Glossary

Adjusted Gross Income (AGI) - Income figure with certain allowable adjustments deducted from individual or household gross income. Used to compute federal income tax liability.

Administrator - Court appointed person to settle an estate when there is no will.

After-Tax Return - The return on an investment including all income received and capital gains, taking expected and paid income taxes into account.

Aggressive Growth Fund - A mutual fund that attempts to achieve the highest capital gains. These funds are only for investors willing to accept a very high risk for return.

Alternative Minimum Tax - A tax calculation that disallows certain deductions, credits, and exclusions. This was intended to ensure that individuals, trusts, and estates that benefit from tax preferences do not escape all federal income tax liability. The calculations are made both ways and the taxpayer pays the greater of the two.

Annuity - An insurance-based product that provides future payments at regular intervals in exchange for current premiums. The different ways in which annuities can be structured provide individuals seeking annuities the flexibility to construct an annuity contract that will best meet their needs. Annuities are primarily used as a means of securing a steady cash flow for an individual during their retirement years.

Asset - Anything owned that has monetary value.

Asset Allocation - An investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance, and investment horizon. This process is usually done using the historical performance of the asset classes within sophisticated mathematical models. Asset allocation does not guarantee against loss; it is a method used to help manage investment risk.

Asset Class - A category of investments that exhibit similar characteristics.

Audit - An unbiased examination of the accounting and financial documents of a firm by a professional. The audit is done to determine the records' accuracy, consistency, and conformity to legal and accounting principles.

Balanced Mutual Fund - Mutual fund which attempts to balance a low-risk investment strategy by dividing its cash among common stock (ordinary shares), preferred stock (preference shares), and high-yield bonds. A well-managed balanced fund has the best chance at achieving that because when the stock market falls, the bonds tend to hold their value better, and when the stock market rises, bonds yields are typically lower.

Bear Market - When the stock market appears to be declining overall, it is said to be a bear market. A bear market should not be confused with a correction, which is a short-term trend that has a duration of less than two months

Beneficiary - A person named in a life insurance policy, annuity, will, trust, or other agreement to receive a financial benefit upon the death of the owner. A beneficiary can be an individual, company, organization, and so on.

Blue Chip Stock - The common stock of a company with a long history of profitability and consistent dividend payments.

Bond - A bond is evidence of a debt in which the issuer promises to pay the bondholders a specified amount of interest and to repay the principal at maturity.

Book Value - The net value of a company's assets, less its liabilities and the liquidation price of its preferred issues. The net asset value divided by the number of shares of common stock outstanding equals the book value per share, which may be higher or lower than the stock's market value.

Bull Market - When the stock market appears to be advancing overall, it is said to be a bull market.

Buy-Sell Agreement - A buy-sell agreement is an arrangement between two or more parties that obligates one party to buy the business and another party to sell the business upon the death, disability, or retirement of one of the owners.

Capital Gain or Loss - The difference between the sales price and the purchase price of a capital asset. When that difference is positive, the difference is referred to as a capital gain. When the difference is negative, it is a capital loss.

Cash Alternatives - Short-term investments, such as U.S. Treasury securities, certificates of deposit, and money market fund shares, that can be readily converted into cash.

Cash Surrender Value - The amount that an insurer must pay when the policyholder discontinues coverage. Policyholders are usually able to borrow against the surrender value of a policy from the insurance company.

Certified Financial Planner (CFP) - The CFP designation is a professional certification mark for financial planners. To receive authorization to use the designation, the candidate must meet education, examination, experience and ethics requirements, and pay an ongoing certification fee.

Certified Public Accountant (CPA) - A designation given by the American Institute of Certified Public Accountants to those who pass an exam and meet work experience requirements.

Charitable Lead Trust - A trust fund with a charity as the beneficiary of income, and the remainder going to a noncharity beneficiary. A charitable lead trust is used to reduce taxes upon the estate left by the deceased. This is done by donating to charities from the estate until all taxes are reduced.

Charitable Remainder Trust - A tax-exempt irrevocable trust designed to reduce the taxable income of individuals by first dispersing income to the beneficiaries of the trust for a specified period of time and then donating the remainder of the trust to the designated charity. .

Chartered Financial Consultant (ChFC) - A professional designation representing completion of a comprehensive course consisting of financial education, examinations and practical experience. Chartered Financial Consultant designations are granted by The American College upon completion of seven required courses and two elective courses. Those who earn the designation are understood to be knowledgeable in financial matters and to have the ability to provide sound advice.

Chartered Life Underwriter (CLU) - A professional designation for individuals who wish to specialize in life insurance and estate planning. Individuals must complete five core courses and three elective courses, and successfully pass all eight two-hour, 100-question examinations in order to receive the designation.

COBRA - The Consolidated Omnibus Budget Reconciliation Act is a federal law requiring employers with more than 20 employees to offer terminated or retired employees the opportunity to continue their health insurance coverage for 18 months at the employee's expense. Coverage may be extended to the employee's dependents for 36 months in the case of divorce or death of the employee.

Coinsurance or Co-Payment - The amount an insured person must pay for a covered medical and/or dental expense if his or her insurance doesn't provide 100 percent coverage.

Commodities - The generic term for goods such as grains, foodstuffs, livestock, oils, and metals which are traded on national exchanges. These exchanges deal in both "spot" trading (for current delivery) and "futures" trading (for delivery in future months).

Common Stock - A unit of ownership in a corporation. Common stockholders participate in the corporation's profits or losses by receiving dividends and by capital gains or losses in the stock's share price.

Community Property - State laws vary, but generally all property acquired during a marriage -- excluding property one spouse receives from a will, inheritance, or gift -- is considered community property, and each partner is entitled to one half. This includes debt accumulated. There are currently nine community property states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

Compound Interest - Interest that is computed on the principal and on the accrued interest. Compound interest may be computed continuously, daily, monthly, quarterly, semiannually, or annually.

Consumer Price Index - The U.S. Department of Labor's main indicator of inflation. The Consumer Price Index is calculated each month from the cost of some 400 retail items in urban areas throughout the United States. CPI is one of the most frequently used statistics for identifying periods of inflation or deflation. This is because large rises in CPI during a short period of time typically denote periods of inflation and large drops in CPI during a short period of time usually mark periods of deflation.

Deduction - Any item or expenditure subtracted from gross income to reduce the amount of income subject to tax.

Defined Benefit Plan - An employer-sponsored retirement plan where employee benefits are sorted out based on a formula using factors such as salary history and duration of employment. Investment risk and portfolio management are entirely under the control of the company. There are also restrictions on when and how you can withdraw these funds without penalties.

Defined Contribution Plan - A retirement plan under which the annual contributions made by the employer or employee are generally stated as a fixed percentage of the employee's compensation or company profits. The amount of retirement benefits is not guaranteed; rather, it depends upon the investment performance of the employee's account.

Diversification - A risk management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio.
However, diversification does not guarantee against loss; it is a method used to help manage investment risk.

Dividend - A pro rata portion of earnings usually distributed in cash by a corporation to its stockholders. In preferred stock, dividends are usually fixed; with common shares, dividends may vary with the fortunes of the company.

Dollar Cost Averaging - A method in which individuals invest a fixed amount of money at set intervals. More shares are bought when the price is lower and fewer shares are bought when the price is lower. However, dollar cost averaging does not ensure a profit or prevent a loss but it can be an effective way for investors to accumulate shares to help meet long-term goals.

Efficient Frontier - The optimal portfolios plotted along the curve have the highest expected return possible for the given amount of risk.

Employer-Sponsored Retirement Plan - A tax-favored retirement plan that is sponsored by an employer. Among the more common employer-sponsored retirement plans are 401(k) plans, 403(b) plans, simplified employee pension plans, and profit-sharing plans.

Equity - In finance, in general, equity is ownership in any asset after all debts associated with that asset are paid off. Stocks are equity because they represent ownership in a company.

ERISA - The Employee Retirement Income Security Act is a federal law covering all aspects of employee retirement plans. If employers provide plans, they must be adequately funded and provide for vesting, survivor's rights, and disclosures.

ESOP (employee stock ownership plan) - A qualified, defined contribution, employee benefit (ERISA) plan designed to invest primarily in the stock of the sponsoring employer.

Estate Tax - A tax levied on an heir's inherited portion of an estate if the value of the estate exceeds an exclusion limit set by law. The estate tax is mostly imposed on assets left to heirs, but it does not apply to the transfer of assets to a surviving spouse.

Executor - An individual appointed to administrate the estate of a deceased person. The executor's main duty is to carry out the instructions and wishes of the deceased. The executor is appointed either by the testator of the will (the individual who makes the will) or by a court, in cases where there was no prior appointment.

Federal Income Tax Bracket - Income tax groupings specified by the Internal Revenue Service (IRS) that determine at what rate an individual, trust, or corporation's annual income will be subject to federal income tax. Federal tax brackets are adjusted periodically to account for the effects of inflation over time.

Fixed Income - Income from investments, such as CDs, Social Security benefits, pension benefits, some annuities, or most bonds, that is the same every month.

401(k) Plan - A qualified plan established by employers to which eligible employees may make salary deferral (salary reduction) contributions on a post-tax and/or pretax basis. Employers offering a 401(k) plan may make matching or non-elective contributions to the plan on behalf of eligible employees and may also add a profit-sharing feature to the plan. Earnings accrue on a tax-deferred basis. Withdrawals from a 401(k) plan are taxed as ordinary income, and may be subject to an additional 10 percent federal tax penalty if withdrawn prior to age 59½.

403(b) Plan - A retirement plan for certain employees of public schools, tax-exempt organizations and certain ministers. The features of a 403(b) plan are very similar to those of a 401(k) plan. Employees may make salary deferral contributions that are usually limited by regulatory caps. Withdrawals from a 403(b) plan are taxed as ordinary income, and may be subject to an additional 10 percent federal tax penalty if withdrawn prior to age 59½.

Fundamental Analysis - An approach to the stock market in which specific factors - such as the price-to-earnings ratio, yield, or return on equity - are used to determine what stock may be favorable for investment.

Gift Taxes - A federal tax applied to an individual giving anything of value to another person. This tax is paid by the donor. As the regulations applied to gift taxes are very complicated, it is best to check with your respective tax authorities if you have given anyone a gift valued at more than $13,000 for 2009.

Holographic Will - A will entirely in the handwriting of the testator. Without witnesses, holographic wills are valid and enforceable only in some states.

Individual Retirement Account (IRA) - An investing tool used by individuals to earn and earmark funds for retirement savings. There are several types of IRAs: Traditional IRAs, Roth IRAs, SIMPLE IRAs and SEP IRAs. With the exception of Roth IRAs, contributions are deductible from earned income in the calculation of federal and state income taxes if the taxpayer meets certain requirements. The earnings accumulate tax deferred until withdrawn, and then the entire withdrawal is taxed as ordinary income. An individual retirement plan that bears many similarities to the traditional IRA, but contributions are not tax deductible and qualified distributions are tax free. A Roth IRA is similar to other retirement plan accounts, non-qualified distributions from a Roth IRA may be subject to a penalty upon withdrawl.

Inflation - An increase in the price of products and services over time. The government's main measure of inflation is the Consumer Price Index.

Intestate - When a person dies without leaving a valid will. State law then determines who inherits the property or serves as guardian for any minor children.

Irrevocable Trust - A trust that may not be modified or terminated by the trustor unless the beneficiary agrees.

Joint and Survivor Annuity - Most pension plans must offer this form of pension plan payout that pays over the life of the retiree and his or her spouse after the retiree dies. The retiree and his or her spouse must specifically choose not to accept this payment form.

Joint Tenancy - Co-ownership of property by two or more people in which the survivor(s) automatically assumes ownership of a decedent's interest.

Liability - Any claim against the assets of a person or corporation: accounts payable, wages, and salaries payable, dividends declared payable, accrued taxes payable, and fixed or long-term obligations such as mortgages, debentures, and bank loans.

Liquidity - How quickly and easily an asset or security can be converted into cash.

Living Trust - A property interest created during a person's life that allows easy transfer of assets without going through the process of probate. A living trust is an agreement where the trustee holds the legal possession of a fund or assets that belong to another person, the beneficiary, and it is created while the person is alive. This is different compared to other types of trusts that are created through the person's will.

Lump-Sum Distribution -The disbursement of the entire value of an employer-sponsored retirement plan, pension plan, annuity, or similar account to the account owner or beneficiary. Lump-sum distributions may be rolled over into another tax-deferred account.

Marginal Tax Rate - The amount of tax paid on an additional dollar of income. As income rises, so does the tax rate.

Marital Deduction - A tax deduction that allows an individual to transfer some assets to his or her spouse tax free, creating a reduction in taxable income.

Money Market Fund - A mutual fund that specializes in investing in short-term securities and tries to maintain a constant net asset value of $1. Money-market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any government agency. Although money market funds seek to preserve the value of your investment at $1 per share, it is possible to lose money when investing in a money market fund.

Municipal Bond - A debt security issued by a state, municipality or county to finance its capital expenditures. The income from municipal bonds is usually exempt from federal income taxes. It may also be exempt from state income taxes in the state in which the municipal bond is issued. Some municipal bond interest could be subject to the federal alternative minimum tax. If you sell a municipal bond at a profit, you could incur capital gains taxes. The principal value of bonds fluctuates with market conditions. Bonds sold prior to maturity may be worth more or less than their original cost.

Municipal Bond Fund - A mutual fund that invests in municipal bonds, or "munis." Municipal bonds are debt securities issued by a state, municipality, county, or special purpose district (public schools, airports, etc.) to finance capital expenditures. They are exempt from federal tax, and are generally exempt from state taxes for residents of the state in which they are issued.

Mutual Fund - An investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

Net Asset Value - The per-share value of a mutual fund's current holdings. The net asset value is calculated by dividing the net market value of the fund's assets by the number of outstanding shares.

Pooled Income Fund - A pooled income fund is a trust that is established and maintained by a public charity. The pooled income fund receives contributions from individual donors that are commingled for investment purposes within the fund. Each donor is assigned "units of participation" in the fund that are based on the relationship of their contribution to the overall value of the fund at the time of contribution. The trust is managed by the charitable organization, and contributions are partially deductible for income tax purposes.

Portfolio - All the investments held by an individual or a mutual fund.

Preferred Stock - A class of stock with claim to a company's earnings, before payment can be made on the common stock, and that is usually entitled to priority over common stock if the company liquidates. Generally, preferred stocks pay dividends at a fixed rate.

Prenuptial Agreement - A type of contract created by two people before entering into marriage. This contract could outline each party's responsibilities and property rights for the duration of the marriage. More commonly, prenuptial agreements outline terms and conditions associated with dividing up financial assets and responsibilities if the marriage dissolves. ERISA benefits are not affected by prenuptial agreements.

Price/Earnings Ratio (P/E Ratio) - A valuation ratio of a company's current share price compared to its per-share earnings. It is calculated as the market price of a stock divided by the company's annual earnings per share. Because the P/E ratio is a widely regarded yardstick for investors, it often appears with stock price quotations.

Principal - In a security, the principal is the amount of money that is invested, excluding earnings. In a debt instrument such as a bond, it is the face amount.

Probate - The legal process in which a will is reviewed to determine whether it is valid and authentic then settled and distributed.

Profit-Sharing Plan - A plan that gives employees a share in the profits of the company. Each employee receives a percentage of those profits based on the company's earnings. Also known as "deferred profit-sharing plan" or "DPSP." These funds usually accumulate tax deferred until the employee retires or leaves the company.

Prospectus - A document provided by investment companies to prospective investors. The prospectus gives information needed by investors to make informed decisions prior to investing in a specific mutual fund, variable annuity, or variable universal life insurance. The prospectus includes information on the minimum investment amount, the investment company's objectives, past performance, risk level, sales charges, management fees, and any other expense information about the investment company, as well as a description of the services provided to investors in the investment company.

Qualified Domestic Relations Order (QDRO) - A "qualified domestic relation order" (QDRO) is a domestic relations order that creates or recognizes the existence of an alternate payee's right to receive, or assigns to an alternate payee the right to receive, all or a portion of the benefits payable with respect to a participant under a retirement plan, and that includes certain information and meets certain other requirements. At the time of divorce, this order would be issued by a state domestic relations court and would require that an employee's ERISA retirement plan accrued benefits be divided between the employee and the spouse.

Qualified Retirement Plan - A pension, profit-sharing, or qualified savings plan that is established by an employer for the benefit of the employees. These plans must be established in conformity with IRS rules. Contributions accumulate tax deferred until withdrawn and are deductible to the employer as a current business expense.

Revocable Trust - A revocable trust is a trust that can be altered or revoked at any time by the trust grantor.

Risk - The chance that an investor will lose all or part of an investment.

Risk-Averse - Refers to the assumption that rational investors will choose the security with the least risk if they can maintain the same return. As the level of risk goes up, so must the expected return on the investment. A risk-averse investor dislikes risk, and therefore will stay away from adding high-risk stocks or investments to their portfolio and in turn will often lose out on higher rates of return. Investors looking for "safer" investments will generally stick to index funds and government bonds, which generally have lower returns.

Rollover - Transfering the assets from one retirement program to another without suffering tax consequences. The requirements for a rollover depend on the type of program from which the distribution is made and the type of program receiving the distribution.

Roth IRA - An individual retirement plan that bears many similarities to the traditional IRA, but contributions are not tax deductible and qualified distributions are tax free. Similar to other retirement plan accounts, non-qualified distributions from a Roth IRA may be subject to a penalty upon withdrawl.Income and contribution limits apply.

Security - Paper certificates or electronic records evidencing ownership of equity (stocks) or debt obligations (bonds).

Self-Employed Retirement Plans - In the past, the terms Keogh plan and H.R. 10 plan were used to distinguish a retirement plan established by a self-employed individual from a plan established by a corporation or other entity. However, self-employed retirement plans are now generally referred to by the name of the particular type of plan used, such as SEP IRA, SIMPLE 401(k), or self-employed 401(k). The contribution amount is indexed annually for inflation.

Simplified Employee Pension Plan (SEP) - A type of plan under which the employer contributes to an employee's IRA. Contributions may be made up to a certain limit and are immediately vested.

Single-Life Annuity - An annuity that only provides payments to one person. That is, payments cease when the annuitant dies. This contrasts with other annuities that make a lump sum payment to the annuitant's survivors, or continue payments to them for a certain number of years.

Split-Dollar Plan - Split-dollar is the term used to refer to an arrangement whereby two parties (usually a corporation and employee) contractually agree to split the cost and benefits of an insurance policy.

Spousal IRA - A Traditional or Roth IRA established and funded by an individual for his or her spouse.

Tax Credit - A dollar-for-dollar reduction in the tax payment required from a person. Deductions and exemptions only reduce the amount of your income that is taxable. Tax credits reduce the actual amount of tax owed.

Tax Deferred - Interest, dividends, or capital gains that grow untaxed in certain accounts or plans until they are withdrawn.

Tax-Exempt Bonds - A bond, issued by a municipal, county or state government, whose interest payments are not subject to federal income tax, and sometimes also state or local income tax.

Taxable Income - The amount of income that is used to calculate an individual's or a company's income tax due. Taxable income is generally described as gross income or adjusted gross income minus any deductions, exemptions or other adjustments that are allowable in that tax year.

Technical Analysis - An approach to investing in stocks in which a stock's past performance is mapped onto charts. These charts are examined to find familiar patterns to use as an indicator of the stock's future performance.

Tenancy in Common - A form of co-ownership. Upon the death of a co-owner, his or her interest passes to the designated beneficiaries and not to the surviving owner or owners.

Term Insurance - A type of life insurance policy that provides coverage for a certain period of time, or a specified "term" of years. If the insured dies during the time period specified in the policy and the policy is active - or in force - then a death benefit will be paid.

Testamentary Trust - A trust created as a result of explicit instructions from a deceased's will.

Testator - A testator is a person who has written and executed a last will and testament that is in effect at the time of his/her death.

Total Return - When measuring performance, the actual rate of return of an investment or a pool of investments over a given evaluation period. This includes dividends, interest, and any capital gain.

Trust - A trust is a legal agreement that has three parties to it. The Trustmaker is the person who creates the trust agreement, also commonly referred to as the Grantor, Trustor or Settlor. The Trustee is the person or entity responsible for managing the property that the Trustmaker decides to title in the name of the trust. And the Beneficiary is the person or entity who is to receive the benefits of the property that is titled in the name of the trust.

Trustee - An individual or institution appointed to administer a trust for its beneficiaries.

Trustee-to-Trustee Transfer - A method of transferring retirement plan assets from one employer's plan to another employer plan or to an IRA. One benefit of this method is that no federal income tax will be withheld by the trustee of the first plan.

Universal Life Insurance - A type of flexible permanent life insurance offering the low-cost protection of term life insurance as well as a savings element (like whole life insurance) which is invested to provide a cash value buildup. The death benefit, savings element and premiums can be reviewed and altered as a policyholder's circumstances change. In addition, unlike whole life insurance, universal life insurance allows the policyholder to use the interest from his or her accumulated savings to help pay premiums.

Variable Universal Life Insurance - A form of cash-value life insurance that offers both a death benefit and an investment feature. The premium amount for variable universal life insurance (VUL) is flexible and may be changed by the consumer as needed, though these changes can result in a change in the coverage amount. The investment feature usually includes "sub-accounts," which function very similar to mutual funds and can provide exposure to stocks and bonds. This exposure offers the possibility of an increased rate of return over a normal universal life or permanent insurance policy.

Volatility - The term volatility indicates how much and how quickly the value of an investment, market, or market sector changes.

Welfare Benefit Plan - An employee benefit plan that provides such benefits as medical, sickness, accident, disability, death, or unemployment benefits.

Whole Life Insurance - A life insurance contract with level premiums that has both an insurance and an investment component. The insurance component pays a stated amount upon death of the insured. The investment component accumulates a cash value that the policyholder can withdraw or borrow against.

Will - legally enforceable declaration of how a person wishes his or her property to be distributed after death. In a will, a person can also recommend a guardian for his or her children.

Yield - The income return on an investment. For stocks, the yield is calculated by dividing the total of the **annual** dividends by the current price. For bonds, the yield is calculated by dividing the annual interest by the current price. The yield is distinguished from the return, which includes price appreciation or depreciation.

Zero-Coupon Bond - A debt security that doesn't pay interest (a coupon) but is traded at a deep discount, rendering profit at maturity when the bond is redeemed for its full face value. Because these bonds do not pay interest until maturity, their prices tend to be more volatile than bonds that pay interest regularly. Interest income is subject to ordinary income tax each year, even though the investor does not receive any income payments. Bonds sold prior to maturity may be worth more or less than their original cost.