Abbreviations

AFC – Accredited Financial Counselor
AIP – automatic investment plan
APR – annual percentage rate
CD – certificate of deposit
CFCS – Certified in Family and Consumer Sciences
CFP – Certified Financial Planner®
CHC – Certified Housing Counselor
ChFC – Chartered Financial Consultant
CRPC – Chartered Retirement Planning Counselor
DI – disability insurance
DRIP – dividend reinvestment plan
FDIC – Federal Deposit Insurance Corporation
FINRA – Financial Industry Regulatory Authority
GNMA – Government National Mortgage Association
HMO – health maintenance organization
IRA – individual retirement account
IRS – Internal Revenue Service
JTWROS – joint tenant with rights of survivorship
LTC – long-term care (insurance)
MLS – multiple listing service
NASDAQ – National Association of Securities Dealers Automated Quotation System
NAV – net asset value
NYSE – New York Stock Exchange
OTC – over-the-counter stock
PE – price/earnings ratio
PFS – personal financial specialist
RR – rate of return
S&L – savings and loan
SEP – simplified employee pension plan
SHIP – State Health Insurance Assistance Program
TC – Tenancy in common

Glossary of Investment Terms

401(k) plan – Employer-sponsored retirement plan offered through for-profit companies. Allows an employee to make tax-deferred contributions by reducing his or her salary. The employer often matches at least part of the employee contribution.

403(b) plan – Employer-sponsored retirement plan offered through nonprofit organizations, schools, and colleges. Allows the employee to make tax-deferred contributions by reducing his or her salary. In some cases the employer may match at least part of the employee contribution.

alimony – Payment made to one spouse by another pending or after legal separation or divorce.

American Stock Exchange (AMEX) – Stock exchange located in New York City that has less rigorous standards than the NYSE and lists smaller companies.

annual percentage rate (APR) – The total annual cost for a loan or other type of credit.

annuity – A contract by which an insurance company agrees to make regular payments to an individual or couple for life or for a fixed period in exchange for a lump sum or periodic deposits.

any-occupation disability insurance – Insurance that pays benefits when the insured is unable to engage in any type of employment.

appreciation – An increase in the value of an asset.

asset allocation – The placement of a certain percentage of investment capital within different types of assets (e.g., 50% in stocks, 30% in bonds, and 20% in cash).

assets – Things of value that you own.

automatic investment plan (AIP) – An arrangement in which you agree to have money automatically withdrawn from your bank account on a regular basis (e.g., once a month or every quarter) and used to purchase individual stock or mutual fund shares.

basis – The value assigned to an asset from which taxable gain or loss is determined. Generally, it is the original deposit plus additional deposits and reinvested distributions.

benefit coordination – Clause in an insurance contract designed to prevent people from collecting from two insurance policies for the same expense. The total claim cannot exceed 100% of the cost.

bond – A debt instrument or IOU issued by a corporation or government entity.

business risk – Risk caused by events that affect only a specific company or industry, thereby influencing the value of an investment.

buy and hold – Investment strategy that involves long-term ownership of high quality securities.

call risk – The risk that the issuer of a bond may buy it back, or call it, from an investor prior to maturity.

capital gain – An investment's increase in value.

capitalization – The total market value of all shares of a company's stock; calculated by multiplying the share price by the number of outstanding shares.

cash flow – The relationship between household income and expenses.

certificate of deposit (CD) – Time deposit accounts available at banks, savings and loan associations, credit unions, and brokerage firms. CDs pay a fixed return for a specified period of time.

child support – Payments by one spouse to another to meet the needs of the couple's child(ren) after legal separation or divorce.

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COBRA law – Requires employers with 20 or more workers to offer continued group health care coverage to departing workers for up to 18 months and to eligible dependents for up to 36 months. Employees or dependents are responsible for paying the full cost of coverage, plus a 2% administrative fee.

codicil – An instrument that revokes, changes, or adds to the terms of a will.

cohabitation agreement – A legal document for unmarried couples, similar to a prenuptial agreement, that is drafted by a lawyer and describes each partner's responsibility for household expenses and who will get what in the event of a breakup.

coinsurance – The amount (usually stated as a percentage) of a claim that an insured person is expected to pay out-of-pocket.

commodities – Bulk goods, such as food, coffee, grain, livestock, and metals, that are traded on a commodities exchange.

compound interest – Interest credited daily, monthly, quarterly, semiannually, or annually on both principal and previously credited interest.

contingent beneficiary – A person who is second in line to receive a distribution.

copayment – The amount (usually stated as a dollar amount) that an insured person must pay out-of-pocket for a medical service or prescription drug.

core – The foundation of a portfolio (e.g., a stock index fund) to which an investor might add additional securities.

cost basis – An investment's original cost. This number, which is used for tax purposes, includes transaction costs plus reinvested dividends and capital gains.

credit risk – Relates to the financial strength of the company that is issuing a bond and is based on the ability of the company to repay principal and interest on time.

custodian – A person who holds and administers property for a minor until the minor reaches age 18 or 21.

debt-to-income ratio – The total monthly payment for household consumer debts divided by net household income.

deductible – The dollar figure, usually a flat dollar amount, that an insured person must pay out-of-pocket before an insurance policy reimburses him or her for the remainder of a loss.

defined benefit plan – A type of pension that guarantees a specified monthly payment in retirement based on income and/or years of service. The amount is often not adjusted for inflation.

defined contribution plan – A type of retirement savings plan that grows tax-deferred but does not guarantee a specific retirement benefit.

depreciation – A decrease in the value of an asset.

diversification – The policy of spreading assets among different investments to reduce risk of a decline in the overall portfolio as well as a decline in any one investment.

dividend reinvestment plan (DRIP) – A stock or mutual fund purchase option that allows investors to automatically reinvest any dividends their stock or mutual fund pays in additional shares, as well as to invest optional lump sum cash payments.

dividends – The share of profits or earnings that a company passes on to its shareholders.

dollar-cost-averaging – Investing equal amounts of money (e.g., $50) at a regular time interval (e.g., quarterly) regardless of whether securities markets are moving up or down. This reduces the average share costs to investors, who acquire more shares in periods of lower securities prices and fewer shares in periods of higher prices.

durable power of attorney (financial) – Legal document that appoints someone to handle your financial affairs if you are unable to.

elimination period – The number of days, starting from the date of an insurable event, before benefits are paid on certain kinds of insurance policies.

emergency fund – Savings set aside specifically to meet emergencies or unanticipated bills or to cover monthly living expenses if your paycheck stops.

equity investing – Becoming an owner or partial owner of a company or a piece of property through the purchase of investments such as stock, growth mutual funds, and real estate.

estate planning – The process of organizing your financial and personal assets for use during your lifetime and distribution after death in accordance with prevailing laws.

exclusions – A description of risks that are not covered by an insurance policy.

executor – A personal representative of an estate holder, named in a will, who sees to the financial affairs and the distribution of property after the estate holder's death.

expense ratio – The percentage of fund assets deducted for management and operating expenses.

fair market value – The value for which you could reasonably expect to sell an item.

fee-only planner – Financial planners who are compensated only from client fees.

fixed expenses – Costs such as housing, car loan payments, and insurance premiums that don't vary over time.

fixed-income investments – Investments such as long-term corporate bonds, Treasury notes and bills, CDs, and money market mutual funds.

flexible expenses – Household expenses such as food, transportation, and gifts that vary from month to month.

generation-skipping trust (GST) – A trust set up for the benefit of grandchildren, through which the grandchildren's parents often earn income. At their death, the trust principal is divided among the grandchildren.

gift tax – A tax imposed by the federal government on the giver of substantial gifts made during his or her lifetime.

Ginnie Mae (GNMA) fund – Mortgage-backed security issued by the Government National Mortgage Association.

guaranteed renewable – An insurance policy that will continue for life or until a certain specified age, assuming no lapse in premium payments. Premiums will not increase unless they are raised for everyone with the same type of policy.

index fund – A type of mutual fund that aims to match a particular stock or bond index by investing in the securities found in the index.

individual retirement account (IRA) – A retirement savings plan that allows individuals to save for retirement on a tax-deferred basis. The amount of savings that is tax deductible varies according to an individual's access to employer pension coverage, income tax filing status, household income, age, and the type of IRA that is selected.

inflation – Increase in the cost of goods and services.

inflation risk – Refers to a loss of buying power that can occur if the rate of inflation is higher than the rate of return on an investment.

insurance – A guarantee against risk of loss or harm in consideration of a payment proportioned to the risk involved (premium).

inter vivos trust – See "living trust."

interest rate risk – The risk that the value of fixed income securities will decline when interest rates rise.

intestate – Dying without a will.

irrevocable trust – A trust whose terms the creator can never change or cancel.

Keogh plan – A qualified retirement plan for selfemployed individuals and their employees to which tax-deductible contributions up to a specified yearly limit can be made if the plan meets certain requirements of the Internal Revenue Code.

laddering – Creating a bond or CD portfolio with a combination of assets with different maturity dates. As each bond or CD matures, the proceeds are reinvested at the longest time interval to maintain the ladder.

large-loss principle – The idea that the amount of a potential loss—rather than its probability—should be the determining factor in purchasing insurance.

liquidity – The quality of an asset that permits it to be converted quickly to cash without a loss of value.

living trust – A vehicle for managing your property while you are alive and for transferring your property to your heirs at death without being subject to probate.

living will – A written statement that expresses your wishes regarding prolonging your life by artificial, extraordinary, or heroic measures.

load fund – A mutual fund that carries a sales commission of up to 8.5% of the amount invested.

long-term care insurance – Insurance policy that pays for a wide range of services for the elderly or disabled, such as home health care and nursing home costs.

managed care health insurance – Coverage provided by a health maintenance organization (HMO) or preferred provider organization (PPO) that emphasizes wellness and preventive care, controls the care that is given, and limits the selection of medical providers.

marginal tax rate – The rate you pay on the last (highest) dollar of personal or household (if married) earnings.

market risk – The risk that prices of individual investments will be affected by the volatility of financial markets in general.

maturity – The date on which the principal amount of a bond or loan must be paid.

money baggage – Harmful thoughts and beliefs about money that can hold people back from achieving personal and/or financial success.

money market deposit account – Insured bank and credit union accounts that may provide a slightly higher rate of return than savings accounts. May limit access to funds (e.g., limited number of checks and withdrawals per month).

money market mutual fund – A type of mutual fund, available in taxable and tax-free versions, that invests in the lowest risk, shortest term (less than 90 days), most highly rated debt securities. It is not federally insured but is extremely safe and liquid.

mutual fund – A portfolio of stocks, bonds, or other securities that is collectively owned by thousands of investors and managed by a professional investment company. The shareholders of a particular fund have similar investment goals.

NASDAQ – A stock exchange made up of brokers networked together around the country who trade stocks back and forth using computers. Many high-tech companies trade here. Volatility is generally the highest of the various stock exchanges.

net worth – Assets minus debts or liabilities.

New York Stock Exchange (NYSE) – The largest and oldest of the U.S. stock exchanges. Located in New York City. Trades the shares of many large and well-established companies.

no-load fund – A mutual fund that requires no up-front fees to purchase shares and has no marketing fees.

noncancelable – An insurance policy that will continue for life or until a certain specified age, assuming no lapse in premium payments.

own-occupation disability insurance – A policy that defines disability as the inability to work in the particular field or trade for which you were trained.

pension – A type of savings plan that pays benefits to workers at retirement.

periodic expenses – Costs that occur only once or a few times per year (e.g., quarterly property taxes).

permanent life insurance – A policy that combines protection for the life of an insured person with a savings component known as cash value. Specific types of policies include whole life, variable life, and universal life.

policy limit – The highest dollar amount that an insurance policy will pay.

portfolio – The combined holding of stocks, bonds, cash equivalents, or other assets by an individual or household, investment club, or institutional investor (e.g., mutual fund).

portfolio rebalancing – Periodically adjusting the holdings in your investment portfolio to maintain a certain asset allocation.

pour-over will – A will that directs that the property subject to it be "poured-over" into a trust upon the maker's death.

power of attorney (health care) – A legal document that authorizes the person you choose to make medical decisions for you when you are incapable of making them yourself.

principal – The original amount of money invested or borrowed, excluding any interest or dividends.

probate – Proceedings involving a court of law to validate a will, pay debts of the deceased, and distribute the deceased's property to named beneficiaries.

profit sharing – Employer-sponsored retirement savings plan in which contributions depend on a company's profits. Employer contributions can vary from year to year.

reinvestment risk – The risk of having to reinvest existing funds at a lower return than previously earned, resulting in a decline in income.

remainderperson – An individual who has the right to possession or ownership of property after the estate holder dies or surrenders the life estate.

return – Investment gain or loss.

revocable trust – A trust whose terms the creator can change or cancel at any time.

riders – Additional clauses to an insurance contract that add coverage in exchange for a higher premium.

risk – Exposure to loss, harm, or danger.

risk acceptance – Intentionally accepting small financial losses that you can afford to pay for out-of-pocket, if needed.

risk avoidance – Eliminating the possibility of a loss by avoiding activities that expose you to a risk.

risk reduction – Taking measures to reduce a loss, should one occur, instead of avoiding a risky activity altogether.

risk tolerance – A person's capacity to emotionally and financially handle the risks associated with investing.

risk transfer – Transferring the risk of loss to a third party (insurance company) in exchange for a specified payment (premium).

S&P 500 Index – A stock market index consisting of the stocks of the 500 largest U.S. companies.

SEP (simplified employee pension) plan – A tax-deferred retirement plan for owners of small businesses and their employees, if any.

spending plan – A budget; a written plan for spending and saving money.

stepped-up basis – An inherited asset is valued as of the date of the donor's death.

stock – Security that represents a unit of ownership in a corporation.

stockbroker – Someone who is employed by a registered broker-dealer firm and who is authorized to buy and sell stocks, bonds, mutual funds, or certain other securities for investors.

stop-loss limit – A limit on the amount you must copay per year on an insurance policy.

sunset provisions – When a federal law, such as tax legislation, expires.

taxable distribution – Payment to investors of profits realized upon the sale of securities within a mutual fund.

term life insurance – Provides life insurance protection only for a specific period. Has no cash value at the end of that period.

testamentary trust – A trust set up to manage property for one or more beneficiaries.

time risk – The greater volatility of bond prices as their length of maturity increases.

total return – The combination of income and capital gains or losses on an investment.

Treasury bill – A short-term federal debt security that matures within a few days to 52 weeks (1 year). Interest is exempt from state and local income tax.

Treasury bond – A long-term federal debt security with a term of 30 years. Interest is subject to federal taxes but is free from state or local taxes.

Treasury note – An intermediate-term federal debt security with terms of 2, 3, 5, and 10 years. Interest is subject to federal taxes but is free from state or local taxes.

trustee – A person or financial institution who manages the property of others. He or she distributes income and principal to the trust beneficiaries according to the estate holder's instructions.

umbrella liability coverage – Excess liability insurance that supplements the liability limits of a homeowner's or renter's policy and automobile insurance policy.

Uniform Transfers to Minors Act (UTMA) – Allows transfer of any type of property, real or personal, tangible or intangible, to a minor, to be managed by a custodian until the minor comes of age.

values – Beliefs about what is important in a person's life.

vesting – Refers to the date when you are entitled to the money that your employer has contributed to your retirement account.

volatility – The degree of price fluctuation associated with a given investment, interest rate, or market index. The more price fluctuation that is experienced, the greater the volatility.

zero-coupon bond – A corporate, municipal, or Treasury bond that sells at a deep discount and whose value increases every year.