Investment Glossary

for

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UTFA Seminar/workshop on investing

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Attached text is from three different websites:

Pages 2-5 - from North Shore Credit Union website

Pages 6-11 - from TD Waterhouse website

Pages 12-13 - from Government of Saskatchewan website

Background: This generic and somewhat ad-hoc glossary was generated at the request of attendees - to try and assist those who are not yet familiar with investment jargon.

Another very helpful website is the – "Do-It-Yourself Financial Webring Wiki" at http://www.finiki.org/index.php?title=Main_Page

Investment Glossary from NorthShore Credit Union website at

https://www.nscu.com/Investments/InvestmentGlossary/

Asset Allocation

Asset allocation is the process of dividing your investments among different classes of securities based on your tolerance for risk and your personal investment goals.

Bear Market

A period in which stock prices are generally declining over a prolonged period of time is referred to as a bear market.

Bull Market

A period in which stock prices are generally increasing over a prolonged period of time is referred to as a bull market.

Capital

The principal value of your investment is your capital.

Compounding

Compounding is the process by which you earn income on your investment's earnings. For example, if you had $1,000 in an investment that earned 5% interest a year, after one year you would have $1,050. During the second year, you would earn interest on the $50 earned the first year as well as on the original $1,000. Over time, compounding can lead to significant growth in your investments.

Diversification

Diversification is the process of spreading your investments among the investment choices offered in your retirement plan. When you diversify, you spread your dollars and your risk among a variety of fund asset classes (stocks†, bonds†, and cash) rather than just one.

Dividend

A company or mutual fund† may distribute earnings to shareholders in the form of a dividend. As a participant in a retirement plan, your mutual fund dividends are automatically reinvested.

Dollar-Cost Averaging

By investing equal amounts of money at regular intervals regardless of whether share prices are moving up or down, you acquire more shares in periods of lower prices and fewer shares in periods of higher prices, actually reducing your average share cost. By making regular contributions to your retirement plan through payroll deductions, you are benefiting from dollar-cost averaging.

Equity

Equity means ownership. It is the value of your assets (property, possessions, money and other). An equity security refers to common stock, representing ownership interest in a corporation.

Expense Ratio

For a mutual fund†, the expense ratio is the percentage that shareholders pay for the fund's operating expenses and management fees. The amount is taken out of the fund's current income before making distributions to shareholders and is disclosed in the fund's prospectus and annual report.

Growth Fund

A growth fund seeks capital appreciation and invests in companies that the portfolio manager believes have prospects for future growth.

Index Fund

An index fund attempts to mimic a particular financial index. Indexes measure the ups and downs of stock and bond markets, reflecting market prices and the number of shares outstanding for the companies that compose the index. An individual cannot invest directly in an index.

Inflation

Inflation is the rise in the cost of goods and services that causes a loss in the dollar's purchasing power. Inflation is frequently measured by the percentage change of the Consumer Price Index (CPI).

Investment Time Horizon

Your investment time horizon is the projected length of time your money will be invested.

Liquidity

Liquidity is the ease of turning an investment to cash. For example, a savings account is more liquid than real estate.

Load

Load refers to a sales charge imposed by some mutual funds†.

Market Value

Market value is the price a buyer is willing to pay and a seller is willing to accept at any given moment for a particular security. Since market values are constantly changing, the current market value may be more or less than the price of your original investment.

Mutual Fund†

A mutual fund is a collection of stocks, bonds or other securities managed by professional portfolio managers with a stated investment goal such as growth, income, or some combination of the two. All investors in a particular fund share in both the expenses and the potential profits of the mutual fund.

Principal

In general, principal refers to the amount of your original investment.

Risk

Risk is the chance that your investment could decline in value. If you are prepared to accept greater risk, you have the chance of getting higher returns or profit on your money. Low-risk investments, while generally safer, do not usually produce as high a return.

Share

A share is a unit of equity ownership in a mutual fund† or corporation.

Shareholder

A shareholder is the owner of shares of a mutual fund† or corporation.

Stock†

Sometimes called "equity," a stock represents part ownership in a company. Stocks are sold in shares and their prices will fluctuate.

Tax-Deferred

Your retirement-plan money grows "tax-deferred," meaning you don't have to pay taxes on the earnings until you actually withdraw them. Pre-tax money invested in such a retirement plan is also "tax-deferred," because no income taxes were withheld before that money was deposited in the plan. However, this money is not "tax-exempt," or "tax-free," since you will eventually have to pay taxes on the investment or any earnings when you withdraw them from the plan.

Volatility

Volatility is the tendency of an investment to experience price swings (ups and downs) over periods of time.

Yield

Yield represents the percentage of return you receive on your capital investment based on the amount that you invest or on the current market value of your investments.

Investment Glossary from TD Waterhouse website at

http://www.tdwaterhouse.ca/products-services/investing/private-client-services/private-investment-counsel/glossary.jsp

A

Asset Allocation - the strategy behind an investor's decision to construct an investment portfolio in a certain way. Stocks, bonds, and cash (short-term investments) are the three principal asset classes or investment types used in asset allocation.

Average Term to Maturity - each bond in a bond/fund portfolio has a specific amount of time between now and when it matures. The average term to maturity is the arithmetic average length of time until the average bond in a fund/portfolio will mature or be redeemed by its issuer.

B

Bankers' Acceptance - a money market instrument issued by a non-financial corporation but guaranteed as to principal and interest by its bank. The guarantee results in a higher issue price and consequent lower cost to the issuer.

Basis Point - 1/100 of one percent. A 0.5% change in interest rates is referred to as a change of 50 basis points.

Bear Market - a period of sustained declining market prices.

Benchmark Portfolio - the personalized asset allocation that has been selected as the primary strategy to meet each client's objectives. This portfolio is developed jointly by the client and a team of advisors. Portfolio action will deviate from this "neutral" position when the investment management team deems it appropriate.

Bull Market - a period of sustained rising market prices.

C

Central Bank - in Canada, the Bank of Canada; in the U.S., the Federal Reserve Board. The central bank is responsible for setting short-term interest rates (the Bank rate in Canada; the discount rate in the U.S.). These rates are an important tool in implementing monetary policy, by which the central banks seek to ensure that the economy grows in a sustainable fashion and inflationary pressures are contained.

Credit Rating - the ability of an issuer to repay its level of debt on a relative basis, as assessed by an independent rating agency. The Government of Canada has the highest-ranked credit quality in Canada.

Currencies - international investing means buying: (a) a foreign security and, as a result; (b) the currency in which that security is denominated. Portfolio managers either filter out (hedge), actively manage, or seek foreign currency exposure depending on the expected trend in value for the investor's home currency relative to the foreign currency.

D

Defensive Sectors - areas of the equity market, such as utilities and health care stocks, that are favoured by investors as a safe haven during times of uncertainty or extreme volatility. These stocks are defensive by nature as they typically offer predictable earnings growth and reliable dividend payments in both good and bad economies.

Derivatives - index futures and options that reflect the price movement of an underlying security (e.g., a stock market index), but are traded separately from the cash market.

Discretionary Portfolio - once an investment strategy is agreed upon by a client and a portfolio manager, the portfolio manager is given the discretion to oversee the account's administration and adjust portfolio holdings when opportunities and market conditions warrant.

E

Emerging Markets - developing countries with relatively low per capita income, often with above-average economic growth potential.

Equity or Shareholders' Equity - ownership interest of common and preferred stockholders in a company. Also, the difference between the assets and liabilities of a company, sometimes called net worth.

F

Fees - nearly all investments carry with them a management fee or commission. For instance, the average Management Expense Ratio (MER) for a balanced mutual fund is 2.32%[1] of the total value of the investment. The average weighted fee at TD Private Investment Counsel is just

0.98%[2].

Fiscal Policy - a key responsibility of the federal and provincial governments, which involves preparing the budget and financial strategy for the country or province. Among the tools of fiscal policy are taxation and government payments.

Fixed Income Securities - securities that generate a defined set of payments, such as interest or dividend income, including bonds, debentures and preferred shares.

Fundamentals - refer to relevant factors or data that influence the value of a particular security, such as a company's stock or a country's currency. In the case of a stock, for example, the company's sales, earnings, debt and dividend prospects are fundamentals that would affect share price. Similarly, a country's economic growth rate, interest rate policy and trade patterns are factors that potentially influence the strength or weakness of its currency.

G

Gross Domestic Product (GDP) Growth - GDP is the value of total production of goods and services in a country over a specified period, typically a year. How much GDP grows from one period to the next is an indication of a country's economic health.

Growth Stock - stocks whose revenues and/or earnings are growing faster than the average company at the current time.

H

Hard Landing - falls somewhere between a soft landing and a recession. That is, an economic slowdown to 1% to 2% growth, which is good for containing inflation but teeters on the edge of recession.

Hedge Fund - a broad category of portfolio, or fund, that seeks to reduce risk by transferring some of that risk to another investor. These types of assets will generally have a low correlation with equity or bond markets.

I

Index - e.g., the S&P/TSX Composite Index or the S&P 500 Index (U.S.). A leading benchmark of equity or bond performance which is used to answer the question, "What did the market do today?" An index is typically composed of several industry sectors.

Index Futures - a stock index future is an agreement to take, or make, delivery of an amount of cash determined by the difference between the level of the specified stock index at the time you enter into the contract and the level of the index at the time you exit the contract. This investment approach allows the investor to take advantage of changes in the index, without actually buying the individual securities which make up the index.

L

Liquidity - the ability to turn your investment into cash immediately. Alternatively, the flow of cash into and out of markets, whether domestic or international, which can affect interest rates and corporate profits.

M

Market Capitalization - the aggregate market value of a security, calculated by multiplying the current price per share by the total number of shares issued.

Market Sectors - interest-sensitives, e.g. utilities, real estate, financial services and pipelines, are especially affected by changes in interest rates. Cyclicals, e.g. steel, industrial companies, autos, etc., are sensitive to the business cycle. Resources, e.g. mines, gold, oil and gas and forestry products, are sensitive to commodity prices.

Monetary Policy - a policy often implemented by a central bank to control credit and the money supply in the economy, in an attempt to control inflation and stimulate or slow an economy. One tool of monetary policy is the setting of short-term interest rates.

P

Portfolio Manager - each Private Investment Counsel portfolio is overseen by a dedicated Portfolio Manager, an accredited investment professional. The Portfolio Manager begins with a series of discussions with the client, leading to a highly personalized investment strategy.

Proprietary Pooled Portfolio - a portfolio comprised of managed investment funds (pooled funds) which have very low or no management fees embedded in the funds. Pooled funds are typically held by individuals or institutions investing larger sums.

R

Recession - technically defined as at least two consecutive quarters when the economy shrinks or fails to grow.

S

Segregated Portfolio - an investment portfolio of individual stocks and bonds.

Small-, Mid-, Large-Capitalization - reflects the size and dollar value of the companies whose securities are listed on the exchanges. Capitalization is often shortened to "cap" in this context. Small-cap stocks are usually less liquid (harder to buy and sell) than large-caps. Bank stocks are large-cap. Many high-tech stocks are small-cap.

Soft Landing - a moderate slowing of economic growth to a rate of about 2% to 3%, which is expected to keep inflation from accelerating.

Spread - commonly used to describe the difference in yield between short- and long-term bonds or between Canadian and U.S. bonds of similar term to maturity. Could also be the difference between the bid and asking prices of a stock or bond.

Supranational Organizations - a world or regional organization that is not tied to any one sovereign country, such as the World Bank, which issues bonds to finance its activities.

T

Total Rate of Return - the percentage change in the total value of an investment portfolio including interest income, dividends paid on equities, and the change in market value of the portfolio over a specified time period. The calculation will include both realized and unrealized capital changes, and it may be calculated and expressed as a return that is net of expenses and/or taxes. Often expressed as the annual compound rate.

U

Underweight and Overweight - refers to deviations in the neutral asset allocation of a benchmark portfolio, underweight being less than the neutral, overweight more. For example, the benchmark neutral asset allocation for a balanced portfolio might typically be 60% in equities, 30% in bonds, and 10% in cash. If the asset mix is shifted to reflect a 50% position in equities, 40% exposure to bonds and a 10% holding in cash, the portfolio would be underweight equities, overweight bonds and neutral cash.

Unit Trusts - a mutual fund structure which allows funds to hold assets and pass investment returns through to the individual owners of the trust units.

Y

Yield - an ambiguous term having several possible meanings:

1. ***Current yield:*** annualized interest income on a bond expressed as a percentage of its current market value.
2. ***Dividend yield:*** same as current yield, but applied to dividend income on a stock's price.
3. ***Yield-to-maturity:*** the annualized total return, expressed as a percentage, that a bond will provide to the investor if held to its final maturity date.

Yield Curve - the relationship among the yields to maturity of bonds (usually government bonds) of the same quality but different maturities, ranging from 30 days to 30 years, put into graphic form.

[1] Source: Investor Economics: 2003 Insight Advisory Service, January, 2003.
[2] Subject to change.

Investment Glossary from Gov of Saskatchewan website at

http://www.peba.gov.sk.ca/PEPP/investment_glossary.html

Actuarial Reserve –The lump-sum amount needed on the calculation date to fund a certain future benefit provided by a plan. The actuarial reserve takes into account such items as future salary increases, the probability of early retirement, probability of termination, etc.

Benchmark – A benchmark is a standard against which a security or investment manager can be measured. Some examples include the Dow Jones, the S&P500 and the S&P/TSX.

Equity – Equity is a type of investment class that represents an ownership interest in an entity such as a corporation. Stocks are considered equity.

Fees –- Plan fees are broken into two categories: administration fees and investment fees. Administration fees are costs incurred to operate the pension or benefit plan such as salaries, rent, computer systems and office supplies. Investment fees are charged by external service providers. These include custodial services, investment consultant services and fees charged to manage the investments within the plan.

Fixed Income –- Fixed income is an investment class that offers reasonably predictable income which is received at regular intervals. A bond is an example of a fixed income investment.

Investment Consultant – An investment consultant assists in long-term investment planning. Various oversight bodies (Boards, Commissions and Committees) utilize investment consultants in formulating their investment strategies, monitoring investment performance and monitoring investment compliance.

Investment Managers – Investment managers are responsible for managing the securities of a pension or benefit plan. The manager employs people with expertise within the investment industry and performs the buying and selling of investments on behalf of the plan.

Investment Portfolio – An investment portfolio is a grouping of financial assets such as stocks, bonds and cash equivalents.

Investment Returns – Investment returns are the increase in value of an investment over its original cost. A $100 investment that increases to $110 would have an investment return of $10 or 10%.

Investor Profile – An investor profile is an analysis of an investor's tolerance for risk and their investment style. This profile assists in selecting an appropriate asset allocation fund based on questions about an investor.

Lifecycle Investment Fund – A special category of investment fund that automatically adjusts an investor's asset mix as time progresses. The fund adjusts from a position of higher risk to one of lower risk as the investor ages and/or nears retirement.

Rate of Return –The fund rate of return is the gain or loss, in percentage terms, of the fund for a specific period of time. The fund may be the entire pension fund or a specific asset allocation fund (PEPP).

Real Estate – An investment class that includes land and anything permanently affixed to the property such as buildings and other structures.

Real Rate of Return – A real rate of return is the rate of return for an investment less the percentage change in inflation for the year. This expresses the return in real terms as it adjusts for the loss in purchasing power due to increases in inflation.

Risk – is the chance that an investments return will be different then expected. Normally, the greater risk an investment has, the greater the potential return.

Risk Tolerance – Risk tolerance is an investor's ability to handle declines in the value of their investments. Generally, older investors have a lower risk tolerance than younger investors as they have less time to retirement to make up for losses on their investments.

Registered Pension Plan (RPP) – A Registered Pension Plan (RPP) is a form of trust fund that provides pension benefits to employees upon retirement and is registered with the Canada Revenue Agency.

Unit – When you contribute to PEPP, you purchase units in the investment fund or funds you choose. The value of your account is the value of the units in your account.

Unit Value – The unit value is the dollar value of a single unit of an investment fund. The value of your account is equal to the unit value multiplied by the number of units owned.

Volatility – Volatility refers to the amount of uncertainty about the size of changes in an investments value. High volatility means that an investments value can change dramatically in either direction within a short period of time. Low volatility means that an investments value does not fluctuate dramatically but changes more steadily over time.