

# Glossary

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12b-1 fee – a marketing or distribution fee charged by some mutual funds. Generally, this fee is out of favor today. Check the fund prospectus for information about this fee.

401(k) – an employer-sponsored retirement plan where the employer and employee make pre-tax contributions. Also, see Defined-contribution plan.

403(b) – a retirement plan sponsored by tax-exempt organizations; these plans are similar to a 401(k) plan. Also, see Defined-contribution plan.

Annuity – an insurance product, guaranteed by an insurance company to pay the owner (annuitant) an income for a fixed period or the life of the annuity owner. Annuities are either fixed (specific return) or variable (return varies depending upon the performance of the annuity investment).

Asset – something you own; e.g., a house, stock, mutual fund, vehicle, cash.

Asset Allocation – the distribution of financial assets among asset classes: equities, fixed-income or cash equivalents. See Chapter 7 in the book: *Investing for Retirement – Surviving a Financial Tsunami*.

Asset Classes – categories of investments which have unique characteristics and behaviors. The major asset classes are: equities (stocks); fixed-income (bonds); and cash equivalents (money market funds, checking and savings accounts). Real estate and commodities are also separate classes of assets.

Balanced Fund – a mutual fund that invests in the three asset classes – equities, fixed-income and cash – in order to achieve income stability with some degree of growth. The blend of assets will help moderate price fluctuations in the portfolio. This type of fund is useful for retirement portfolios where principal stability with income and a moderate degree of growth are objectives.

Bear Market – a declining stock market; the buyers are going into hibernation; stock prices are declining.

Bond – a debt instrument issued by a corporation or government authority. The terms of the bond specify the interest rate paid to the owner (purchaser) and the maturity date on which the principal amount of the bond will be re-paid to the bond owner. A fundamental principle of fixed-income investing (owning bonds and other fixed rate investments) is - when interest rates go up, the value of fixed rate investments (bonds) will decline. When rates decline, the market value of fixed-income investments will increase - the rate is fixed, therefore, the investment becomes more valuable.

**Bull Market** – an advancing stock market; there are more buyers than sellers; stock prices are advancing (charging ahead).

**Capital gains** – realized gains on the sale of securities or other assets.

**Cash equivalents** – an asset class where the principal is stable in terms of absolute dollars. Examples: checking accounts; money market accounts; and very short-term (90 days or less) certificates of deposit or Treasury bills.

**Capitalization** – the value of the equity of a business. In the stock market, capitalization is expressed in dollar terms, as the market price of a share of the company's stock, times the number of shares outstanding. Also, see Large-Cap, Mid-Cap and Small-Cap.

**Cash Flow** - an analysis of your income and spending; a useful analysis for financial planning and budgeting.

**CD Ladder** - a series of certificates of deposit, with maturities spread out evenly to a future date, such as 5 years. The series of CDs would mature in 1, 2, 3, 4, and 5 years. When one CD matures, another CD is purchase with the maximum maturity length of the ladder. This helps moderate interest earned and prevents purchasing a large CD at the bottom of an interest rate cycle.

**Defined-benefit plan** - an employer-funded retirement plan which provides a specific (defined) benefit upon retirement.

**Defined-contribution plan** - an employer-sponsored retirement plan where the contribution to the plan is specified (defined) and the payout at retirement is determined by the growth and earnings of the assets in the plan during the contribution phase.

**Discretionary income** - the amount of income available after taxes and spending on basic needs.

**Disposable income** - the amount of after tax income available for all spending.

**Diversification** - a distribution of financial assets among many different securities and industries. Diversification keeps investors from having 'all their eggs in one basket'. This is a primary advantage of diversified mutual funds. See Chapter 8 in the book, *Investing for Retirement – Surviving a Financial Trunami*.

**Dividend** - a payment to shareholders in a corporation, from the profits of the business. Dividends are usually cash distributions paid quarterly. New, younger companies which need to conserve cash, may occasionally pay stock dividends - additional shares issued to shareholders based upon the current number of shares the shareholder owns.

Dividend distribution – a payment to shareholders from a stock or mutual fund. The distribution may be quarterly, annually or another frequency.

Dollar Cost Averaging - investing the same dollar amount into a fund at regular intervals. This will help the investor to purchase more shares when the share price is down and fewer shares when the price has increased.

Exchange Traded Fund (ETF) - a basket of stocks or bonds, similar in composition to a mutual fund. A share of the ETF trades on an exchange like a share of stock and can be bought or sold immediately. See Chapter 8 in the book, *Investing for Retirement – Surviving a Financial Tsunami*.

Expense ratio – annual expenses of a mutual fund or ETF expressed as a percentage of the fund's average assets. Expense ratios above 1% are considered high. Many index funds charge less than .5% and many ETFs have a ratio under .2%.

Fixed-income - an asset class of investments that generate a steady, fixed income. This asset class is composed of bonds, long-term certificates of deposit and other fixed payout investments. This class of assets is useful in a retirement portfolio where income and preservation of principal is priority.

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Hedge Fund - an unregistered investment fund which pools investors' money to make investments. Most hedge funds use leverage (debt) and other sophisticated investment strategies to minimize (hedge) market risk or maximize gains.

I-Bonds - United States Savings Bonds with a variable interest rate designed to reflect the rate of inflation based on the Consumer Price Index. Interest is accumulated in the bond and these bonds may be held for 30 years.

Income - money you receive from various sources, such as employment wages, savings and investments.

Index - a statistical measurement of the performance of a grouping of data; e.g., financial securities such as stocks, bonds, or commodities.

Index Fund - a fund composed of securities based upon a group (index) of securities. These funds may be composed of stocks, bonds, or commodities. Index funds do not evaluate the potential for the underlying securities, but only seek to match the security composition of the index.

Indexed CDs - a certificate of deposit with a rate linked to a financial index. The return is based on the performance of the index and usually includes significant limitations.

Intermediate-Term - a measurement of maturity for a fixed-income investment of one to ten years.

*Investing for Retirement – Surviving a Financial Tsunami*, by John Benson (2011). A 370 page book for non-professional investors who want to learn how to save and invest for their retirement. The book uses non-technical language with worksheets and lists, to lead the reader through the steps to planning, developing and implementing a time-tested retirement plan. The paperback and Kindle versions are available at Amazon.com.

Junk Bonds - the credit quality of the issuer is less than investment grade. These are high risk but high yielding investments.

Large-Cap – a business having a market capitalization that exceeds \$10 billion.

Leverage - borrowing money to purchase an asset.

Liability - an obligation; a debt; loan; a promise to pay.

Long-Term - a measurement of maturity for a fixed-income investment of greater than 10 years.

Market Capitalization - a measurement of a company based on its current stock market value. That is, the number of shares outstanding times the current market price of a share. Capitalization categories are: Large-cap (over \$10 billion); Mid-cap (\$2-10 billion); and small-cap (under \$2 billion).

Maturity date - the date on which a debt instrument - bond, CD, loan - becomes due.

Mid-Cap – a business having a market capitalization between 3 – 10 billion dollars.

MSCI EAFE® - Morgan Stanley Capital International, Europe Australiasia & Far East index; composed of 21 global stock market indices; a global stock index.

Mutual Fund - an investment fund (a company) which owns financial securities (stocks or bonds). The fund is run by an investment management firm. Shares of the fund are sold to individual investors at the daily calculated price: total market value of all the assets divided by the number of shares outstanding.

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Net worth - a calculation of an individual's financial worth. (Assets - Debts = Net Worth)

Non-Qualified Plan - an account which is subject to income taxes during the holding period. The IRS says this account is *not-qualified* for tax-deferral.

Principal - the amount invested in a financial security, such as a bond or certificate of deposit. Also, the face value of a debt instrument, such as a bond.

Qualified Plan - an account which meets the “standards set forth in the Internal Revenue Code for tax-favored status.” The earnings are not taxed until they are withdrawn from the plan – they are tax-deferred.

Rebalancing - the process of redistributing financial assets among asset classes in order to maintain a desired asset mix. See Chapter 14 in the book, *Investing for Retirement – Surviving a Financial Tsunami*.

Recession - a contraction of economic activity; measured as a decline in the Gross Domestic Product (GDP) for 2 or more consecutive quarters.

Risk - the potential for loss in the value of an investment. Risk is linked to return or reward. The greater the potential for return on an investment, the greater the potential risk of loss of principal. The Risk Reward principle is foundational to investing. See Chapter 6 in the book, *Investing for Retirement – Surviving a Financial Tsunami*.

Risk Tolerance - a measure of an investor’s comfort level with investment volatility. See Chapter 6 in the book, *Investing for Retirement – Surviving a Financial Tsunami*.

Rollover - transferring of retirement monies from one retirement account or plan into another retirement account; e.g., the transfer of money from a 401(k) plan directly into a self-directed IRA.

CD rollover - at maturity the accumulated value of a CD is automatically renewed into another CD of like maturity.

Roth IRA - an individual retirement account similar to a traditional IRA. Unlike the traditional IRA, the earnings and appreciation of the Roth IRA are tax-free at withdrawal when certain conditions are met. See Chapter 12 in the book, *Investing for Retirement – Surviving a Financial Tsunami*.

Russell 2000® - an index which measures the smaller 2000 companies of the Russell 3000 stock index.

S&P 500® - Standard & Poor 500; an index measuring the performance of the 500 largest companies in the U.S. based on market capitalization; a large-cap stock index.

Small-Cap – a business with a market capitalization between \$300 million and \$2 billion.

Target-Date Funds - mutual funds which periodically change their asset allocation from aggressive or moderate, to become more conservative, as a target date approaches. The target date may be as short as a few years or as long as 40 years. These funds are best suited for investors who do not want to deal with the process of adjusting (rebalancing) their portfolio asset mix. These funds may also be called Life-cycle funds. See Chapter 18 in the book, *Investing for Retirement – Surviving a Financial Tsunami*, for more details and cautions on the use of target-date funds.

Tax-deferred - taxes are postponed (deferred) to a future time. Earnings in tax-deferred accounts are not taxed as they are earned, but when the money is withdrawn. Examples are the traditional IRA and 401(k) accounts.

Tax-free - earnings are not taxable, now or in the future. Examples are the Roth IRA and municipal bonds. See Chapter 12 in the book, *Investing for Retirement – Surviving a Financial Tsunami*, for more details.

Total return – the percentage gain in an investment over a period of time, when dividends and all distributions are reinvested. Total returns are typically calculated for mutual funds for 1, 3, 5 and 10 year periods.

Treasuries – a term that refers to United States Government bonds, notes and bills.

Vested - earned ownership. Ownership rights have transferred to an employee in a retirement plan after a vesting period. Vesting is irrevocable.

Yield – the income received from an investment, expressed as a percentage of the invested amount or current price.

Wilshire 5000® - Dow Jones Wilshire 5000 index - an index of all publically traded stocks in the United States.

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