discount Model (DDM):**
A widely used model to value common stocks. The model states that the current price of a stock is equal to the discounted value of all future dividends.

**Dividend Payout Ratio:**
Percentage of earnings paid to shareholders in cash. In general, the higher the payout ratio, the more mature the company.

**Dividend Reinvestment Plan:**
A plan offered by a company whereby stockholders can reinvest dividends in additional shares of stock at no cost.

**Dividend Yield:**
The percentage obtained by dividing the dividend by the market price of a stock.

**Dow Jones Stock Averages:**
Mathematical averages of closing prices for groups of utility, industrial and transportation stocks.

**Dow Jones Industrial Average (DJIA):**
A stock average comprised of 30 high-quality industrial stocks selected for total market value and broad public ownership and believed to reflect overall market activity.

**Dow Theory:**
A technical approach based on the idea that the market's performance can be described by the long-term price trend in the Dow Jones Industrial Average, as confirmed by the Dow transportation average.

**Price/Sales Ratio (PSR):**
Calculated as a company's total market value divided by its sales. It indicates what the market is willing to pay for a company's revenues.

**Prime Rate:**
The rate of interest at which a commercial bank offers to lend money to its most credit worthy customers.

**Principal:**
The person for whom a broker executes an order, or a dealer buying or selling for his own account. The term may also refer to a person's capital or to the face amount of a bond.

**Private Debt:**
A private placement debt security.

**Private Equity:**
Involves the ownership of private companies. The major sectors are buyouts (mature companies) and venture capital (start-up companies).

**Private Placement:**
An issue that is sold to one or a few investors as opposed to being publicly offered and sold.

**Promissory Note:**
Written promise committing the maker to pay the payee a specified sum of money either on demand or at a fixed or determinable future date, with or without interest.

**Prospectus:**
A statement filed with the Securities and Exchange Commission containing all of the pertinent information about a security being offered and about the issuer of the securities.

**Proxy:**
A written statement given by a shareholder to someone else which authorizes that individual to represent and vote on behalf of the shareholder at a shareholders' meeting.

**Proxy Statement:**
Information the Securities and Exchange Commission requires to be given to stockholders as a prerequisite to solicitation of proxies for a security subject to the requirements of the Securities Exchange Act.
Preferred Stock:
A 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. Usually entitled to dividends at a specific rate when
declared by the board of directors before payment of a dividend on the common
stock, depending upon the terms of the issue.

Premium:
The difference between the price of an issue and the par value for issues selling
above par.

Premium Bonds:
Bonds selling above face value because their interest payments are higher than
prevailing interest rates.

Prepayment:
Any payment made on a mortgage that is in excess of, or in addition to, the
regularly scheduled principal payment.

Prepayment Risk:
The risk that a pass-through issue will have an adverse pattern of prepayments.

Present Value:
The current worth of a cash flow. Future value becomes present value through
the process of discounting.

Price:
The value of anything exposed for sale expressed in money terms.

Price Risk:
That part of interest rate risk involving the inverse relationship between bond
prices and required rates of return.

Price/Book Ratio:
A ratio that represents the premium (or discount) a shareholder pays relative to
the underlying company's net worth.

Price/Cash Flow Ratio:
Market price per share divided by cash flow per share.

Price/Earnings to Growth Ratio (PEG Ratio): A method of evaluating the value of a company by dividing its P/E ratio by the
earnings growth rate. A lower PEG Ratio means that a company is more
attractively valued. See also “Price/Earnings Ratio”.

Price/Earnings (P/E) Ratio:
The current market price of a share of stock divided by earnings per share for a
12-month period.

Due Diligence:
Refers to the entire process of researching and verifying the soundness of a potential
issuer or investment.

Duration:
A measure of bond volatility, expressed in years, which is similar to average life;
average time (in years) necessary to receive the present value of all future payments
coupon plus principal repayment), where each cash flow is discounted by the
security's yield to maturity. A measure of the sensitivity of the price of a bond to a
change in interest rates.

EAFE Index:
The Europe, Australasia and Far East Index, a value-weighted index of the equity
performance of major foreign markets.

E/P Ratio:
A capitalization rate used to capitalize earnings – the reciprocal of the P/E ratio.

Earnings Multiplier:
The P/E ratio approach, which states that the price of a stock is equal to the product
of its earnings and a multiplier.

Earnings Per Share (EPS):
The amount of annual earnings available to common stockholders, as stated on a per
share basis.

Efficient Frontier:
The efficient frontier describes the optimal portfolio diversification structure with
respect to the highest expected return for a given level of risk.

Emerging Markets:
Less-developed markets with relatively low market capitalization. Typically, emerging
markets exist in countries with low per-capita income such as Brazil, India, Thailand
and Turkey. Several indexes are commonly used in measuring emerging-market
performance worldwide.

Employee Retirement Income Security Act (ERISA):
A law enacted in 1974 covering private pension plans, setting standards for
fiduciaries being personally liable for breaches of responsibility.

Employee Stock Ownership Plan (ESOP):
Program encouraging employees to purchase stock in their company.

Endowment:
Permanent gift of money or property to a specified institution for a specified purpose.

Enhanced Index:
Similar to the index fund category, this includes funds that attempt to match an
index's performance; attempt to better the index by either adding value or reducing
volatility through selective stock picking.
Environmental, Social And Governance (ESG):
Standards used for a company’s operations that socially conscious investors use to screen investments. ESG is the catch-all term for the criteria used in what has become known as socially responsible investing. See also "Socially Responsible Investing (SRI)".

Equity:
An ongoing ownership interest in a specific business or property; includes common stock, convertible preferred stock, convertible bonds and debentures, and warrants.

Equity Capital:
Evidence of ownership position in a firm, in the form of shares of common stock.

Equity Long/Short:
An advanced style of equity investing that takes long positions in stocks that are expected to appreciate and short positions in stocks that are expected to decline. The strategy seeks market returns with below-market volatility.

Equity-Income Fund:
Seeks current income by investing at least 50% of its assets in equity securities with above-average yields.

Equity Risk Premium:
The difference between the return on common stocks and the return on assets that have no risk (Treasury Bills). It is the additional compensation, over and above the riskless rate of return, for assuming the risk of common stocks.

Equity Securities:
The non-debt securities of a corporation representing the ownership interest. Includes both preferred and common stock.

ERISA:
See “Employee Retirement Income Security Act”.

Eurobond:
Bond denominated in U.S. Dollars or other currencies and sold to investors outside the country whose currency is used.

Eurocurrency:
Created when a banking office in one country accepts a deposit; denominated in the currency of another.

Euro-Dollar Bonds (Eurodollars):
Fixed income securities that are denominated in U.S. dollars, are underwritten by an international syndicate, and are sold at issue to non-U.S. investors.

Exchange Rate Risk:
The variability in returns on securities caused by currency fluctuations.

Plan Custodian:
An institution retained by a contractual plan company to perform clerical duties. The custodian’s responsibilities include safeguarding plan assets, sending out customer confirmations and issuing shares. See also "Custodian" and "Mutual Fund Custodian".

Plan Participants:
Employees or former employees of a company, members of an employee organization or beneficiaries who may become eligible to receive benefits from an employee benefit plan.

Plan Sponsor:
Entity that establishes and maintains a pension or insurance plan. This may be a corporation, labor union, government agency or not-for-profit organization.

Pooled Diversification:
A process used to spread the risk of securities’ ownership whereby investors buy into a diversified portfolio of securities, which is held for the collective benefit of the individual investors.

Portable Alpha:
A technique an investor can use to unbundle the individual components of return (alpha and beta) of a traditional active investment.

Portfolio:
Holdings of securities by an individual or institution. A portfolio may contain the bonds, preferred stocks and common stocks of various types of enterprises as well as other earning assets such as coins, stamps and real estate.

Portfolio Insurance:
An asset management technique designed to provide a portfolio with a lower limit on value while permitting it to benefit from rising security prices. The basic concept involves the purchase of a “protective put” on the portfolio, with the balance of the funds invested in the underlying assets.

Portfolio Management:
The second step in the investment decision process, involving the management of a group of assets as a unit.

Preemptive Right:
The right of existing stockholders to maintain their proportionate share of ownership in a firm.
**Exchange Traded Fund (ETF):**
An investment vehicle that tracks a given market or market sector index. Shares are publicly traded during normal trading hours.

**Exercise Price:**
The cost per share at which the holder of an option or a warrant may buy or sell the underlying security. See "Strike Price".

**Expected Return:**
The ex-ante return expected by investors over some future holding period. The expected return often differs from the realized return.

**Expected Value:**
The weighted average return of a probability distribution, given the likely outcomes and their associated probabilities.

**Expense Ratio:**
The amount, expressed as a percentage of the total investment, that shareholders pay for operating expenses and investment management fees for a mutual fund. Such expenses are taken out of the fund's current income and disclosed, by law, in the shareholder's annual report.

**Federal Agency Securities:**
Securities issued by federal credit agencies. Federal agency securities are fully guaranteed, whereas government-sponsored agency securities are not.

**Federal Funds:**
Deposit balances at the Federal Reserve, most of which represent legal reserves.

**Federal Funds Rate:**
The interest rate at which federal funds are traded.

**Federal Home Loan Mortgage Corporation (FHLMC):**
A publicly traded corporation that promotes the nationwide secondary market in mortgages by issuing mortgage-backed pass-through debt certificates (referred to as Freddie Mac).

**Federal Housing Administration/Veterans Administration (FHA/VA):**
Mortgages insured by the Federal Housing Administration or Veterans Administration. Unlike conventional loans which are due on sale, FHA/VA mortgages can be assumed by the buyer. For this reason (and because FHA and VA loans provide implicit subsidies to people of moderate income and veterans) prepayment rates tend to be lower than those on conventional mortgages.

**Federal Reserve System:**
Established in 1913, it is the central banking system of the United States. There are 12 regional Federal Reserve Banks but virtually all the policy-making powers are lodged in the Board of Governors of the Federal Reserve System in Washington, DC.

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**Par:**
In the case of a common share, par means a dollar amount assigned to the share by the company's charter. Par value may also be used to compute the dollar amount of the common shares on the balance sheet. Par value has little significance as the market value of common stock is concerned. In the case of preferred shares and bonds, par often signifies the dollar value upon which dividends on preferred stocks, and interest on bonds, are figured.

**Par Bond:**
A bond selling at par, in line with prevailing new issue or estimated going yield rates.

**Participating Preferred:**
A preferred stock entitled to a specific dividend before dividends are paid to common stockholders, and which also participated with the common stock in additional corporate earnings distributed as dividends.

**Participation Certificate (PC):**
A security issued by FHLMC representing an undivided interest in a pool of conventional mortgages. Also referred to as “pass-through”.

**Passive Management Strategy:**
An investment strategy whereby investors do not actively seek out trading possibilities in an attempt to outperform the market.

**Pass-Through Certificate:**
A security representing an interest in a pool of conventional, Veteran's Administration, Farmers Home Administration or other agency mortgages. The principal and interest payments are received by the pool and are passed through to the certificate holder. Payments may or may not be guaranteed.

**Paydown:**
A regularly scheduled repayment of principal on mortgage and asset-backed securities (usually occurs monthly).

**Payout Ratio:**
The ratio of dividends to earnings.

**Pension Fund:**
Fund set up by a corporation, labor union, government entity or other organization to pay the pension benefits of retired workers. Earnings on the investment portfolios of pension funds are tax deferred.

**Pension Plan:**
A contract between an individual and an employer, labor union, government entity or other institution, which provides for the distribution of pension benefits at retirement.
Fiduciary:
An individual or trust institution given the duty of acting for the benefit of another.

Financial Assets:
Assets in the form of stocks, bonds, rights, certificates, bank balances, etc., as distinguished from tangible, physical assets.

Financial Futures:
A type of futures contract which the underlying "commodity" consists of a certain amount of some type of financial asset, such as debt securities, foreign currencies or market baskets of common stocks.

Financial Industry Regulatory Authority (FINRA):
The largest, independent regulator of securities firm doing business in the U.S. with the chief role of protecting investors by maintaining the fairness of the U.S. capital markets. Merged with NASD in 2008.

Financial Risk:
The degree of uncertainty associated with the mix of debt and equity used to finance a firm or property; the larger the proportion of debt used, the greater the financial risk.

Financial Statements:
The major financial data provided by a corporation, primarily the balance sheet and the income statement.

Fixed Income:
All bonds and debentures that have a maturity greater than one year at time of purchase. When a fixed-income issue's maturity has become less than one year, it remains in the fixed-income section.

Flat:
A term used to describe bonds traded without accrued interest; they are traded at the agreed-upon market price only. See also "Accrued Interest".

Foreign Bond:
A debt security issued by a foreign corporation, government or government agency that pays interest to holders at specific intervals.

Foreign Stock:
Shares of stock representing ownership in a foreign company. A few trade on U.S. exchanges, but most must be bought in the country where they are issued. Also called Foreign Ordinaries.

Fourth Market:
Transactions made directly between large institutional buyers and sellers.

Open-End Fund:
A mutual fund that has no fixed number of shares outstanding.

Open-End Investment Company:
An investment company that has capitalization constantly changing as new shares are sold and outstanding shares are redeemed.

Open Interest:
In the futures market, the number of contracts currently outstanding on a commodity or financial future.

Option:
A right to buy or sell a specific security or property at a specified price within a specified time.

Options Spreading:
Combining two or more options with different strike prices and/or expiration dates into a single transaction.

Ordinaries:
Shares of stock representing ownership in a foreign company. A few trade on U.S. exchanges, but most must be bought in the country where they are issued. Also called foreign stock.

Organized Securities Exchanges:
Centralized institutions in which transactions are made in already outstanding securities.

Original Issue Discount:
The discount from par at which a new issue comes to the market. The Internal Revenue Service treats the accretion of this discount over the life of the security as being current income to the holder.

Over-the-Counter (OTC) Market:
A network of securities dealers for the trading of securities not on the exchanges; primary market in which public issues are sold.

Overbought:
A market or security that is susceptible to a downward correction in price levels. Implies that prices have risen more than fundamentals would dictate.

Oversold:
A market or security that is susceptible to an upward correction in price levels. Implies that prices have fallen more than fundamentals would dictate.
**Net Present Value (NPV):**

The difference between the present value of the cash flows and the amount of equity required to make an investment.

**New Issue:**

Stock or bond being offered to the public for the first time, the distribution of which is covered by the Securities and Exchange Commission (SEC) rules.

**New York Stock Exchange (NYSE):**

One of the major public markets for trading equity securities in the United States.

**No-Load Fund:**

A mutual fund that does not have a sales charge (load fee).

**Non-Callable:**

Exempt from any kind of redemption for a stated time period.

**Non-Diversifiable Risk:**

The risk possessed by every investment vehicle and therefore not capable of being eliminated through diversification; also called systematic risk.

**Non-Qualified Dollars:**

Dollars invested that are not governed by the 1974 Employee Retirement Income Security Act (ERISA). Some examples of non-qualified assets would be operating assets, self-insurance assets, foundation & endowment assets or any other assets that are not subject to ERISA regulation.

**Note:**

A debt security originally issued with a maturity from 2 to 10 years.

**Odd-Lot:**

Less than a round lot; an amount of bonds less than $100,000 par amount or less than 100 shares of stock.

**Offer:**

The price at which a seller is willing to sell a security.

**Offer Price:**

The price at which the specialist or dealer offers to sell shares.

**Fully Invested:**

Refers to a portfolio that has no assets in the form of cash or cash equivalents.

**Fund-of-Funds:**

An investment vehicle, in which the investors’ money is distributed among portfolios managed by different managers. The idea is to offer the investor greater diversification and thus reduced risk. Typically used as a vehicle to invest in hedge funds and private equity.

**Future:**

A contract to buy or sell a specific amount of securities or commodities for a specific price or yield on a specified future date.

**Future Value:**

Also referred to as compound value. The terminal value of a beginning amount of money compounded at some interest rate for some period of time.

**Futures Contracts:**

Agreements providing for the future exchange of a particular asset at a currently determined market price.

**Futures Margin:**

The good faith deposit made by a transactor to ensure the completion of a futures contract.

**Futures Markets:**

The organized markets for the trading of futures contracts.

**Futures Options:**

Options contracts (both puts and calls) on both interest futures and stock index futures.

**Generally Accepted Accounting Principles (GAAP):**

Conventions, rules and procedures that define the accepted accounting practice, including broad guidelines as well as detailed procedures.

**Geometric Mean:**

The nth root of the product of n numbers. It is used as a measure of the compound rate of return over time.

**Global:**

Worldwide, including the U.S.

**Global Fund:**

A mutual fund that invests in securities from all over the world, including the U.S.

**Goodwill:**

An intangible asset that represents the value that a firm’s business reputation adds to its book value and the amount a company pays above book value when they acquire another company.
Gross Domestic Product (GDP):
The market value of all final goods and services produced within a country in a given period of time.

Gross National Product (GNP):
The total market value of final goods and services produced in a year by a country's citizens (including profits from capital held abroad).

Growth and Income Fund:
Seeks growth of capital and current income as near-equal objectives by investing in equity securities with above-average yields and some potential for appreciation.

Growth Fund:
Seeks capital appreciation by investing primarily in equity securities of companies with earnings that are expected to grow at an above-average rate.

Growth-Oriented Portfolio:
A portfolio with the primary objective of long-term price appreciation.

Growth Rate:
Percentage rate at which the economy, stocks or earnings are growing.

Growth Stock:
Stock of companies prized for rapid sales and earnings growth; often selling at high "multiples" in relation to current company characteristics.

Hedge:
A risk management technique of making offsetting commitments to minimize the impact of contrary adverse movements.

Hedge Fund:
An investment vehicle that allows the fund manager to implement trading strategies across global markets that include long and short positions, derivatives and leverage.

High Liquidity:
The ability to convert an asset into cash quickly and with little or no loss in value.

High-Risk Investment:
An investment considered speculative with regard to the receipt of a positive return.

High Yield Bond:
See “Junk Bonds”.

Illiquid:
An investment not readily convertible into cash, such as a stock, bond or commodity that is not traded actively.

Immunization:
A process for designing fixed income portfolios to obtain a target rate of return over a specified time period, within a narrow range, despite market conditions.

Municipal Bond Fund:
Similar to an investment bond, this fund has average to below-average risk. However, the risk of a municipal bond fund lies within the average credit rating of the bonds in its portfolio.

Municipal Securities:
Securities issued by political entities other than the federal government and its agencies, such as states and cities.

Mutual Fund:
A fund operated by an investment company that pools shareholder funds and invests in stocks, bonds, money market instruments and other securities. Advantages for investors include diversification and professional management.

Mutual Fund Custodian:
A national bank, stock exchange member firm, trust company or other qualified institution that physically safeguards the securities held by a mutual fund. It does not manage the fund's investments; its function is solely clerical. See also "Custodian" and "Plan Custodian".

NASDAQ National Market System (NASDAQ/NMS):
A combination of the competing market makers in over-the-counter stocks and the up-to-the-minute reporting trades using data identical to that shown for the New York Stock Exchange and American Stock Exchange.

National Association of Securities Dealers Automated Quotation (NASDAQ) System:
An automated system that provides up-to-date bid and ask prices on certain selected, highly active, over-the-counter securities.

Negotiable Order of Withdrawal Accounts (NOW):
Checking accounts that pay interest at a specified interest rate.

Net Asset Value (NAV):
The underlying value of a share in a particular mutual fund; represents the net market value of the securities held by a mutual fund.

Net Operating Income (NOI):
The amount left after subtracting vacancy and collection losses and property operating expenses, including property insurance and taxes, from an income property's gross potential rental income.
**Income:**
Interest payments for bonds, dividends for stocks. The most reliable portion of investment return.

**Income Bond:**
An unsecured bond that requires interest to be paid only if a specified amount of income is earned.

**Income Fund:**
Invests in both equity and fixed-income securities primarily for the purpose of realizing current income. An income fund generally will not invest more than 50% of its assets in equities.

**Income Statement:**
A financial summary of the operating results of a firm covering a specified period of time, usually one year.

**Indenture:**
For debt securities, the contract that specifies all legal obligations of the issuer with respect to the securities and any qualification or restriction that may exist.

**Index:**
A statistical composite that measures changes in the economy or financial markets. Stock market indices are unmanaged and reflect the value of different segments of the market. Investors cannot invest in an index. Well-known U.S. indices include the Dow Jones Industrial Average and the Standard and Poor’s 500 Index. Well-known foreign indices include the Financial Times Stock Exchange Index and the Nikkei Index.

**Index Fund:**
A fund that invests in the group of securities represented by a particular index, in an attempt to match the performance of that index as a whole.

**Index Price:**
Technique used to price Treasury Bill (and other short-term securities) futures contracts, which reflects the actual price movements of these futures contracts.

**Individual Retirement Accounts (IRAs):**
A self-directed, tax-deferred retirement plan in which gainfully employed persons may contribute annually up to $5,500 in 2014 for an individual plus an additional $1,000 for those aged 50+. These amounts change in accordance to changes in Federal tax law.
**Inflation:**
A general rise in prices, usually measured by changes in price of major indices, such as the Consumer Price Index.

**Information Ratio:**
The ratio of the active return premium (alpha) to its risk (standard deviation). This ratio is used to measure the consistency of an active manager’s performance premium against a benchmark.

**Initial Public Offering (IPO):**
A special category for common stock issued by (relatively) new firms going public for the first time.

**Institutional Investors:**
Pension funds, investment companies, bank trust departments, life insurance companies, etc., all of whom manage large portfolios of securities; investment professionals paid to manage other people’s money.

**Insurance:**
A mechanism that allows people to reduce financial risk by sharing in the losses associated with the occurrence of uncertain events.

**Interest-on-Interest:**
Bond coupons are reinvested to earn interest thereby generating interest-on-interest.

**Interest Rate:**
Rate of interest charged for the use of money, usually expressed at an annual rate. The rate is derived by dividing the amount of interest by the amount of the principal borrowed.

**Interest Rate Futures:**
Futures contracts on fixed-income securities such as Treasury bills and bonds, Certificates of Deposits and mortgages.

**Interest Rate Options:**
Option contracts on fixed-income securities such as Treasury bonds.

**Interest Rate Risk:**
The change in the price of a security resulting from a change in market interest rates.

**Intermediate Bond:**

**Market Average:**
An arithmetic average of the price for the sample of securities being used.

**Market Capitalization:**
Total value of a company’s outstanding stock calculated by multiplying the number of outstanding shares by the current share price.

**Market Data:**
Primarily, stock price and volume data.

**Market Index:**
Measures the current price behavior of a sample of stocks in relation to a base period established for a previous time. See ”Index”.

**Market Order:**
An order given to buy or sell a particular security at the best immediately obtainable price.

**Market Neutral:**
A strategy that seeks to profit from both increasing and decreasing prices in a single or numerous markets. Market-neutral strategies are often attained by taking matching long and short positions in different securities.

**Market Portfolio:**
The portfolio of investment assets with each asset weighted by the ratio of its market value to the total.

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

**Market Risk:**
The risk that an investor can experience in financial or book loss from an adverse change in market prices.

**Market Risk Premium:**
The difference between the expected return for the market and the risk-free rate of return.

**Market Timing:**
Switching out of, or into, stocks or bonds according to one’s prognostication on how the markets will do in the short run.

**Market Value:**
The current or prevailing price of a security or commodity as indicated by current market quotations and, therefore, the price at which additional amounts presumably can be purchased or sold.

**Marketability:**
The ease with which an asset can be sold at a given price.

**Marketable Securities:**
Financial assets that are easily converted into cash.
**Long-Term Equity Options:**
An option contract that has a longer expiration than traditional equity option contracts. The most common long-term equity option is the CBOE's Long-Term Equity Anticipation Security (LEAPS).

**Long-Term Investments:**
Investments with maturities of longer than a year, or with no maturity at all.

**Low-Risk Investments:**
Investments considered safe with regard to the receipt of a positive return.

**Management Fee:**
A fee levied annually for professional investment management services provided; paid regardless of the performance of the portfolio.

**Managed Futures:**
An alternative investment strategy used by hedge fund managers. Futures contracts are used among various types of investment styles and asset classes to provide portfolio diversification and to help mitigate portfolio risk.

**Margin:**
The part of a transaction's value that a customer must pay to initiate the transaction, with the other part being borrowed from the broker. The initial margin is set by the Federal Reserve System. The maintenance margin is the minimum amount, established by brokers and exchanges, that must be held in the margin account to avoid a margin call.

**Margin Account:**
A brokerage account in which the customer has borrowing privileges.

**Margin Call:**
A demand from the broker for additional cash or securities as a result of the actual margin declining below the maintenance margin.

**Margin Deposit:**
An amount deposited with a broker to cover any loss in the market value of a futures contract that may result from adverse price movements.

**Margin Loan:**
Vehicle through which borrowed funds are made available, at a stated interest rate, in a margin transaction.

**Margin Trading:**
The use of borrowed funds to purchase securities; magnifies returns by reducing the amount of capital that must be put up by the investor.

**Marginal Tax Rate:**
The tax rate on additional income.

**Market:**
(1) The prices at which a security can actually be bought and/or sold. (2) A locale where a security is known to be traded.

**Intermediate Fixed Income:**
See "Intermediate Bond".

**International:**
Outside of, and excluding, the U.S.

**International Equity:**
International equity consists of stocks issued by non-U.S. Companies, denominated in non-U.S. currency.

**International Fund:**
A fund that does all or most of its investing in foreign securities.

**Intrinsic Value:**
The underlying or inherent value of a stock, as determined through fundamental analysis.

**Investment:**
The utilization of money in the expectation of future returns in the form of income or capital gain.

**Investment Banker:**
An individual or firm engaged in the financing of capital. The middleman between the issuer of new securities and the investor. The individual facilitates the conversion of savings into investment. Also called an underwriter.

**Investment Company:**
A company that uses its capital to invest in other companies. There are two principal types of investment companies: closed-end and open-end, which are referred to as mutual funds.

**Investment Company Act of 1940:**
Legislation passed by Congress to insure that those investing in investment companies are fully informed and fairly treated. It requires that all publicly held investment companies register with the Securities and Exchange Commission.

**Investment Grade:**
Bonds rated in the top four rating categories ("AAA," "AA," "A," "BBB") are commonly known as investment grade securities and are considered eligible for bank investment under present commercial bank regulations by the Comptroller of the Currency.

**Investment Policy:**
A written document describing financial goals, how funds will be invested, the target date for the accomplishment of goals, and the amount of tolerable risk.

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**Investment Premium:**
The difference between the market value of an option and its true value; indicates the amount of excess value embedded in the quoted price of a put or call.

**Investment Trust:**
A type of investment vehicle whereby the trust sponsors put together a fixed/unmanaged portfolio of securities and then sell ownership units in the portfolio to individual investors; also called a unit investment trust.

**Investment Value:**
The amount that investors believe a security should be trading for, or what they think it is worth; the price at which a convertible would trade if it were nonconvertible and if it were priced at, or near, the prevailing market yields of comparable nonconvertible issues.

**Investor:**
Party that puts money at risk; may be an individual or an institutional investor.

**Junior Bond:**
Debt obligation backed only by the promise of the issuer to pay interest and principal on a timely basis.

**Junk Bonds (Non-Investment Grade):**
High risk securities that have received low ratings and, as such, produce high yields so long as they do not go into default. A bond claimed to have a low investment quality and credit worthiness, usually with a rating of "BB" or less.

**Keogh Plan:**
A retirement plan that allows self-employed individuals to establish tax-deferred retirement plans for themselves and their employees.

**Large-Cap:**
See "Capitalization".

**Lease:**
Contract granting use of real estate, equipment or other fixed assets for a specified time in exchange for payment, usually in the form of rent.

**Leverage:**
The magnification of gains and losses in earnings resulting from the use of fixed-cost financing.

**Leverage Measures:**
Financial ratios that measure the amount of debt being used to support operations, and the ability of the firm to service its debt.

**Liabilities:**
All the claims against a corporation including accounts and wages and salaries payable, dividends declared payable, accrued taxes payable, and fixed or long-term liabilities such as mortgage bonds, debentures and bank loans.

**Liability Driven Investment (LDI):**
A technique used by defined benefit plans to design a fixed-income portfolio that mimics the performance of the plan's liabilities. Shifts the focus from absolute return to funded status.

**Limit Order:**
An order to buy or sell a security at a specific price or better.

**Limited Liability:**
The right of an investor to limit potential losses to no more than the amount invested. Equity shareholders, such as corporate stockholders and limited partners, have limited liability.

**Limited Tax Bond:**
A general obligation municipal debt security issued by a municipality whose taxing power is limited to a specified maximum rate.

**Liquidation Value:**
The amount left if a firm's assets were sold or auctioned and the liabilities and preferred stockholders paid.

**Liquidity:**
The ease with which an asset can be bought or sold quickly with relatively small price changes.

**Liquidity Measures:**
Financial ratios concerned with the firm's ability to meet its day-to-day operating expenses and satisfy its short-term obligations as they come due.

**Liquidity Risk:**
The risk of not being able to liquidate an investment conveniently and at a reasonable price.

**Load Fund:**
A mutual fund that charges a commission when shares are bought or sold; also known as front-end load or back-end load funds.

**London Interbank Offered Rate (LIBOR):**
Rate that the most creditworthy international banks dealing in Eurodollars charge each other for large loans. The LIBOR rate is usually the base for other large Eurodollar loans to less creditworthy corporate and government borrowers.

**Long:**
Refers to the market position of a person who has bought securities (expecting a price rise) that they have not yet sold.