

Glossary Of Terms

This glossary provides a definition of terms that you may encounter in the course of managing your financial affairs.

401(k) Plan: A retirement savings plan sponsored by employers. Employees may contribute money to the plan and defer taxes until withdrawal. Contributions grow tax-deferred until withdrawal. Employers may match employee contributions.

403(b) Plan: The equivalent of a 401(k) plan for public employees.

1031 Exchange: An article of the tax act which allows investors in income-producing property to exchange properties without triggering capital gains.

A/B Trusts: A strategy to preserve the estate tax entitlement of both a husband and wife.

Adjusted Gross Income (AGI): Represents total income less tax-exempt income, IRA contributions and some health insurance premiums. See also MAGI.

American Depositary Receipt (ADR): A certificate which represents a foreign stock. ADRs can be traded in the U.S. markets and may represent more than one share of a foreign company.

Glossary of Terms

American Stock Exchange (AMEX): One of America's top three stock exchanges, based in New York City.

Annuity: A series of payments from an insurance company guaranteed to continue for an agreed period according to the terms of a contract set out at the inception of the annuity.

Ask Price: The price which the seller of a security is willing to accept.

Asset Allocation: A strategy designed to maintain an appropriate balance of securities in a portfolio. Assets may include stocks, bonds and other forms of equity to guard against volatility and losses.

Back-end Load: A fee charged for the sale of some mutual funds.

Balanced Fund: A mutual fund that holds stocks and bonds to provide income and growth.

Basis: The original cost of purchasing an asset. The cost basis is used in calculating capital gains on stocks.

Basis Point: A measure of the yield of interest-bearing notes. A basis point represents one hundredth of one percent. A bond with a yield of 4% has 400 basis points.

Benchmark: A yardstick used to measure the performance of an investment. A mutual fund may be measured against appropriate stock indexes such as the S&P 500 or the Russell 2000, depending on the fund's investment goals.

Glossary of Terms

Beneficiary: The entity designated to receive the proceeds of a trust, insurance policy, IRA or a will. The beneficiary may be a person or an organization.

Beta: A measure of the volatility of a security. The higher the beta, the greater the volatility. A beta of 1 means that volatility is equal to a chosen benchmark.

Bid Price: The price that a buyer is willing to pay for a security.

Blue-chip Stock: The name given to a very high quality equity. It is believed that the name comes from the most valuable chip in some poker games.

Bond: A form of IOU which obliges the borrower to pay interest over the life of the security and repay the principal on maturity.

Bond Ladder: A group of bonds selected to mature in a regular sequence over a number of years.

Bond Rating: An assessment of the ability of a bond issuer to meet interest payments and principal reimbursement.

Book Value: A calculation of the value of a company determined by subtracting its liabilities from its assets.

Broker-Dealer: A financial institution empowered to trade securities, often on behalf of an independent financial advisor. The broker-dealer insures its members and requires them to adhere to standards of conduct.

Glossary of Terms

Capital Gain: A measure of the increase in value of a security from the time of purchase.

Capital Gains Distribution: A tax liability generated by a mutual fund when it sells a security at a profit. Capital gains distributions are a taxable event for the fund owner.

Certificate of Deposit (CD): A financial instrument usually issued by a bank. CDs represent a debt by the bank to you, the lender. The interest paid is calculated according to the term of the investment.

Charitable Remainder Trust (CRT): A bequest to a charity which yields benefits to the donor for the lifetimes of the persons named in the trust. The donor receives tax benefits and income for a specified time, usually until death.

Churning: The act of buying and selling financial instruments needlessly for the sole purpose of generating commissions, rather than for the investor's benefit.

Closed Fund: A mutual fund that has ceased selling shares to new investors.

Closed-end Fund: A fund that holds a fixed number of securities in its portfolio.

Common Stock: A basic unit of ownership in the equity of a company. It is subordinate to preferred stock in the payment of dividends.

Glossary of Terms

Compounding: The exponential growth of an investment by earning interest and interest on interest.

Convertible Security: A corporate bond or a unit of preferred stock that can be converted to common stock at a fixed rate.

Coupon: The interest rate paid by a bond.

Credit Shelter Trust: The equivalent of the Bypass Shelter Trust described in the final chapter.

Default: A borrower is in default when it is unable to repay interest or principal.

Defined-benefit Plan: A retirement plan that promises a certain designated benefit to retired members.

Disclaim: The act of refusing to accept a distribution from a trust or will, resulting in the asset being passed to the next heir in line.

Discount: A term applied to a bond being traded on the markets. A bond is discounted if it is selling for less than its full value at inception.

Discount Rate: The interest rate set by the Federal Reserve Board for loans to members.

Diversification: The act of attempting to reduce risk by spreading investments among various investment types, classes and categories. The theory is that not all will move in the same direction at once, and risk will be moderated.

Glossary of Terms

Dividend: a portion of corporate earnings paid periodically to shareholders.

Dollar-cost Averaging: An investment strategy that calls upon the investor to purchase units of an investment periodically, despite price fluctuations, lowering the average cost.

Dow Jones Industrial Average: An average of the market value of 30 of America's biggest companies.

Durable Power of Attorney: A document that empowers a surrogate to take over one's affairs in case of incapacity.

Equity: Ownership participation in a company through ownership of shares of stock.

Ethical Will: A document that is read after death. It has no legal powers but sends last messages to loved ones. It may also direct the distribution of personal items.

Executor and Executrix: A man or woman named by the author of a will to carry out their wishes.

Expense Ratio: The percentage of the total assets of a mutual fund that is used for operations and management.

Federal Deposit Insurance Corporation (FDIC): The federal agency which guarantees bank deposits and CDs to depositors, protecting them against default.

Glossary of Terms

Fixed Annuity: A contract with an insurance company that guarantees regular fixed payments for a specified time in return for an up-front payment to the company.

Fixed Income: The umbrella term for CDs, Bonds and other financial instruments that pay a fixed rate of interest.

Front-end Load: A charge levied on the buyer of a mutual fund or other financial product at the time of sale.

Growth & Income Fund: A mutual fund that attempts to provide asset growth and steady income to shareholders.

Growth Fund: A fund with the primary objective of increasing shareholders assets through capital appreciation.

Index: An indicator of the performance of a chosen portion of the market, calculated by assessing the value of a certain group of stocks. The index can be used as a benchmark to measure the performance of an investment vehicle operating in a similar portion of the market.

Index Fund: A mutual fund made up of the portfolio of securities used to calculate an index.

Individual Retirement Account (IRA): An account for the accumulation of funds for retirement through tax-deferred growth of assets.

Intestate: The term used for a person who has died without leaving a will.

Glossary of Terms

Irrevocable Trust: A trust that cannot be changed during the creator's lifetime. Usually used for gifting.

Junk Bond: A high-risk, high-yield corporate bond.

Keogh Plan: A tax-deferred retirement plan for the self-employed.

Living Will: A document that directs those in charge of your medical care and informs them of your wishes in times of incapacity and terminal illness.

Medical Power of Attorney: A document that empowers another person to take over direction of one's medical affairs in case of incapacity.

Modified Adjusted Gross Income (MAGI): An increase in your AGI (Adjusted Gross Income) caused by a take-back of some deductions.

Market Cap: The value of a company on the stock market determined by multiplying the number of outstanding shares times the market price of a share at any given time.

Market Maker: An institution that stabilizes share prices by defending bid and ask prices.

Money Market Fund: A mutual fund that specializes in short term debt and pays interest income to shareholders.

Glossary of Terms

Municipal Bond (Muni): A bond issued by a municipal government (state or local) to finance certain projects and works. Usually it is tax free at the federal and state level. It may also be exempt from certain municipal taxes.

National Association of Securities Dealers (NASD): The organization which regulates the conduct of persons involved in the sale of securities. NASD makes available information about the past history of its members.

NASDAQ: The well-known technology-based stock market. The acronym is short for National Association of Securities Dealers Automated Quotation system.

Power of Attorney: A document you issue allowing a trusted person to take over your financial affairs in the event of incapacity.

Premium: The difference between the face value of a bond and its current market value.

Price to Earnings Ratio (P/E): The price of a stock divided by earnings per share. A measure of a stock's pricing through a measure of its profitability.

Probate: A court-mandated process to examine the validity of a will and to carry out its directions.

Prospectus: A description of the operating intentions and objectives of a mutual fund.

Glossary of Terms

Required Minimum Distribution (RMD): The amount of money that the holder of an IRA is required to withdraw and pay tax upon. Distributions do not become mandatory until age 70½ is reached.

Standard & Poor's 500 (S&P 500): A key index measuring the performance of 500 leading American corporations.

Securities Investor Protection Corporation (SIPC): A non-profit organization set up to make restitution to customers of the securities industry who are the victims of fraud, theft or bankruptcy.

Spread: The difference between the price bid and asked for a security.

Successor Trustee: A secondary trustee in a will who can take over if the initial trustee is unable.

Sweetheart Will: A will which leaves all assets to one's spouse without taking full advantage of estate tax credit.

Value Fund: A mutual fund that specializes in stocks with low P/E ratios and possible dividend payment streams.

Volatility: A description of the dynamic movement of stock market prices. Greater price changes over shorter periods of time result in higher volatility.

Yield: The income stream provided by stocks, bonds or CDs in the form of interest payments and dividends.

Glossary of Terms

Zero-coupon Bond: A bond that pays no interest. It is purchased at a discount to its face value and cashed in at full face value at maturity.