

# Glossary of investment-related terms

## 12b-1 Fee:

A fee assessed on certain mutual funds or share classes and permitted under a Securities and Exchange Commission (SEC) rule to help cover the costs associated with marketing and selling the fund. 12b-1 fees may also be used to cover shareholder servicing expenses.

## Active Management:

The trading of securities to take advantage of market opportunities as they occur, in contrast to passive management. Active managers rely on research, market forecasts, and their own judgment and experience in selecting securities to buy and sell.

## Aggressive:

An investment approach that accepts above-average risk of loss in return for potentially above-average investment returns.

## Aggressive Growth Fund:

An investment fund that takes higher risk of loss in return for potentially higher returns or gains.

## AMEX Major Market Index (XMI):

An index that is an average of 20 blue-chip industrial stocks.

## Annual Report:

A yearly report or record of an investment's (e.g., a mutual fund or company) financial position and operations.

## Annual Rate of Return:

The annual rate, expressed as a percentage, of a gain or loss on an investment.

## Appreciation:

An increase in the value of an investment.

## Asset:

Anything with commercial or exchange value owned by a business, institution or individual. Examples include cash, real estate and investments.

## Asset Allocation:

A method of investing by which investors include a range of different investment classes – such as stocks, bonds and cash alternatives – in their portfolios. See Diversification.

### **Asset Class:**

A group of securities or investments that have similar characteristics and behave similarly in the marketplace. Three common asset classes are equities (e.g., stocks), fixed income (e.g., bonds), and cash alternatives (e.g., money market funds).

### **Average Annual Total Return:**

The yearly average percentage increase or decrease in an investment's value that includes dividends, gains and changes in share price.

### **Back-end Load:**

A fee imposed by some funds when shares are redeemed (sold back to the fund) during the first few years of ownership. Also called a contingent deferred sales charge.

### **Balanced Fund:**

A fund with an investment objective of both long-term growth and income through investment in both stocks and bonds.

### **Barclay's Capital U.S. Aggregate Bond Index:**

A common index widely used to measure performance of U.S. bond funds.

### **Basis Point:**

One-hundredth of one percent, or 0.01%. For example, 20 basis points equal 0.20%. Investment expenses, interest rates and yield differences among bonds are often expressed in basis points.

### **Benchmark:**

An unmanaged group of securities whose performance is used as a standard to measure investment performance. Some well-known benchmarks include the Dow Jones Industrial Average and the S&P 500 Index.

### **Bond:**

A debt security which represents the borrowing of money by a corporation, government or other entity. The borrowing institution repays the amount of the loan plus a percentage as interest. Income funds generally invest in bonds.

### **Bond Fund:**

A fund that invests primarily in bonds and other debt instruments.

### **Bond Rating:**

A rating or grade that is intended to indicate the credit quality of a bond, considering the financial strength of its issuer and the likelihood that it will repay the debt. Agencies such as Standard & Poor's, Moody's Investors Service and Fitch issue ratings for different bonds, ranging from AAA (highly unlikely to default) to D (in default).

### **Broker:**

A person, often paid by commission, who acts as an intermediary between the buyer and seller of a security, insurance product or mutual fund. The terms broker, broker/dealer and dealer are sometimes used interchangeably.

### **Brokerage Window:**

A plan feature that permits participants to purchase investments that are not included among the plan's general menu of designated investment alternatives.

### **Capitalization (Cap):**

The total market value of a company's outstanding equity.

### **Capital Appreciation Fund:**

An investment fund that seeks growth in share prices by investing primarily in stocks whose share prices are expected to rise.

### **Capital Gain:**

An increase in the value of an investment, calculated by the difference between the net purchase price and the net sale price.

### **Capital Loss:**

The loss in the value of an investment, calculated by the difference between the purchase price and the net sale price.

### **Capital Preservation:**

An investment goal or objective to keep the original investment amount (the principal) from decreasing in value.

### **Cash Alternative:**

An investment that is short-term and highly liquid and has high credit quality.

### **Collective Investment Fund:**

Investments created by a bank or trust company for employee benefit plans, such as 401(k) plans, that pool the assets of retirement plans for investment purposes. They are governed by rules and regulations that apply to banks and trust companies instead of being registered with the SEC. These funds are also referred to as collective or commingled trusts.

## Commission:

Compensation paid to a broker or other salesperson for his or her role when investments are bought or sold.

## Common Stock:

An investment that represents a share of ownership in a corporation.

## Company Stock Fund:

A fund that invests primarily in employer securities that may also maintain a cash position for liquidity purposes.

## Competing Funds:

An investment fund that is identified by the investment manager of another fund and that is subject to special rules relating to an investor's ability to buy and sell investments between the two funds. See Equity Wash Restriction.

## Compounding:

The cumulative effect that reinvesting an investment's earnings can have by generating additional earnings of their own.

## Conservative:

An investment approach that accepts lower rewards in return for potentially lower risks.

## Contingent Deferred Sales Charge (CDSC):

A fee imposed when shares of a mutual fund or a variable annuity contract are redeemed (sold) during the first few years of ownership. Also called a back-end load.

## Corporate Bond:

A bond issued by a corporation rather than by a government. The credit risk for a corporate bond is based on the repayment ability of the company that issued the bond.

## Credit Risk:

The risk that a bond issuer will default, meaning not repay principal or interest to the investor as promised. Credit risk is also known as default risk.

## Current Yield:

The current rate of return of an investment, calculated by dividing its expected income payments by its current market price.

## Custodian:

A person or entity (e.g., bank, trust company or other organization) responsible for holding financial assets.

## **Deflation:**

The opposite of inflation – a decline in the prices of goods and services.

## **Depreciation:**

A decrease in the value of an investment.

## **Designated Investment Alternative:**

The investment options picked by your plan into which participants can direct the investment of their plan accounts.

## **Diversification:**

The practice of investing in multiple asset classes and securities with different risk characteristics to reduce the risk of owning any single investment.

## **Dividend:**

Money an investment fund or company pays to its stockholders, typically from profits. The amount is usually expressed on a per-share basis.

## **Dow Jones Industrial Average (Dow or DJIA):**

A widely followed price-weighted index of 30 of the largest, most widely held U.S. stocks.

## **Emerging Market:**

Generally, economies that are in the process of growth and industrialization, such as in Africa, Asia, Eastern Europe, the Far East, Latin America and the Middle East, which, while relatively undeveloped, may hold significant growth potential in the future. Investing in these economies may provide significant rewards, and significant risks. May also be called developing markets.

## **Emerging Market Fund:**

A fund that invests primarily in emerging market countries.

## **Employer Securities:**

Securities issued by an employer of employees and covered by a retirement plan that may be used as a plan investment option.

## **Equity/Equities:**

A security or investment representing ownership in a corporation that, unlike a bond, represents a loan to a borrower. Often used interchangeably with stock.

## **Equity Fund:**

A fund that invests primarily in equities.

## Equity Wash Restriction:

A provision in certain stable value or fixed-income products under which transfers made from the stable value or fixed-income product are required to be directed to an equity fund or other noncompeting investment option of the plan for a stated period of time (usually 90 days) before those funds may be invested in any other plan-provided competing fixed-income fund (such as a money market fund).

## Exchange Traded Fund (ETF):

An investment company, such as a mutual fund, whose shares are traded throughout the day on stock exchanges at market-determined prices.

## Expense Ratio:

A measure of what it costs to operate an investment; expressed as a percentage of its assets or in basis points. These are costs the investor pays through a reduction in the investment's rate of return. See Operating Expenses and Total Annual Operating Expenses.

## Federal Deposit Insurance Corporation (FDIC):

A federal agency that insures money on deposit in member banks and thrift institutions.

## Financial Industry Regulatory Authority (FINRA):

A self-regulatory organization for brokerage firms doing business in the U.S. FINRA operates under the supervision of the SEC. The organization's objectives are to protect investors and ensure market integrity.

## Financial Statements:

The written record of the financial status of a fund or company, usually published in the annual report. The financial statements generally include a balance sheet, income statement, and other financial statements and disclosures.

## Fixed Income Fund:

A fund that invests primarily in bonds and other fixed-income securities, often to provide shareholders with current income.

## Fixed-Return Investment:

An investment that provides a specific rate of return to the investor.

## Front-End Load:

A sales charge on mutual funds or annuities assessed at the time of purchase to cover selling costs.

## Fund Family:

A group or complex of mutual funds managed and distributed by the same company. Each mutual fund in the group typically has its own investment objective. A fund family also could refer to a group of collective investment funds or a group of separate accounts managed and distributed by the same company.

## Fund of Funds:

A mutual fund, collective investment fund or other pooled investment that invests primarily in other mutual funds, collective investment funds or pooled investments rather than investing directly in individual securities (such as stocks, bonds or money market securities).

## Glide Path:

The change over time in a target date fund's asset allocation mix to shift from a focus on growth to a focus on income.

## Global Fund:

A fund that invests primarily in securities anywhere in the world, including the U.S.

## Government Securities:

Any debt obligation issued by a government or its agencies (e.g., Treasury bills issued by the U.S.).

## Growth Fund:

A fund that invests primarily in the stocks of companies with above-average risk in return for potentially above-average gains. These companies often pay small or no dividends, and their stock prices tend to have the most ups and downs from day to day.

## Growth and Income Fund:

A fund that has a dual strategy of growth or capital appreciation and current income generation through dividends or interest payments.

## Inception Date:

The date that a fund began operations.

## Income Fund:

A fund that primarily seeks current income rather than capital appreciation.

## Index:

A benchmark against which to evaluate a fund's performance. The most common indexes for stock funds include the Dow Jones Industrial Average and the Standard & Poor's 500 Index.

## Index Fund:

An investment fund that seeks to parallel the performance of a particular stock market or bond market index. Index funds are often referred to as passively managed investments.

## Inflation:

The overall general upward price movement of goods and services in an economy. Inflation is one of the major risks to investors over the long term because it erodes the purchasing power of their savings.

## **Interest/Interest Rate:**

The fee charged by a lender to a borrower, usually expressed as an annual percentage of the principal. For example, someone investing in bonds will receive interest payments from the bond's issuer.

## **Interest Rate Risk:**

The possibility that a bond's or bond fund's market value will decrease due to rising interest rates. When interest rates (and bond yields) go up, bond prices usually go down and vice versa.

## **International Fund:**

A fund that invests primarily in the securities of companies located, or with revenues derived from, outside of the U.S.

## **Investment Adviser:**

A person or organization hired by an investment fund or an individual to give professional advice on investments and asset management practices.

## **Investment Company:**

A corporation or trust that invests pooled shareholder dollars in securities appropriate to the organization's objective. The most common type of investment company, commonly called a mutual fund, stands ready to buy back its shares at their current net asset value.

## **Investment Objective:**

The goal that an investment fund or investor seeks to achieve (e.g., growth or income).

## **Investment Return:**

The gain or loss, expressed as a percentage, on an investment over a certain period. Income and capital gains or losses are included in calculating the investment return.

## **Investment Risk:**

The possibility of losing some or all of the amounts invested or not gaining value in an investment.

## **Large Capitalization (Cap):**

A reference to either a large company stock or an investment fund that invests in the stocks of large companies.

## **Large-Cap Fund:**

A fund that invests primarily in large-cap stocks.

## **Large-Cap Stocks:**

Stocks of companies with a large market capitalization. Large-cap stocks tend to be well-established companies, so their stocks typically entail less risk than small-cap stocks. But large-cap stocks also offer



less potential for dramatic growth.

### **Liability:**

A thing for which someone is responsible, especially a debt or financial obligation

### **Lifecycle Fund:**

A fund designed to provide varying degrees of long-term appreciation and capital preservation based on an investor's age or target retirement date through a mix of asset classes. The mix changes over time to become less focused on growth and more focused on income. Also known as target date retirement or age-based funds. The principal value of the funds is not guaranteed at any time, including the target date.

### **Lifestyle Fund:**

A fund that maintains a predetermined risk level and generally uses words such as conservative, moderate or aggressive in its name to indicate the fund's risk level. Used interchangeably with target risk fund.

### **Lipper:**

A leading mutual fund research and tracking firm. Lipper categorizes funds by objective and size and then ranks fund performance within those categories.

### **Liquidity:**

The ease with which an investment can be converted into cash. If a security is very liquid, it can be bought or sold easily. If a security is not liquid, it may take additional time and/or a lower price to sell it.

### **Load:**

A sales charge assessed on certain investments to cover selling costs. A front-end load is charged at the time of purchase. A back-end load is charged at the time of sale or redemption.

### **MSCI EAFE Index:**

An index known by an acronym for the Europe, Australasia and Far East markets produced by Morgan Stanley Capital International (MSCI). Markets are represented in the index according to their approximate share of world market capitalization. The index is a widely used benchmark for managers of international stock fund portfolios.

### **MSCI World Index:**

An index of major world stock markets, including the U.S. The index is a widely used benchmark for managers of global stock fund portfolios.

### **Management Fee:**

A fee or charge paid to an investment manager for its services.

### **Market Capitalization or Market Cap:**

The market value of a company. Market capitalization can be determined by multiplying the number of outstanding shares of a company's stock by the stock's current market price per share.

### **Market Risk:**

The possibility that the value of an investment will fall because of a general decline in the financial markets.

### **Maturity Date:**

The date on which the principal amount of a loan, bond or any other debt becomes due and is to be paid in full.

### **Mid Capitalization (Cap):**

A reference to either a medium-sized company stock or an investment fund that invests in the stocks of medium-sized companies.

### **Mid-Cap Fund:**

A fund that invests primarily in mid-cap stocks.

### **Mid-Cap Stocks:**

Stocks of companies with a medium market capitalization. Mid-cap stocks are often considered to offer more growth potential than larger-cap stocks (but less than small-cap stocks) and less risk than small-cap stocks (but more than large-cap stocks).

### **Money Market Fund:**

A mutual fund that invests in short-term, high-grade fixed-income securities, and seeks the highest level of income consistent with preservation of capital (i.e., maintaining a stable share price).

### **Morningstar:**

A leading mutual fund research and tracking firm. Morningstar categorizes funds by objective and size and then ranks fund performance within those categories.

### **Mutual Fund:**

An investment company registered with the SEC that buys a portfolio of securities selected by a professional investment advisor to meet a specified financial goal (investment objective). Mutual funds can have actively managed portfolios or passively managed portfolios. Actively managed portfolios have a professional investment advisor that creates a unique mix of investments to meet a particular investment objective. In passively managed portfolios, the advisor seeks to parallel the performance of a selected benchmark or index.

### **NASDAQ:**

The National Association of Securities Dealers Automated Quotation; also called the electronic stock market. The NASDAQ composite index measures the performance of more than 5,000 U.S. and non-U.S. companies traded over the counter through NASDAQ.

## Net Asset Value (NAV):

The net dollar value of a single investment fund share or unit that is calculated by the fund on a daily basis.

## Net worth:

The total wealth of an individual, company, or household, taking account of all financial assets and liabilities.

## New York Stock Exchange (NYSE):

The oldest and largest stock exchange in the U.S.; founded in 1792.

## No-Load Fund:

A mutual fund whose shares are sold without a sales commission and that does not charge a combined 12b-1 fee and service fee of more than 25 basis points, or 0.25%, per year.

## Operating Expenses:

The expenses associated with running or operating an investment fund. Operating expenses may include custody fees, management fees and transfer agent fees. See Expense Ratio and Total Annual Operating Expenses.

## Passive Management:

The process or approach to operating or managing a fund in a passive or nonactive manner, typically with the goal of mirroring an index. These funds are often referred to as index funds and differ from investment funds that are actively managed.

## Portfolio:

A collection of investments, such as stocks and bonds, that are owned by an individual, organization or investment fund.

## Portfolio Manager:

The individual, team or firm who makes the investment decisions for an investment fund, including the selection of the individual investments.

## Portfolio Turnover Rate:

A measure of how frequently investments are bought and sold within an investment fund during a year. The portfolio turnover rate is usually expressed as a percentage of the total value of an investment fund.

## Principal:

The original dollar amount of an investment. Principal may also be used to refer to the face value or original amount of a bond.

## Prospectus:

The official document that describes certain investments, such as mutual funds, to prospective investors. The prospectus contains information required by the SEC, such as investment objectives and policies, risks, services and fees.

### **Rate of Return:**

The gain or loss on an investment over a period of time. The rate of return is typically reported on an annual basis and expressed as a percentage.

### **Real Rate of Return:**

The rate of return on an investment adjusted for inflation.

### **Rebalance:**

The process of moving money from one type of investment to another to maintain a desired asset allocation.

### **Redemption:**

To sell fund shares back to the fund. Redemption can also be used to mean the repayment of a bond on or before the agreed upon payoff date.

### **Redemption Fee:**

A fee, generally charged by a mutual fund, that is intended to discourage certain trading practices by investors, such as short-term or excessive trading. If a redemption fee is charged, it is done when the investment is redeemed or sold.

### **Return:**

The gain or loss on an investment. A positive return indicates a gain, and a negative return indicates a loss.

### **Risk:**

The potential for an investor to lose some or all the amounts invested or to fail to achieve his or her investment objectives.

### **Risk Tolerance:**

An investor's ability and willingness to lose some or all of an investment in exchange for greater potential returns.

### **Round-Trip Restriction:**

A policy that limits the number of times an investor can exchange into and out of a fund within a given time frame. This is intended to discourage frequent trading that increases the costs to all the fund's investors.

### **Russell Indexes:**

A group of indexes that are widely used to benchmark investment performance. The most common Russell index is the Russell 2000 Index, an index of U.S. small-cap stocks that measures the performance of the

2,000 smallest U.S. companies in the Russell 3000 Index.

### **Sales Charge:**

A charge for buying an investment.

### **Sector Fund:**

A fund that invests in a particular or specialized segment of the marketplace, such as stocks of companies in the software, healthcare and real estate industries.

### **Securities and Exchange Commission (SEC):**

Government agency created by Congress in 1934 to regulate the securities industry and to help protect investors. The SEC is responsible for ensuring that the securities markets operate fairly and honestly.

### **Security:**

A general term for stocks, bonds, mutual funds and other investments.

### **Separate Account:**

An insurance company account that is segregated or separate from the insurance company's general assets. Also refers to a fund managed by an investment advisor for a single plan.

### **Share:**

A representation of ownership in a company or investment fund.

### **Share Class:**

Some investment funds and companies offer more than one type or group of shares, each of which is considered a class (e.g., Class A, advisor or institutional shares). For most investment funds, each class has different fees and expenses, but all of the classes invest in the same pool of securities and share the same investment objectives.

### **Shareholder:**

An owner of shares in an investment fund or corporation.

### **Shareholder-Type Fees:**

Any fee charged against an individual's investment for purchase and sale, other than the total annual operating expenses.

### **Small Capitalization (Cap):**

A reference to either a small company stock or an investment fund that invests in the stocks of small companies.

### **Small-Cap Fund:**

A fund that invests primarily in small-cap stocks.

### **Small-Cap Stocks:**

Stocks of companies with a smaller market capitalization. Small-cap stocks are often considered to offer more growth potential than large-cap stocks and mid-cap stocks but with more risk.

### **Stable Value Fund:**

An investment fund that seeks to preserve principal, provide consistent returns and liquidity. Stable value funds include collective investment funds sponsored by banks or trust companies and contracts issued by insurance companies.

### **Standard & Poor's 500 Stock Index (S&P 500):**

An index that comprises 500 widely held common stocks considered to be representative of the U.S. stock market in general. The S&P 500 is often used as a benchmark for equity fund performance.

### **Stock:**

A security that represents an ownership interest in a corporation.

### **Stock Fund:**

A fund that invests primarily in stocks.

### **Stock Symbol:**

An abbreviation using letters and numbers assigned to securities to identify them. Also see Ticker Symbol.

### **Summary Prospectus:**

A short-form prospectus that mutual funds generally may use with investors if they make the long-form prospectus and additional information available online or on paper upon request.

### **Target Date Fund:**

A fund designed to provide varying degrees of long-term appreciation and capital preservation based on an investor's age or target retirement date through a mix of asset classes. The mix changes over time to become less focused on growth and more focused on income. Also known as a lifecycle fund. The principal value of the funds is not guaranteed at any time, including the target date.

### **Target Risk Fund:**

A fund that maintains a predetermined asset mix and generally uses words such as conservative, moderate or aggressive in its name to indicate the fund's risk level. Often used interchangeably with lifestyle fund.

### **Ticker Symbol:**

An abbreviation using letters and numbers assigned to securities and indexes to identify them. Also see Stock Symbol.

## **Time Horizon:**

The amount of time that an investor expects to hold an investment before taking money out.

## **Total Annual Operating Expenses:**

A measure of what it costs to operate an investment, expressed as a percentage of its assets, as a dollar amount or in basis points. These are costs the investor pays through a reduction in the investment's rate of return. See Expense Ratio and Operating Expenses.

## **Trustee:**

A person or entity (e.g., bank, trust company or other organization) that is responsible for the holding and safekeeping of trust assets. A trustee may also have other duties, such as investment management. A trustee that is a directed trustee is responsible for the safekeeping of trust assets, but has no discretionary investment management duties or authority over the assets.

## **Unit:**

A representation of ownership in an investment that does not issue shares. Most collective investment funds are divided into units instead of shares. See Share.

## **Unitholder:**

An owner of units in an investment. See Shareholder.

## **Unit Class:**

Investment funds that are divided into units (e.g., collective investment funds) instead of shares and that may offer more than one type or group of units, each of which is considered a class (e.g., Class A). For most investment funds, each class has different fees and expenses, but all of the classes invest in the same pool of securities and share the same investment objectives.

## **Unit Value:**

The dollar value of each unit on a given date.

## **U.S. Treasury Securities:**

Debt securities issued by the U.S. government and secured by its full faith and credit. Treasury securities are the debt-financing instruments of the U.S. government, and they are often referred to simply as treasuries.

## **Value Fund:**

A fund that invests primarily in stocks that are believed to be priced below what they are really worth.

## **Variable Return Investment:**

Investments for which the return is not fixed. This term includes stock and bond funds, as well as investments that seek to preserve principal but do not guarantee a particular return (e.g., money market funds and stable value funds).

## Volatility:

The amount and frequency of fluctuations in the price of a security, commodity or a market within a specified time period. Generally, an investment with high volatility is said to have higher risk because there is an increased chance that the price of the security will have fallen when an investor wants to sell.

## Wrap Fee:

A fee or expense that is added to or wrapped around an investment to pay for one or more product features or services.

## Yield:

The value of interest or dividend payments from an investment, usually stated as a percentage of the investment price.

Source: The SPARK Institute, "Sample Glossary of Investment-Related Terms for Disclosures to Retirement Plan Participants, Version 1.01"

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