Glossary of Investment and Plan Terms

Financial terms are part of our daily life. We read about them in the paper and hear about them on the radio and in the news nearly every day. Though the terms may seem familiar, what they mean may not always be clear. Following is a list of some basic investment terms and a brief definition of each:

Asset: Anything you own that has monetary value, such as stocks, bonds, or other investments.

Asset Allocation: Process of dividing your investments among the major asset classes.

Asset Class: A group of securities with similar characteristics. The three major asset classes are cash equivalents, stock, and bonds.

Bear Market: A period of time when the prices of securities in a market are falling or are expected to fall.

Bond: A certificate of debt issued by a company or government agency. When you purchase a bond, you are lending money to the issuer. In exchange, the issuer promises to repay the loan on a specific date, with interest payments made periodically over the life of the loan. The value of debt securities may fall when interest rates rise. Debt securities with longer maturities tend to be more sensitive to changes in interest rates, usually making them more volatile than debt securities with shorter maturities. For all bonds there is a risk that the issuer will default. High-yield bonds generally are more susceptible to the risk of default than higher rated bonds.

Bond Fund: A group of bonds that are managed and offered for sale as a single investment by an investment company.

Bull Market: A period of time when the prices of securities in a market are rising or are expected to rise.

Certificate of Deposit (CD): A time deposit usually offered by banks or credit unions. When you invest in a CD, you loan money to the issuing financial institution. In exchange, the issuer promises to pay a specific rate of interest over a defined period of time and to return your original investment amount when the CD matures.

Compounding: Money earned on an investment with the interest calculated monthly or annually and reinvested. Over time, compounding can help an investment grow substantially.

Diversification: The process of spreading money among different investments regardless of their asset class.

Dividend: A portion of a company's profits that is paid out to stockholders. Dividends are not guaranteed.

Dollar-Cost Averaging: An investment strategy in which you invest a set amount regularly and consistently, despite market conditions. This strategy helps you to buy more shares when prices are low, and fewer shares when prices rise.

Index: A measurement of the performance of a particular group of securities over time. An index can serve as a benchmark that represents a particular market. For instance, The Dow Jones Industrial Average and S&P 500 Index are two common indices that are used as benchmarks to measure the overall performance of the stocks of large capitalization U.S. companies. Investors cannot invest directly in an index. Past performance is no guarantee of future results.

Interest: The income a borrower pays to a lender or depositor.

Investment Risk: Investments are not guaranteed and are subject to investment risk including the possible loss of principal. The investment return and principal value of the security will fluctuate so that when redeemed, may be worth more or less than the original investment. Generally, the greater an investment's possible reward over time, the greater its level of price volatility, or risk.

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Money Market: Short-term debt securities with a maturity of one year or less and often 30 days or less. They're generally viewed as safe investments that typically return a relatively low interest rate. An investment in a money market fund is not insured or guaranteed by the any government agency. The objective of a Money Market fund generally includes the preservation of capital, however it is possible to lose money by investing in the fund.

Mutual Fund: A group of assets that are managed as a single investment by an investment company.

Portfolio: A combination of investments, such as stocks, bonds, and money market instruments.

Principal: The amount of an initial investment, or unpaid balance on a loan.

Risk: The extent to which an investment can go up and down in value in response to many factors, including overall market performance, individual company or business performance, interest rate changes, and the overall impact of inflation.

Security: A stock, bond, or other type of investment.

Stock: A share of ownership in a company which often includes voting rights.

Stock Fund: A group of stocks that are managed and offered for sale as a single investment by an investment company.

Volatility: The amount by which the price of an investment changes in the short term.

Yield: The profit on an investment made through interest or dividends.

Investment Terms for Real People

Want to know more? For additional information on investing and investment terms, check out financial glossaries at the resources below:

- www.CNNmoney.com
- www.investorwords.com
- www.marketwatch.com
- www.reuters.com/glossary

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