KEY TERMS & DEFINITIONS

Investing

The following key terms and definitions may help you better understand the language used to describe investment options and retirement plan features.

Accrued interest — Interest that has been earned or accumulated on an investment but has not yet been paid out.

Asset allocation — Describes which investments the money is invested or is directed to be invest in, and in what percentage.

Asset class — A grouping of similar investments that are required to follow specific laws and regulations (e.g., fixed stocks, bonds, commodities).

Balanced funds — A type of mutual fund, sometimes called a hybrid or blended fund, which includes both stocks and bonds. This provides diversification and is therefore typically less vulnerable to volatility in the marketplace.

Bonds — A fixed-income investment or security used to diversify a portfolio in which a loan of investor's money is made to a company or government that will be repaid with interest by a set date. This investment is often called "fixed income," since the interest payments provide a consistent payout to the investor until the loan is paid back in full.

Capital gains tax — Required tax paid to the Internal Revenue Service (IRS) for any profits made from the sale of real estate, investments, and/or other personal property.

Capital preservation — An investment strategy based on choosing lower risk, short-term investments in order to avoid loss of value in the portfolio.

Compounding interest — Interest that accumulates over time, is reinvested, and then works to accumulate more interest in a repeated cycle, allowing for exponential growth.

Deflation — When the general costs of goods and services decreases, and the dollar holds comparatively more buying power.

Diversification — When investors manage their risk tolerance by mixing a wide variety of investments, minimizing the impact of any one investment on the overall value and performance of the account.

Dow Jones Industrial Average (DJIA) — Also known as the "Dow," the DJIA is comprised of 30 well known large company stocks. The Dow is a subset of the S&P 500. Both are stock indexes.

Equity fund — A type of mutual fund which invests primarily in stocks to generate returns. These tend to be higher risk investments.

Fiduciary — The person or entity who has management or investment responsibility for a retirement plan or exercises discretionary control over the plan. An ERISA plan must have at least one fiduciary named in the plan document. Other fiduciaries may be appointed by the named fiduciary or become a fiduciary because of the discretionary functions they perform.

A fiduciary is held to a very high standard of behavior, is prohibited from managing the plan for any personal gain, and has the following additional responsibilities, according to the Department of Labor:

- Acting solely in the interest of plan participants and their beneficiaries and with the exclusive purpose of providing benefits to them;
- Carrying out their duties prudently;
- Following the plan documents (unless inconsistent with ERISA);
- Diversifying plan investments; and
- Paying only reasonable plan expenses..

Index fund — A type of mutual fund where the goal is to match the performance of the general marketplace by spreading investments across a wider range of companies and opportunities.

Inflation — When the buying power of the dollar decreases because the prices of goods and services increases.

Investment returns — The gains or losses generated on an asset, relative to the amount of money that was invested.

Money market — A type of mutual fund that invests in short-term debt instruments. The fund has the objective to earn interest while maintaining a share value of one dollar. These funds offer great liquidity with a low level of risk.

Mutual fund — A professionally managed portfolio of investments with a stated objective that pools the money of many investors. Investors purchase shares of the fund and then share in the profits or losses of the fund in proportion to the number of shares they own.

National Association of Securities Dealers Automated Quotation System (NASDAQ) — The NASDAQ is the second largest stock exchange. It operates as a global electronic marketplace for trading securities using an electronic platform.

New York Stock Exchange (NYSE) — The New York Stock Exchange is the largest equities-based exchange in the world.

Portfolio — A collection of assets which may include investments or securities such as stocks, bonds, mutual funds, cash, and commodities.

Principal — The original amount of money spent on an asset, not including any interest earned.

Risk tolerance — The amount of variability in investment returns that an investor is willing to withstand in their portfolio.

Stable value — A collection of low-risk fixed income investments which are insured, offering protection for investors who are concerned about losing money.

Standard & Poor (S&P) 500 — An American stock market index based on the market capitalizations of the 500 largest companies having common stock listed on the NYSE or NASDAQ.

Stocks — A type of equity investment or security which represents ownership of a small part of a company, called a share. Stock changes in value proportionally to the value of the company, which is why they can be considered higher risk than fixed income investments like bonds.

Contact us to learn more about your investing options.

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