Commonly Used Investment Terms

**Annuity**: An annuity is an insurance contract, issued by an insurance company that lets you accumulate money until retirement and then receive a regular payment (often monthly) for your lifetime.

**Asset**: Any possession with value.

**Bond**: Evidence of the indebtedness of corporations and governments. The borrowers promise to repay the holder of the bond by a certain date and to pay interest regularly to the investors until the loan is repaid. Generally, the average maturity is less than three years for a short-term bond, three to seven years for an intermediate-term bond and greater than seven years for a long-term bond.

**Cash equivalent**: A short-term investment with a relatively low degree of risk that can be converted to cash quickly.

**Capital**: Wealth in the form of money or property that is usually available for investment. The term can also be used to represent the initial amount invested.

**Capital appreciation**: An increase in the market value of an investment or property.

**Debt security**: General term for any security that represents money that has been loaned and must be repaid to the lender at a future date. Examples include bonds, commercial paper and certificates of deposit.

**Diversification**: Spreading of risk by investing assets in several asset classes and by investing in a variety of different securities or properties within an asset class. Diversification does not ensure a profit or protect against loss.

**Dividend**: Income paid to shareholders. Usually, dividends are paid four times a year.

**ERISA**: The Employee Retirement Income Security Act of 1974. ERISA is the federal law that governs employee benefit plans.

**Equity**: Stock that represents ownership in a corporation. Owners of the stock are known as shareholders.

**Fixed-income security or fixed-income investment**: An investment vehicle with a level of current income, as defined by the security’s coupon or dividend rate, that is fixed for a stipulated period of time, usually the life of the security.

**Foreign investment**: A security that is issued by a corporation or governmental entity located outside the U.S.

**Income**: Earnings, generally from interest or dividends that are credited or paid to an investor.

**Inflation risk**: The risk that inflation will erode the value of an investment. Investments with low historical earnings generally have more inflation risk than investments with higher earnings.

**Interest**: The cost of using money. A borrower pays interest to a lender, usually a percentage of the loan amount.

**International equity**: An ownership interest in a corporation located outside the U.S.
**Investment grade**: A bond with a rating of BBB or higher.

**Issuer**: A corporation, trust, municipality or government that is legally empowered to issue and distribute its own securities.

**Liquidity**: The quality of an asset that permits it to be converted quickly into cash without a significant loss of value.

**Market risk**: The risk that the value of a particular security will rise or fall based on changes or trends in the overall financial markets. Market risk tends to be higher for equities than for bonds or cash equivalents.

**Market value**: The current price of an asset, as generally indicated by the most recent price at which the asset was tracked on the open market.

**Money market instrument**: A short-term debt security that can offer a high degree of liquidity and relative safety. Examples include U.S. Treasury bills, certain certificates of deposit and commercial paper.

**Note**: Although a money market fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in the fund. Money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

**Mutual fund**: A portfolio of stocks, bonds and/or cash equivalents. Mutual funds may be actively or passively managed. Active management means the portfolio manager buys and sells securities in an attempt to take advantage of current or expected market conditions. Passive management means that the portfolio manager tries to duplicate investment in the securities represented by a particular market index, such as the S&P 500.

**Portfolio**: The mix of stocks, bonds and other assets owned by an individual, or by an entity such as a mutual fund.

**Principal**: The amount invested or borrowed, not including any interest or dividends.

**Principal risk**: The risk that an investment will be worth less at the time it is sold than it was worth when it was bought.

**Real estate investment trust (REIT)**: An equity security that offers an opportunity to invest in a pool of real estate assets without having to buy or sell individual properties. REITs must distribute at least 90% of their taxable income to shareholders each year in the form of dividends as a result of their corporate tax structure.

**Risk**: See market risk, inflation risk and principal risk.

**Security**: An instrument that signifies an ownership interest in a corporation (equities or stocks) or a creditor relationship with a corporation or governmental body (bonds).

**Stock**: An investment represented by an ownership certificate or transferable evidence of ownership of a corporation. Also referred to as equity.

**Total return**: The rate of return of an investment, including all dividends and interest, plus or minus any change in the value of the asset. Also, an investment strategy that seeks a combination of growth and income.