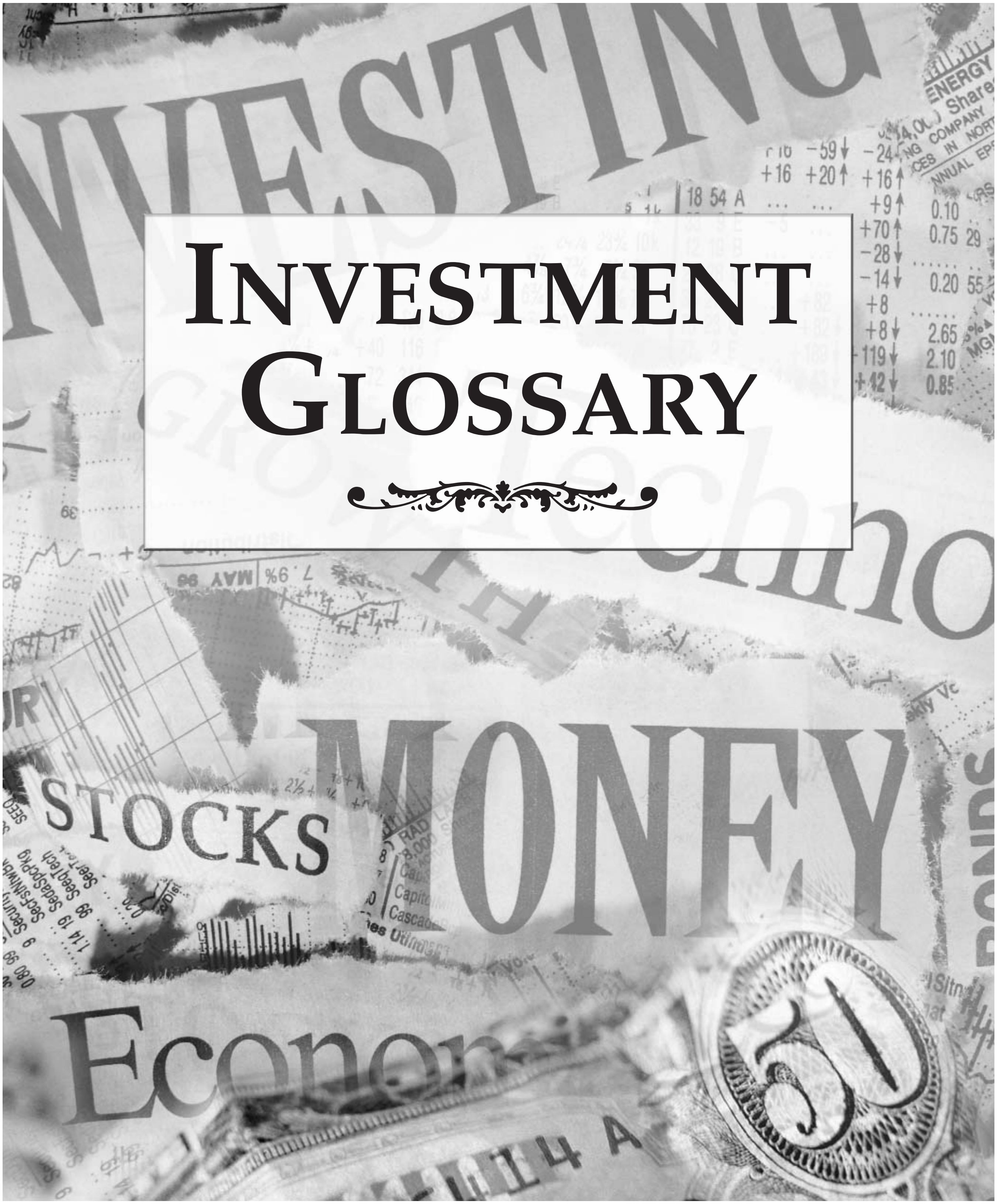
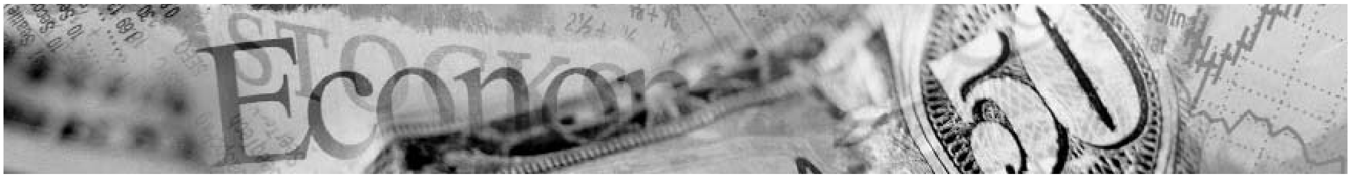


Investment Glossary

Mississippi State University Extension Service



One of the most common roadblocks to getting started on a financial or investment plan is the process of learning a new “language” full of big words and legal terms. The following glossary of investment terms will help you through the maze of information on personal finances by giving you definitions, in everyday terms, for the more commonly used financial lingo.

Annual Report: A report that public companies are required to file annually. It describes past years’ financial results and plans for the coming year. Annual reports include information about a company’s assets, liabilities, earnings, profits, and other year-end statistics.

Annuity: A contract by which an insurance company agrees to make regular payments to someone for life or for a fixed period in exchange for a lump sum or periodic deposits.

Asset Allocation: The placement of a certain percentage of investment capital within different types of assets (such as 50 percent in stock, 30 percent in bonds, and 20 percent in cash).

Asset Allocation Fund: Mutual fund that holds varying percentages of stock, bonds, and cash in its portfolio.

Automatic Investment Plan: An arrangement where investors agree to have money regularly and automatically withdrawn from a bank account to purchase stock or mutual fund shares.

Automatic Reinvestment: An option available to stock and mutual fund investors where fund dividends and capital gains distributions are automatically reinvested to buy more shares and thereby increase holdings.

Balanced Fund: Mutual fund that holds bonds and/or preferred stock in a certain proportion to common stock to obtain both current income and long-term growth of principal.

Bear Market: Term used to describe a prolonged period of declining stock prices.

Before-Tax (or Pre-Tax) Dollars: Money contributed to a tax-deferred savings plan that you do not have to pay income tax on until withdrawal at a future date.

Beta: A measure of a stock’s volatility; the average beta for all stocks is + 1.

Blue-Chip Stock: Indicates the stock of companies with long records of growth and profitability. The term is derived from the most expensive chips in a poker game.

Bond: A debt instrument or IOU issued by corporations or units of government.

Bond Fund: Mutual fund that holds mainly municipal, corporate, and/or government bonds.

Broker: A professional who transfers investors’ orders to buy and sell securities to the market and generally provides some financial advice.

Bull Market: Term used to describe a prolonged period of rising stock prices.

Buy and Hold: A strategy of purchasing an investment and keeping it for a number of years.

Capital Appreciation: An increase in market value of an investment (such as stock).

Capital Gains Distribution: Payment to investors of profits from the sale of securities.

Capitalization: The market value of a company, calculated by multiplying the number of outstanding shares by the price per share. Capitalization is often called “cap” for short in the names of specific investments (for example, ABC Small Cap Growth Fund).

Cash-Value Life Insurance: A type of life insurance contract that pays benefits upon the death of the insured and also has a savings element that provides cash payments before death.

Central Registration Depository (CRD): A computerized system, which includes the employment, qualification, and disciplinary histories of more than 400,000 securities professionals who deal with the public. Consumers can get CRD information about a sales representative by calling (800) 289-9999 or by visiting www.nasdr.com/2000.htm.

Certificate of Deposit (CD): An insured bank product that pays a fixed rate of interest (such as 5 percent) for a certain time.

Churning: When a broker excessively trades securities within an account to increase his or her commissions rather than to further a client’s investment goals.

Class A Shares: Mutual fund shares that have a front-end sales charge when you buy the shares.

Class B Shares: Mutual fund shares that have a back-end sales charge (also known as a contingent deferred sales charge, or CDSC) if you sell the shares within 5 to 6 years.

Class C Shares: Mutual fund shares with higher management and marketing fees than Classes A and B, but no sales or redemption charges when you buy or sell them.

Closed-End Fund: An investment company that issues a limited number of shares that you can buy or sell on market exchanges.

Cold Calling: A practice salespeople use of making unsolicited phone calls to people they don’t know to attract new business.

Collectible: An investment in tangible items such as coins, stamps, art, antiques, and autographs.

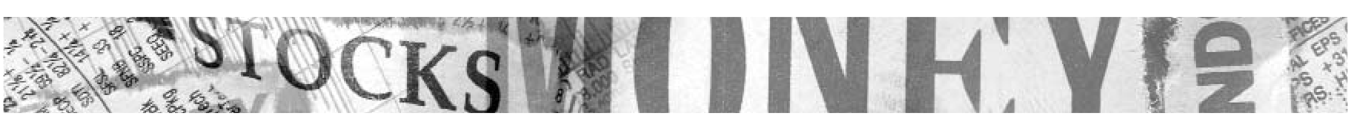
Commission: Fee paid to a broker to trade securities, generally based on the number of shares traded (for example, 100 shares) or the dollar amount of the trade.

Commodities: Investments in contracts to buy or sell products such as fuel oil, pork, grain, coffee, sugar, and other consumer staple items by a specified future date.

Common Stocks: Securities that represent a unit of ownership in a corporation.

Composite Indices: Stock market indices comprised of stocks traded on major stock exchanges: *New York Stock Exchange Composite* (index of stocks traded on New York Stock Exchange), *American Stock Exchange Composite* (index of stocks traded on American Stock Exchange), *NASDAQ Composite* (index of stocks traded over the counter in the quotation system of the National Association of Securities Dealers).

Compound Interest: Interest credited daily, monthly, quarterly, semiannually, or annually on both principal and interest already credited.



Convertible Securities: Bonds or preferred stock that can be exchanged for a certain number of shares of common stock in the same corporation.

Core Holding: The foundation of a portfolio (such as a stock index fund) to which an investor might add securities.

Corporate Bonds: Debt instruments issued by for-profit corporations.

Direct Purchase Plans (DPPs): "No load" stocks where every share, including the first, can be sold or bought directly from a company without a broker.

Discount Broker: A broker that trades securities for a lower commission than a full-service broker.

Diversification: The policy of spreading assets among different investments to reduce the risk of a decline in the overall portfolio because of a decline in one investment.

Dividend: A distribution of income from investments to shareholders.

Dividend Reinvestment Plans (DRIPs): Plans that let investors automatically reinvest any dividends a stock pays into additional shares.

Dollar-Cost Averaging: Investing equal amounts of money (for example, $50) at a regular time interval (such as quarterly) regardless of whether securities markets are moving up or down. This reduces average share costs to investors, who get more shares in periods of lower securities prices and fewer shares in periods of higher prices.

Dow Jones Industrial Average: The most widely used gauge of stock market performance. Also known as "The Dow," it tracks 30 stocks in large, well-established U.S. companies.

EDGAR (Electronic Data Gathering, Analysis, and Retrieval): An electronic system developed by the U.S. Securities and Exchange Commission (SEC) that companies use to file documents required by the SEC for securities offerings and ongoing disclosure. EDGAR information is available to consumers on the Internet at www.sec.gov, usually within 24 hours after a company files. EDGAR information is also available in the SEC's public reference room by calling (202) 551-8090, FAXing (202) 777-1030, or e-mailing publicinfo@sec.gov.

Equity Investing: Becoming an owner or part owner of a company or a piece of property through investments such as stock, growth mutual funds, or real estate.

Federal Deposit Insurance Corporation (FDIC): Federal agency that insures bank deposits up to $100,000. Investments purchased at banks are not FDIC-insured.

Fixed Annuity: An investment vehicle, often used for retirement accounts, that guarantees principal and a specified interest rate. Fixed annuity earnings grow tax-deferred until you withdraw them.

401(k) Plan: A retirement savings plan sponsored by for-profit companies that lets an employee contribute pre-tax dollars to a company investment vehicle until the employee retires or leaves the company.

403(b) Plan: Similar to a 401(k), a retirement savings plan for employees of a tax-exempt education or research organization or public school. Pre-tax dollars are contributed to an investment pool until the employee retires or terminates employment.

Full-Service Broker: A broker that charges commissions based on the type and amount of securities traded. Full-service brokers typically charge more than discount brokers but also provide more extensive services (such as research and personalized advice).

GNMAs or Ginnie Maes: Investments in a pool of mortgage securities backed by Government National Mortgage Association (GNMA).

Growth Fund: Mutual fund that invests in stocks showing potential for capital appreciation.

Growth Stocks: Stock of companies expected to increase in value.

Guaranteed Investment Contract (GIC): A fixed-income investment offered in many tax-deferred employer retirement plans that guarantees a specific rate of return for a specific time period.

Income Fund: Mutual fund that invests in stocks or bonds with a high potential for current income, either interest or dividends.

Income Stock: Stock of companies that expect to pay regular and relatively high (compared to growth stocks) dividends.

Index: An unmanaged collection of securities whose overall performance is used to indicate stock market trends. An example of an index is the widely quoted Dow Jones Industrial Average, which tracks the performance of 30 large company U.S. stocks.

Index Fund: Mutual fund that attempts to match the performance of a specified stock or bond market index by buying some or all of the securities comprising the index.

Individual Retirement Account (IRA): A retirement savings plan that lets individuals save for retirement on a tax-deferred basis. Individuals may contribute up to $2,000 per year in an individual account. For spousal accounts, the limit is $4,000. How much is tax deductible varies according to an individual's access to pension coverage, income tax filing status, and adjusted gross income.

Interest Rate Risk: The risk that, as interest rates rise, the value of already-issued bonds will fall, resulting in a loss if they are sold before maturity.

Investment Clubs: Organizations of investors who meet and contribute money regularly toward the purchase of securities.

Investment Grade Bond: Bond rated with one of the top four grades by a rating service such as Moody's and Standard & Poor's, indicating a high level of credit-worthiness.

Investment Objective: The goal (for instance, current income) of an investor or a mutual fund. Mutual fund objectives must be clearly stated in their prospectus.

Keogh Plan: A qualified retirement plan for self-employed 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.

Limit Order: An order to buy or sell securities that specifies a trade should be made only at a certain price or better.

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

Load: The commission a mutual fund sponsor charges when you buy or sell shares.

Management Fee: The amount paid by mutual funds to their investment advisers.

Marginal Tax Rate: The rate you pay on the last (highest) dollar of personal or household (if married) earnings. Current marginal tax rates range from around 15 to 35 percent.

Market Order: An order to buy or sell a stated amount (such as 100 shares) of a security at the best possible price at the time the order is received in the marketplace.

Market Value: The current price of an asset, as indicated by the most recent price at which it traded on the open market. If the most recent trade in ABC stock were at $25, for example, the market value of the stock is $25.

Maturity: The date the principal of a bond, investment contract, or loan must be repaid.

Microcap Stock: Low-priced stock issued by the smallest of companies. Companies with low or "micro" capitalization typically have limited assets and a small total market value. Many microcap stocks trade in small volumes in the "over-the-counter" (OTC) market, with prices quoted on the OTC Bulletin Board or "Pink Sheets." For more information about microcap stocks, visit www.sec.gov/answers/cap.htm.

Money Market Mutual Fund: A highly liquid mutual fund that invests in short-term obligations such as commercial paper, government securities, and certificates of deposit.

Moody's Investors Service: A rating agency that analyzes the credit quality of bonds and other securities.

Mutual Fund: An investment company that pools money from shareholders and invests in a variety of securities, including stocks, bonds, and money market securities.

Net Asset Value: The market value of a mutual fund's total assets after deducting liabilities, divided by the number of shares outstanding.

Net Worth: The dollar value remaining when you subtract liabilities (what you owe) from assets (what you own). Example: $200,000 of assets - $125,000 of debt = a $75,000 net worth.

Online Investing: Buying securities from brokerage firms via the Internet.

Open-End Fund: An investment company that continually buys and sells shares to meet investor demand. It can have an unlimited number of investors or money in the fund.

Penny Stocks: Stocks that sell for $5 or less per share.

Portfolio: What one person, household, investment club, or institutional investor holds in stocks, bonds, cash equivalents, or other assets.

Preferred Stock: A type of stock that offers no ownership or voting rights and generally pays a fixed dividend.

Price/Earnings (P/E) Ratio: The price of a stock divided by its earnings per share (e.g., $40 stock price divided by $2 of earnings per shares = a P/E ratio of 20).

Principal: The original amount of money invested or borrowed, excluding any interest or dividends.

Prospectus: An official booklet that describes a mutual fund. It contains information as required by the U.S. Securities and Exchange Commission on topics such as the fund's investment objectives, investment restrictions, purchase and redemption policies, fees, and performance history.

Real Estate: Land, permanent structures on land, and accompanying rights and privileges, such as crop or mineral rights.

Real Estate Investment Trust (REIT): A portfolio of real estate-related securities in which investors can purchase shares that trade on major stock exchanges.

Real-Time Quote: A requirement that trades in a NASDAQ (over-the-counter market) security be reported within 90 seconds of execution. Thus, information is current up to 90 seconds of the market, rather than typical quotes that have a 15- or 20-minute delay.

Reciprocal Immunity: A principle of taxation where state and local governments don't tax earnings on federal debt securities and the federal government doesn't tax earnings on state/local debt securities.

Risk: Chance of loss of investment capital (such as amount of money invested).

Risk Management: Actions taken (such as purchase of insurance) to protect against catastrophic financial losses (for instance, disability and liability). Risk management is an important investing requirement.

Sales Charge: The amount charged to purchase mutual fund shares. It is added to the net asset value per share to determine the per-share offering price.

Savings Incentive Match Plan for Employees (SIMPLE Plan): A tax-deferred retirement plan for owners and employees of small businesses that provides matching funds by the employer.

Securities: A term used to refer to stocks and bonds in general.

Securities and Exchange Commission (SEC): Federal agency created to administer the Securities Act of 1933. Statues administered by the SEC are designed to promote full public disclosure about investments and protect the investing public against fraudulent and manipulative practices in the securities markets.

Securities Investor Protection Corporation (SIPC): A nonprofit corporation that insures investors against the failure of brokerage firms, similar to the way the Federal Deposit Insurance Corporation (FDIC) insures bank deposits. Coverage is limited to no more than $500,000 per account, but no more than $100,000 in cash. SIPC does not insure against market risk, however.

Simplified Employee Pension (SEP): A tax-deferred retirement plan for small business owners and the self-employed.

Standard & Poor's Corporation: A rating agency that analyzes the credit quality of bonds and other securities.

Standard & Poor's 500 Index: An index that is widely replicated by stock index mutual funds. Also known as the S&P 500, it includes 500 large U.S. companies.

Stock: Security that represents a unit of ownership in a corporation.

Substandard Grade Bond (also known as "Junk Bond"): Bond rated below the top four grades by a rating service such as Moody's and Standard & Poor's. They generally provide a higher return than investment grade securities to compensate investors for an increased risk of default.

Tax Deferral: Investments where taxes due on the amount invested and/or its earnings are postponed until you withdraw funds, usually at retirement.

Tax-Exempt: Investments (such as municipal bonds) where earnings will not be taxed.

Total Return: The return on an investment including all current income (interest and dividends), plus any change (gain or loss) in the value of the asset.

Treasuries: Debt obligations of the U.S. government secured by its full faith and credit and issued at variable schedules and maturities.

12(b) 1 Fee: A marketing fee levied on mutual fund shareholders to pay for advertising and distribution costs as well as broker compensation.

Unit Investment Trust (UIT): An unmanaged portfolio of professionally selected securities held for a specified period of time.

U.S. Treasury Securities: Debt instruments issued by the federal government with varying maturities (bills, notes, and bonds).

Value Stock: A stock with a relatively low price compared to its historical earnings and the value of the issuing company's assets.

Variable Annuity: An annuity where the value changes based on the market performance of its underlying securities portfolio.

Volatility: How much prices change with a given investment, interest rate, or market index. The more prices change, the greater the volatility.

Zero-Coupon Bonds: Debt instruments issued by government or corporations at a steep discount from face value. Interest accrues each year but is not paid out until maturity.

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