Glossary of Selected Investment Terms

Assets Under Management – (AUM) The sum total of the market value of all assets for which a given company acts as Investment Manager.

Average Life - The arithmetic weighted average life of a bond where the weights are the proportion of the principal amount being redeemed.

Barbell – Portfolio of bonds distributed in the shape of a barbell, with most of the portfolio in short-term and long-term bonds.

Basis Point (BP) - One one-hundredth of one percent. One hundred basis points equal one percent.

Bear Market - A market characterized by a trend of falling security prices. A bear market in stocks is usually brought on by the anticipation of declining economic activity, and a bear market in bonds is caused by rising interest rates.

Bearish - Pessimistic about the market; anticipating a decline in prices.

Benchmark - A standard by which investment performance or trading execution can be judged.

Beta - A way of evaluating risk (i.e., "volatility") for a particular mutual fund or stock, relative to the market as a whole. A fund with a beta of 1 has the same risk as the market. A fund with a beta of 2 is twice as risky, so that an investor is likely to double his or her profits (or losses) compared to the market. A beta of less than one means the mutual fund or stock moves comparatively less than the market as a whole.

Bond - An instrument of debt issued by a corporation or government to raise capital. Bonds are interest bearing and promise to pay the holder a specified sum of money at its maturity plus interest at given intervals.

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Bond Rating - A grade given to a bond that indicates the quality of the investment. Ratings range from AAA (very unlikely to default) to D (in default). Moody's Investment Services and Standard & Poor's are the two major bond-rating companies.

Bond Return - Consists of two components, 1) current yield and 2) price performance. *Current Yield* is the amount of coupon income received, expressed as a percentage of the current market value of the bond or portfolio. *Price Performance* of a bond is determined by changes in interest rates. If rates rise, bond prices fall. If rates fall, bond prices rise.

Bottom-up Managers - Bottom-up managers focus on the qualities or valuations of individual stocks, one by one, rather than on economic trends. This approach assumes that, even in an industry that is not doing well, individual companies can perform well.

Bull Market - A market characterized by rising security prices.

Bullish - Optimistic about the market; anticipating a rise in security prices.

Buyout - The purchase of a company or a controlling interest of a corporation's shares. Buyout firms purchase underperforming companies aiming to improve the company's operations and selling or taking them public for a profit.

Call Option – The right to buy an asset at a specified exercise price on or before a specified expiration date.

Callable Bond – A bond that the issuer may repurchase at a given price at some specified future date.

Capital Appreciation - Increase in value (i.e., price) of an asset such as a stock or bond.

Capital Gain/Loss - The amount of profit or loss attributable to the difference between the purchase and sale prices. Stock bought for $100 and sold for $125 has produced $25 in capital gain.

Capital Markets – Markets where capital funds – debt and equity – are traded.

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Capitalization – The current equity value of a company determined by multiplying the number of outstanding common shares by the current market price of a share. Companies are typically categorized into small cap (less than $2 billion), mid cap ($2 - $14 billion), and large cap (greater than $14 billion) based on the previous capitalization formula.

Cash Equivalent – Instruments or investments of such high liquidity and safety that they are virtually as good as cash.

Cheap - Inexpensive; having a price perceived to be undervalued.

Collateral – Property acceptable to the lender as security for a loan or other obligation.

Commingled Investment Fund – A vehicle that pools the assets of investors to gain broader diversification than is normally possible in a separate account.

Common Stock - Securities that show ownership in a corporation. Stockholders share profits or losses in the corporation through dividends and changes in the stock's market value.

Consumer Durables – Products bought by consumers that are expected to last three years or more. These include automobiles, appliances, boats and furniture.

Core Plus Fixed Income - A fixed income manager that invests primarily in securities similar to that of its benchmark (i.e. Lehman Aggregate), but also invests in securities such as, but not limited to, non-U.S. high yield and emerging market debt in an attempt to add incremental value.

Corporate Bond - Debt instrument issued by a private corporation, as distinct from one issued by a government agency or municipality.

Cost - The purchase price of a security, including fees, commissions, etc.

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Coupon – Annual yield, generally paid semi-annually. Stated as a percentage of par.

Credit Risk - The risk that an issuer may default on its securities. Relative degrees of credit risk are delineated by the rating agencies.

Currency Risk – Fluctuations in exchange rates can add to, or detract from, investment returns.

Custodial Bank - Trustees or "caretakers" for all securities in an account. Executes all trades as directed by the investment manager and warehouses all securities.

Cyclical - Something that happens periodically, i.e. on a regular basis.

Cyclical Stock – Stock that tends to rise quickly when the economy turns up and to fall quickly when the economy turns down. Examples are housing, automobiles, and paper.

Debt – General name for bonds, notes, mortgages, and other forms of paper evidencing amounts owed and payable on specified dates or on demand.

Dedicated Bond Portfolio – A portfolio of debt-oriented securities that is structured to meet a specific liability such as the payment of benefits to a group of retirees for the remainder of their lives. The portfolio is dedicated to the objective of meeting the identified liability.

Defensive Stocks- Stocks, such as electric utilities, foods, tobaccos and drugs, that are relatively immune to business cycles and thus tend to resist general market declines.

Derivatives - Securities, such as futures, options, or swaps, that derive their value from another security.

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Diversification - Reducing risk by investing in more than one type of security, such as stocks, bonds, and money market instruments.

Dividend - A cash or other distribution to preferred or common stockholders.

Dividend Yield – Annual percentage of return earned by an investor on a common or preferred stock. The yield is determined by dividing the amount of the annual dividends by the current market price.

Duration - A measure of average maturity that incorporates a bond's yield, coupon, final maturity and call features into one measure. Duration measures the sensitivity of a bond or portfolio's price to changes in interest rates.

EAFE – Acronym for the *Europe, Australia, and Far East* index, calculated by the Morgan Stanley Capital International (MSCI) group. The index acts as a benchmark for managers of international stock portfolios.

Economic Sector - A group of companies with similar products, services, or markets (e.g., technology, utilities, financials, etc.).

Efficient Market - A securities market in which prices accurately reflect all available knowledge and adjust immediately to any new information. Academicians who subscribe to the efficient market hypothesis maintain that a professional money manager can only achieve consistently superior investment results by taking greater than market risk.

Emerging Growth Stock – The stock of a relatively small company that is growing very rapidly, but is not large enough or has not been in business long enough to be of investment quality.

Endowment – The permanent funds of a nonprofit institution, which typically make annual distributions to support the cause of the endowment.

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Enhanced indexing – Also called indexing plus, a strategy whose objective is to exceed or replicate the total return performance of a stated index. Unlike a traditional index strategy, an enhanced index strategy may overweight or underweight securities within the stated index being tracked. Enhanced index strategies may also use derivatives to replicate the stated index.

Equity - Ownership or proprietary rights and interests in a company. Synonymous with common stock.

Emerging Market - A financial market of a developing country, usually a small market with a short operating history.

ERISA - The Employee Retirement Income Security Act of 1974 (ERISA) protects the retirement assets of Americans, by implementing rules that qualified plans must follow to ensure that plan fiduciaries do not misuse plan assets.

Execution Costs - Total execution costs (the cost of buying and selling stocks) have three components: (1) the actual dollars paid to the broker in commissions, (2) the market impact (i.e., the impact that a manager's trade has on the market price for the stock, this varies with the size of the trade and the skill of the trader), and (3) the opportunity cost (positive or negative) that is the result of not executing the trade instantaneously.

Face value – See "Par value."

Fiduciary - An individual, corporation, or association holding assets for a beneficiary. The fiduciary is charged with the responsibility of investing the money wisely for the beneficiary's benefit.

Fixed Income - Securities/investments in which the income during ownership is fixed or constant. Generally refers to any type of bond investment.

Foundation – An entity which exists to support a charitable institution and which is funded by an endowment or donations.

Fully Invested - A portfolio with minimal cash reserves.

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General Partner - A partner in a business who has unlimited liability. Often a general partner is also the managing partner, which means this person is active in the day-to-day operations of the partnership.

Government - A security issued by the U.S federal government and its agencies (all are U.S. treasury obligations).

Government Agencies - Obligations of the federal government other than direct obligations such as Treasury Notes, Bonds, or Bills. Examples of these are GNMAs, FHLMCs, etc.

Government Bonds - Bonds backed by the federal government, whether issued by the Treasury or one of the government agencies.

Growth Investing – To seek investments whose future potential for growth is above the expectation for stocks in general. Companies with new technologies, well positioned in rapidly growing industries or with a proprietary product or service that will provide above-average earnings growth are the types of holdings found in a growth portfolio.

Growth Stock – Stock of a corporation that has exhibited faster than average gains in earnings over the last few years and is expected to show high levels of profit growth.

Hedge Funds – A subset of alternative investments that incorporate all investment strategies run with an orientation to producing primarily absolute returns using largely marketable securities. These strategies typically include short-selling and often require the use of leverage. As a result, correlations with broader markets are expected to be modest to low.

High Yield Bond – Debt issued by a company that is experiencing financial difficulty and may not be able to meet payments on its obligations. These securities carry a higher interest rate than other corporate bonds due to their higher risk.

Immunization - A process for designing fixed income portfolios to obtain a target rate of return over a specified time period, within a narrow range, despite market conditions.

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Income - Money earned on a security from interest or dividends.

Index - A statistical yardstick composed of a basket of securities with a set of characteristics. An example of this would include the "S&P 500", which is an index of 500 stocks.

Index Fund - An index fund is a passively managed portfolio designed and computer controlled to track the performance of a certain index, such as the S&P 500. Methodologies vary, and they may or may not use all the stocks in the index being tracked. In general, such funds have performance within a few basis points of the target index.

Inflation - A general rise in prices, usually measured by changes in prices of major indices, such as the Consumer Price Index.

Interest - An amount charged to a borrower by a lender for the use of money, expressed in terms of an annual percentage rate upon the principal amount.

Interest Rates - The percentage paid as a fee for the use of money, expressed as an annual percentage of the principal amount. The rate is influenced by a variety of factors including economic growth, inflation, supply/demand and international factors.

Interest-Rate Risk - When interest rates rise, the market value of fixed-income securities (such as bonds) declines. Similarly, when interest rates decline, the market value of fixed-income securities increases.

Intermediate - A bond with a maturity of intermediate length. Depending on the particular market, the range for this length may vary. In the corporate bond market, an intermediate security would have a maturity between 1 and 12 years.

Investment - The utilization of money in the expectation of future returns in the form of income or capital gain.

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Investment Grade - Bonds rated in the top four rating categories (AAA, AA, A, BBB) are commonly known as investment grade securities.

Investment Return – The total amount that an investor or an investment fund earns from its investments, including both realized and unrealized capital gains (appreciation) and income (dividends and interest).

Junk Bond - A bond with a rating of BB or less. Also know as "non-investment grade".

Laddering - A fixed income portfolio strategy in which assets are distributed evenly over a range of maturities.

Leverage – Means of enhancing return or value without contributing additional funds. Buying securities with borrowed money (on margin) is an example of leverage.

Leveraged Buyout - The acquisition of another company using a significant amount of borrowed money (bonds or loans) to meet the cost of acquisition.

Liquidity - The ability to convert an investment into cash promptly with a minimum risk of principal.

Limited Partner - Unlike a general partner, a limited partner does not play an active role in the business and has limited liability for losses from the partnership. Limited partners also enjoy rights to the partnership's cash flow.

Long - Signifies an ownership position of a security. Opposite is "short".

Management Buyout - When the managers and/or executives of a company purchase controlling interest in a company from existing shareholders.

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Market – 1) The prices at which a security can actually be bought and/or sold. 2) A locale where a security is known to be traded.

Market Price - The most current price of a security as indicated by the latest trade recorded.

Market Risk - Fluctuations in prices for the market as a whole or in specific sectors, brought on by outside forces. It is part of a security's risk that is common to all securities of the same general class (stocks, bonds) and thus cannot be eliminated through diversification.

Maturity - The date on which a loan, bond, mortgage or other debt security becomes due and is to be paid off.

Mezzanine Financing - A hybrid of debt and equity financing that is typically used to finance the expansion of existing companies. Mezzanine financing is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full.

Modern Portfolio Theory - The theoretical framework for designing investment portfolios based upon the risk and reward characteristics of the entire portfolio, which is held not to be equivalent to the aggregation of the individual securities of the portfolio. The major tenet of the theory holds that reward is directly related to risk, which can be divided into two basic parts: 1) systematic risk (portfolios' behavior as a function of the market's behavior), and 2) unsystematic risk (portfolios' behavior attributable to selection of individual securities). Because un-systematic risk can be largely eliminated through diversification, the portfolio will be subject principally to systematic risk.

Money Market – Short-term debt instruments, such as negotiable certificates of deposit, Eurodollar certificates of deposit, commercial paper, banker's acceptances, and Treasury bills. Generally highly liquid and safe securities.

Mortgage - An interest in real property given as security for the payment of a debt.

Mortgage Bond – A bond backed by a claim against real property.

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Mortgage-Backed Securities - Bonds which are a general obligation of the issuing institution, but are secured by a pool of mortgages.

Mutual Fund - An investment company that pools money of individuals and invests it into stocks, bonds and other securities under the guidance of a professional manager.

Non- Cyclical Stock – Stocks that are not directly affected by economic changes. Examples include foods, insurance, and drugs.

Paper Loss – A loss, which has occurred but has not yet been realized through a transaction, such as a stock which has fallen in value but is still being held. Also called unrealized loss.

Paper Profit - Profit which has been made but not yet realized through a transaction, such as a stock which has risen in value but is still being held. Also called unrealized gain or unrealized profit or paper gain or book profit.

Par Value – For a bond, principal value at maturity. Also known as face value.

Political Risk - Pertaining to non-U.S. markets, changing government régimes can possibly add risk to that country's financial market.

Portfolio - The various investments owned by an individual or mutual fund, such as stocks, bonds, and money market accounts.

Price/Book Ratio – The ratio of a stock's price to its book value per share. This number is used by securities analysts and money managers to judge whether a stock is undervalued or overvalued. A stock selling at a high price/book ratio, such as 3 or higher, may represent a popular growth stock with minimal book value. A stock selling below its book value may attract value-oriented investors who think that the company's management may undertake steps, such as selling assets or restructuring the company, to unlock the hidden value on the company's balance sheet.

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Price/Earnings Ratio - The ratio of a company's stock price to its earnings per share. Price/Earnings ratio is a common measure of the relative valuation of a stock.

Principal - The amount of money originally invested.

Private Equity – Equity capital invested in a private company.

Put option – The right to sell an asset at a specified exercise price on or before a specified expiration date.

Quality Rating - see "Bond Rating".

Rate of Return - The yield obtainable on a security based on its purchase price or its current market price. This may be amortized yield to maturity on a bond or the current income return.

Real Rate of Return - A return adjusted for inflation. For example, an investor earning 8% on a certificate of deposit during a period of 5% inflation is receiving a real rate of 3%.

Realize - To make something real from a transaction, such as to recognize the profit from an investment that has appreciated by selling it.

REIT - Real Estate Investment Trust.

Return - The amount of money received annually from an investment, usually expressed as a percentage.

Risk - Uncertainty as to whether or not an investment choice will perform as expected, particularly due to factors beyond one's control (in other words, the odds an investment will make or lose money).

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Riskless - Without credit risk. Treasury issues and government-guaranteed issues are regarded as the only riskless issues.

Risk/Reward - The trade-off between preserving your investment and maximizing your profit. In general, the higher the return, the more likely you are to lose your initial investment. Lower risk usually results in less profit.

Rule 144a Securities - A Securities and Exchange Commission (SEC) rule that allows companies to issue debt without registering the debt with the SEC. Purchase of 144a securities is limited to institutional investors with assets greater than $100 million.

Russell 2000 - An index of 2,000 small to medium capitalization stocks. It represents the lower two-thirds of the 3,000 largest publicly traded companies.

Securities - The generic term for stocks, bonds, and money market investments.

S&P - Standard and Poor's Corporation.

S&P 500 - An index of 500 of the largest stocks (by capitalization) in the United States. The S&P 500 is a common proxy for the performance of the broad stock market.

Sector - A group of securities with similarities (for example, industry type, coupon rate, maturity date and/or rating).

Secular Trend - A long-term (5 years or more) movement in the price of a security or of interest rates, either upward or downward, which is not related to seasonal or technical factors.

Short - To have sold without ownership in anticipation of subsequently purchasing at a lower price.

Short Position - Situation that arises when securities that are not owned are sold.

Short-Term – A type of obligation with a maturity of less than one year.

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Spending Rate – The amount of spending specified by the board from the endowment, usually expressed as a percentage of the beginning or average market value of the fund.

Spread - The yield or price differential between two different securities.

Stock - A certificate of ownership. A contract between the issuing corporation and the owner which gives the latter an interest in the management of the corporation the right to participate in its profits.

Thin - As applied to a market, means that bids and offerings are scarce and the market is subject to wide fluctuations and small-sized executions.

Tight - Highly competitive. A tight market is characterized by a small spread between the bid and offer levels for a given security.

Top-Down Managers – Top-down managers look at trends and forecasts of the economy. They select industries and companies that should benefit from those trends. For example, if such managers believe inflation rates are going down, they may conclude that the retail industry group will do well because consumers will have more to spend. The next step is to identify companies that will do well within the retail group.

Total Return - The aggregate increase or decrease in the value of the portfolio resulting from the net appreciation or depreciation of the principal of the fund, plus or minus the net income or loss experienced by the fund during the period.

Transaction Costs - Another term for execution costs. (see "Execution Costs" for definition)

Treasuries - Negotiable debt obligations of the U.S. government, secured by its full faith and credit and issued at various schedules and maturities.

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Treasury Bills – Short-term debt instruments of the U.S. government with maturities of one year or less. Bills are sold on a discount basis so that the income is the difference between the purchase price and the face value.

Treasury Bonds – Long-term debt instruments of the U.S. government with maturities of ten years or longer.

Treasury Notes – Intermediate securities of the U.S. government with maturities of one to ten years.

Trustee - A bank designated as the custodian of funds and official representative of bondholders to enforce their contract with the issuer.

Turnover - The rate at which securities within a portfolio are bought and sold.

Unrealized - Having occurred but not yet reflected through a transaction. For example, if a security increases in price and is not sold, there would be an unrealized gain on the security.

Valuation – Placing a value or worth on an asset. Stock analysts determine the value of a company's stock based on the outlook for earnings and the market value of assets on the balance sheet. Stock valuation is normally expressed in terms of price/earnings (P/E) ratios. A company with a high P/E is said to have a high valuation.

Value Investing - A philosophy of investing that emphasizes the purchase of stocks below their intrinsic value in the belief that patient investors will be rewarded.

Value Added Real Estate – Investment strategy which focuses on improving the quantity and quality of cash flow from a property by curing physical, management and marketing deficiencies.