

Glossary of Investment Terminology

Active Management	The pursuit of transactions with the objective of profiting (adding value) from competitive information.
Annualize	To express a rate of return for a period greater than one year or less than one year in terms of 12 months.
Asset Allocation Decision	A process that determines the optimal distribution of funds among various types of assets that offer the highest probability of consistently achieving investment objectives within the confines of a predetermined level of risk. The process often include the use of a computer model program to assist in the processing of a myriad of data.
Basis Point	One gradation on a 100-point scale which is used in expressing variations in the yield of bonds. A basis point is equal to one one-hundredth of a percentage point.
Bear	Someone who believes the market will decline.
Bear Market	A market where prices decline sharply, often against a background of widespread pessimism. The opposite of BULL MARKET.
Bottom-Up Manager	Common stock manager who places selection emphasis on recognizing favorable characteristics of individual companies, as opposed to developing the portfolio with an emphasis on the economy and industries (a Top-Down Manager).
Bull	One who believes the market will rise.
Bull Market	An advancing market.
Cash Equivalents	Short term investments held in lieu of cash and readily converted into cash within a short time span (i.e., CDs, commercial paper, Treasury bills, etc.).
Common Stock	Securities which represent an ownership interest in a corporation. If the company has also issued preferred stock, both common and preferred have ownership rights. The preferred normally is limited to a fixed dividend but has prior claim on dividends and, in the event of

liquidation, assets. Claims of both common and preferred stockholders are junior to claims of bondholders and other creditors of the company. Common stockholders assume the greater risk, but generally exercise the greater control and may gain the greater reward in the form of dividends and capital appreciation. The terms common stock and capital stock are often used interchangeably when the company has no preferred stock.

Corporate Bond

An instrument written under seal whereby a corporation acknowledges a stated sum is owed, which it will repay at a specified date. It also obligates itself to pay a stipulated amount of interest to the bondholders for the privilege of using their money.

Custodian

A depository of securities for purposes of safekeeping. A custodian does not have a fiduciary responsibility unless the account is a "directed trust."

Diversification

The spreading of investment funds among classes of securities and localities in order to distribute the risk. It favors the maxim: "Don't put all of your eggs in one basket."

EAFE

The Europe, Australia, Far East (EAFE) Stock Market Index is an unmanaged value-weighted index of more than 900 securities issued by foreign companies.

Equities

This refers to ownership of property, usually in the form of common stocks, as distinguished from fixed income bearing securities such as bonds or mortgages.

Fiduciary

An individual or trust institution given the duty of acting for the benefit of another.

Growth

A percentile ranking where 100 represents those companies with the greatest earnings growth potential, and 1 consists of those companies with the lowest.

High-Yield Bond

Also known as Junk Bonds, these fixed income instruments have a rating of BB or lower and pay a higher yield to compensate for their greater credit risk.

Index Fund	A fund (or account) comprised of securities the characteristics of which will produce a return which will replicate (or substantially replicate) a designated securities index.
Investment Consultant	An individual, or firm, who provides investment advice for a fixed fee, a fee based upon a percentage of assets, or a fee derived from brokerage commissions. Such advice generally includes portfolio constraints analysis, performance objectives setting, asset allocation counsel and investment manager evaluation, selection and monitoring services. It may, or may not, include performance measurement services.
Lehman Brothers Aggregate Index	Is composed of securities from Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed securities Index and Yankee Bond Index and is generally considered to be representative of all unmanaged domestic, dollar denominated fixed-rate investment grade bonds with maturities greater than one year.
Market Capitalization	The market value of all outstanding shares. It represents the value of a company's equity to all investors. It is calculated as the number of shares outstanding times the price per share.
Market Value	The current or prevailing price of a security or commodity as indicated by current market quotations, and, therefore the price at which additional amounts can presumably be purchased or sold.
NASDAQ	An automated information network which provides brokers and dealers with price quotations on securities traded over the counter. NASDAQ is an acronym for National Association of Securities Dealers Automated Quotations.
New York Stock Exchange	An unincorporated, voluntary association founded in 1792 and existing under a written constitution and bylaws. Membership must be approached by a Committee on Admissions and is obtained by purchasing a SEAT from a retiring, deceased or expelled member. Privileges include

the right to buy and sell securities on the trading floor of the exchange for one's own account or for others.

Passive Management

A management procedure that does not generate superior information. A typical example of passive management is the maintenance of index funds. Here, the process is known to all, there is no superior information. The opposite of passive management is active management.

Portfolio Optimization

Starting with a universe of securities or asset classes that has been valued in terms of (a) expected return, (b) variances of expected return and (c) covariance of return with every other security under consideration, the process of portfolio optimization involves selecting the portfolio that minimizes risk for a given level of return. In practice, the computerized optimization programs can impose manifold constraints on the characteristics of the resultant portfolio. A typical constraint would be that the resultant portfolio have no more than a given weight in a portfolio asset class.

Russell 2000 Small Stock Index

Is generally considered to be representative of unmanaged small capitalization stocks in U.S. markets. It represents stocks that rank from 1001 to 3000 in market capitalization.

Sharpe Ratio

A measure of an asset's or portfolio's risk adjusted return. The return is divided by the risk to obtain the risk adjusted return.

Standard Deviation

Standard deviation is a measure of the "dispersion" of a set of numbers around a central point. If the standard deviation is small, the frequency distribution is concentrated within a narrow range of values. For a "normal" distribution, about two-thirds of the observations will fall within one standard deviation of the mean.

Standard & Poor's 500 Stock Price Index

The primary objective of the S&P 500 is to be the performance benchmark for the U.S. equity markets. It is important to note, however, that the S&P 500 does not contain the 500 largest stocks. Although many of the stocks in the Index are among the largest, there are also many relatively small companies in the Index. This is

because the 500 is a "bottom-up" Index constructed by industry groups. Important industry groups within the U.S. economy are identified and then a representative sample of stocks within each important industry group are allocated to the Index. The Index can therefore be used as a proxy for the whole market and also for individual industry groups. The Index was founded in 1923, although there were only 233 companies in the Index at the time.

Tactical Asset Allocation	Shifting percentages of portfolios among stocks, bonds, and cash, depending on the relative attractiveness of the respective markets.
Top-Down Manager	Investment manager that selects stocks by first looking at trends in the general economy and next by selecting industries and finally companies that will benefit from those trends.
Trustee	An individual or institution that holds the legal title to an asset and administers it for the benefit of another person.
Universe	The list of all assets eligible for inclusion in a portfolio.
Venture Capital Fund	Investment vehicle organized to raise capital for start-up companies or firms in the early stages of developing products and services. Investors in these funds expect higher rates of return due to the greater risks involved in investing in companies at this stage of development.