

## **1035 Exchange**

A method of exchanging insurance-related assets without triggering a taxable event. Cash-value life insurance policies and annuity contracts are two products that may qualify for a 1035 exchange.

## **401(k) Plan**

A qualified retirement plan available to eligible employees of companies. 401(k) plans allow eligible employees to defer taxation on a specific percentage of their income that is to be put toward retirement savings; taxes on this deferred income and on any earnings the account generates are deferred until the funds are withdrawn—normally in retirement. Employers may match part or all of an employee's contributions. Employees may be responsible for investment selections and enjoy the direct tax savings.

## **401(k) Loan**

A loan taken from the assets within a 401(k) account. 401(k) loans charge interest and are normally paid back through payroll deductions. If the borrower leaves an employer before a 401(k) loan has been repaid, the full amount of the loan is generally due. If the borrower fails to repay the loan, it is considered a distribution, and ordinary income taxes may be due, along with any applicable tax penalties.

## **403(b) Plan**

A 403(b) plan is similar to a 401(k). A 403(b) is a qualified retirement plan available to employees of non-profit and government organizations.

### **Account Balance**

The amount held in an account at the end of a reporting period. For example, a credit card account balance would show the amount owed to a lender as a result of purchases made during a specific period.

### **Adjustable-Rate Mortgage (ARM)**

A mortgage with an interest rate that is adjusted periodically based on an index. Adjustable-rate mortgages generally have lower initial interest rates than fixed-rate mortgages because the lender is able to transfer some of the risk to the borrower; if prevailing rates go higher, the interest rate on a variable mortgage may adjust upward as well.

### **Adjusted Gross Income (AGI)**

One figure used in the calculation of income tax liability. AGI is determined by subtracting allowable adjustments from gross income.

### **Administrator**

A probate-court-appointed person who is tasked with settling an estate for which there is no will.

### **After-Tax Return**

The return on an investment after subtracting any taxes due.

## **Alternative Minimum Tax (AMT)**

A method of calculating income tax with a unique set of rules for deductions and exemptions that are more restrictive than those in the traditional tax system. The AMT attempts to ensure that certain high-income taxpayers don't pay a lower effective tax rate than everyone else. To determine whether or not the AMT applies, taxpayers must fill out IRS Form 6251.

## **American Stock Exchange (AMEX)**

A stock exchange originally located in New York City. AMEX was taken over by NYSE Euronext—the group that operates the New York Stock Exchange—in January 2009.

## **Annual Percentage Rate (APR)**

The yearly cost of a loan expressed as a percentage of the loan amount. The APR includes interest owed and any fees or additional costs associated with the agreement.

## **Annual Report**

A report required by the Securities and Exchange Commission (SEC) of any company issuing registered stock, that describes a company's management, operations, and financial reports. Annual reports are sent to shareholders, and must also be available for public review.

## **Annuity**

A contract with an insurance company that guarantees current or future payments in exchange for a premium or

series of premiums. The interest earned on an annuity contract is not taxable until the funds are paid out or withdrawn. Withdrawals and income payments are taxed as ordinary income. If a withdrawal is made prior to age 59½, penalties may apply. The guarantees of an annuity contract depend on the issuing company's claims-paying ability. Annuities have fees and charges associated with the contract, and a surrender charge also may apply if the contract owner elects to give up the annuity before certain time-period conditions are satisfied.

## **Appraisal**

A formal assessment of a property's value at a specific point in time, performed by a qualified professional.

## **Asset**

Anything owned that has a current value that may provide a future benefit.

## **Asset Allocation**

A method of allocating funds to pursue the highest potential return at a specific level of risk. Asset allocation normally uses sophisticated mathematical analysis of the historical performance of asset classes to attempt to project future risk and return. Asset allocation is an approach to help manage investment risk. It does not guarantee against investment loss.

## **Asset Class**

A specific category of investments that share similar characteristics and tend to behave similarly in the marketplace.

## **Audit**

In accounting, the formal examination of a company's financial records by a qualified professional to determine the records' accuracy, consistency, and conformity to legal standards and established accounting principles. In taxes, the formal examination of a tax return by the Internal Revenue Service or other authority to determine its accuracy.

## **Automatic Reinvestment**

An arrangement under which an institution automatically deposits dividends or capital gains generated by an individual's investment back into the investment to purchase additional shares.

## **Balanced Mutual Fund**

A mutual fund offered by an investment company which attempts to hold a balance of stocks and bonds. Mutual funds are subject to fluctuation in value and market risk. Shares, when redeemed, may be worth more or less than their original cost. Mutual funds are sold only by prospectus. Individuals are encouraged to consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained

from your financial professional. Read it carefully before you invest or send money.

## **Bear Market**

A market experiencing an extended period of declining prices. A bear market is the opposite of a bull market.

## **Beneficiary**

The person or entity who will receive benefits from a life insurance policy, qualified retirement plan, annuity, trust, or will upon the death of an individual.

## **Blue Chip Stock**

The stock of an established company which has a history of generating a profit and possibly a consistent dividend.

## **Bond**

A debt instrument under which the issuer promises to pay a specified amount of interest and to repay the principal at maturity. The market value of a bond will fluctuate with changes in interest rates. As rates rise, the value of existing bonds typically falls. If an investor sells a bond before maturity, it may be worth more or less than the initial purchase price. By holding a bond to maturity, an investor will receive the interest payments due plus his or her original principal, barring default by the issuer. Investments seeking to achieve higher yields also involve a higher degree of risk.

## **Book Value**

The value of a company's assets minus its liabilities, preferred stock, and redeemable preferred stock.

## **Bull Market**

A market experiencing an extended period of rising prices. A bull market is the opposite of a bear market.

## **Buy-and-Hold**

An investment strategy that advocates holding securities for the long term and ignoring short-term price fluctuations in the market.

## **Buy-Sell Agreement**

A legal contract that provides for the purchase of all outstanding shares from a business owner who wishes to sell, wants to terminate involvement, is permanently disabled, or has died. Buy-sell agreements are often funded with life insurance.

## **Capital Gain or Loss**

The difference between the price at which an asset was purchased and the price for which it was sold. When the sale price is higher than the purchase price, the difference is a capital gain; when the sale price is lower than the purchase price, the difference is a capital loss.

## **Cash Alternatives**

Assets that are most easily converted into cash and which have a very low risk of price fluctuation. For example, money market funds may be considered a cash alternative. Money held in money market funds is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Money market funds seek to preserve the value of your investment at \$1.00 a share. However, it is possible to lose money by investing in a money market fund.

### **Cash Surrender Value**

The amount a policyholder would receive when voluntarily terminating a cash-value life insurance policy before the insured event occurs or when cashing out an annuity contract before its maturity. Computation of cash surrender value is stated in the life insurance or annuity contract.

### **Certificate of Deposit (CD)**

A deposit with a bank, thrift institution, or credit union that promises a fixed interest rate on funds deposited for a specified period of time. Bank savings accounts and CDs are FDIC insured up to \$250,000 per depositor per institution and generally provide a fixed rate of return, whereas the value of money market mutual funds can fluctuate.

### **Charitable Lead Trust**

A trust established for the benefit of a charitable organization under which the charitable organization



receives payment of a specified amount (at least annually) from the trust. On the death of the grantor, remainder interest in the trust passes to his or her heirs. Using a trust involves a complex set of tax rules and regulations. Before moving forward with a trust, consider working with a professional who is familiar with the rules and regulations.

## **Charitable Remainder Trust**

A trust established for the benefit of a charitable organization under which the grantor can designate an income beneficiary to receive payment of a specified amount—at least annually—from the trust. The grantor may also be the income beneficiary. On the death of the grantor, remainder interest in the trust passes to the charitable organization. Using a trust involves a complex set of tax rules and regulations. Before moving forward with a trust, consider working with a professional who is familiar with the rules and regulations.

## **Claim**

A request for payment under the terms of an insurance policy.

## **COBRA**

A federal law that requires group health plans sponsored by employers with more than 20 employees to offer terminated or retired employees the opportunity to continue their health insurance coverage for a specified period at the employees' expense.

## **Coinsurance or Co-Payment**

A policy provision under which an insurance company and the insured party share the total cost of covered medical services after the policy's deductible has been met.

## **Commercial Paper**

An unsecured, short-term debt security issued by a corporation to finance short-term liabilities. These notes are normally backed only by the issuing corporation's promise to pay the face amount on the maturity date specified on the note, which is usually less than six months.

## **Common Stock**

A security that represents partial ownership of a corporation. Those who hold common stock are entitled to participate in stockholder meetings, to vote for the board of directors, and may receive periodic dividends.

## **Community Property**

State laws under which most property and debts acquired during a marriage—except for gifts or inheritances—are owned jointly by both spouses and are divided upon divorce or annulment. In the United States, nine states have community property laws: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

## **Compound Interest**

A process under which interest is computed both on an account's principal and on any gains reinvested in prior periods. This is contrasted with simple interest, in which interest is calculated only on the principal amount.

### **Consumer Price Index (CPI)**

The U.S. government's main measure of inflation, calculated monthly by the Department of Labor.

### **Convertible Term Insurance**

A term life insurance policy under which the policyholder has the right to convert the policy to permanent life insurance, subject to limitations. Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

### **Corporate Bond**

A debt security issued by a corporation under which the issuer promises to make periodic interest payments and to repay the investor's principal at maturity. The market value of a bond will fluctuate with changes in interest rates. As rates rise, the value of existing bonds typically falls. If an investor sells a bond before maturity, it may be worth more or less than the initial purchase price. By holding a bond to maturity,

investors will receive the interest payments due plus their original principal, barring default by the issuer. Investments seeking to achieve higher yields also involve a higher degree of risk.

## **Corporation**

A legal organization created under the laws of a state as a separate legal entity that has privileges and liabilities that are distinct from those of its members. Corporations are taxable entities—they are taxed separately from their members or shareholders. Corporations are able to borrow money and to make a profit separately from their members or shareholders.

## **Coverdell Education Savings Account (Coverdell ESA)**

A tax-advantaged investment account that allows accumulation of funds to cover future education expenses, subject to limitations. Coverdell ESAs allow money to grow tax deferred and proceeds to be withdrawn tax free for qualified education expenses at a qualified institution.

## **Credit Score**

A statistical estimation of how likely a potential borrower is to pay his or her debts and, by extension, how much credit he or she should have.

## **Debt**

An obligation owed by one party (the debtor) to a second party (the creditor).

## **Debt-to-Equity Ratio**

The ratio of a company's total debt to its total shareholder equity. Some use the debt-to-equity ratio to attempt to ascertain a company's capability to repay its creditors.

## **Deduction**

An amount that can be subtracted from gross income before income taxes are calculated.

## **Deed**

A legal document that confirms ownership of an asset or that confirms the passage of an interest, right, or ownership in the asset from one person or legal entity to another.

## **Deferred Annuity**

A contract with an insurance company that guarantees a future payment or series of payments in exchange for current premiums. The interest earned on an annuity contract is not taxable until the funds are paid out or withdrawn. The guarantees of an annuity contract depend on the issuing company's claims-paying ability. Annuities have fees and charges associated with the contract, and a surrender charge also may apply if the contract owner elects to give up the annuity before certain time-period conditions are satisfied.

## **Defined Benefit Plan**

A retirement plan under which the benefit to a retiring employee is defined. Defined benefit plans are normally funded by employer contributions.

### **Defined Contribution Plan**

A retirement plan under which the annual contributions made by the employer or employee are defined. Benefits may vary depending on the performance of the investments in the account.

### **Deflation**

A reduction in the price of goods and services. Deflation is the opposite of inflation.

### **Dependent**

A person who relies on another for his or her financial support. Within limits, those who support dependents are allowed to claim certain exemptions when filing income taxes.

### **Direct Rollover**

The direct transfer of assets from the trustee or custodian of one qualified retirement plan or account to the trustee or custodian of another. Done correctly, direct rollovers do not trigger taxable events.

### **Disability Income Insurance**

An insurance policy that pays a portion of the insured's income when a specified disability makes working uncomfortable, painful, or impossible.

## **Diversification**

An investment strategy under which capital is divided among several assets or asset classes. Diversification operates under the assumption that different assets and/or asset classes are unlikely to move in the same direction, allowing gains in one investment to offset losses in another.

Diversification is an approach to help manage investment risk. It does not eliminate the risk of loss if security prices decline.

## **Dividend**

Taxable payments made by a company to its shareholders. Some dividends are paid quarterly and others are paid monthly. Companies can adjust common share dividends at any time, pending approval by the company's board of directors.

## **Dollar-Cost Averaging**

An investment strategy under which a fixed dollar amount of securities is purchased at regular intervals. Under dollar-cost averaging, more shares are purchased when prices are low and fewer shares when prices rise. Keep in mind that dollar-cost averaging does not protect against a loss in a declining market or guarantee a profit in a rising market. Investors should evaluate their financial ability to continue making purchases through periods of declining and rising prices.

## **Dow Jones Industrial Average (DJIA)**

An average calculated by summing the prices of 30 actively leading stocks on the New York Stock Exchange (NYSE) and dividing the sum by a divisor which has been adjusted to account for cases of stock splits, spinoffs, or similar structural changes. Individuals cannot invest directly in an index.

### **Early Withdrawal**

Withdrawal of funds from an investment before its maturity date or withdrawal of funds from a tax-deferred account before the legally imposed age requirements have been satisfied. Early withdrawals may be subject to penalties.

### **Employee Stock Ownership Plan (ESOP)**

A defined-contribution plan that provides a company's workers with an ownership interest in the company—usually as shares of company stock.

### **Employer-Sponsored Retirement Plan**

A retirement plan sponsored by an employer for the benefit of its employees. These typically fall into one of two types: defined-contribution plans (such as SEP IRAs, 401(k) plans and 403(b) plans) and defined-benefit plans (such as traditional pensions).

### **Equity**

The value of real property or a business after all liabilities have been paid. A home worth \$300,000 with a \$200,000 mortgage would have \$100,000 in equity.



## **Employee Retirement Income Security Act (ERISA)**

A federal law that establishes the regulations under which retirement plans are governed and spells out the federal income tax regulations and effects for qualified retirement plans.

## **Estate Management**

The preparations necessary to manage a person's financial and healthcare matters during his or her lifetime and to effectively and economically distribute the assets within that estate upon his or her death.

## **Estate Tax**

Federal and/or state taxes that may be levied on the assets of a deceased person upon his or her death. These taxes are paid by the deceased person's estate rather than his or her heirs.

## **Exchange-Traded Funds (ETFs)**

A share of an investment company that owns a block of shares selected to pursue a specific investment objective. ETFs trade like stocks and are listed on stock exchanges and sold by broker-dealers. Exchange-traded funds are sold only by prospectus. Please consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial

professional. Read it carefully before you invest or send money.

## **Executive Bonus Plan**

An executive benefit paid for by an employer.

## **Executor**

A person named by a will or appointed by the probate court to distribute the deceased's assets as directed by the will or, in the absence of a will, in accordance with the probate laws of the state.

## **Federal Income Tax Bracket**

A series of income ranges within which a taxpayer's income is taxed at a certain rate. Taxpayers pay the tax rate in a given bracket only for that portion of their overall income that falls within the bracket's range.

## **Federal Reserve System (The Fed)**

The United States' central bank. The Federal Reserve System consists of a series of 12 independent banks that operate under the supervision of a seven-member, federally appointed board of governors. The Fed strives to maintain maximum employment, stable price levels, and moderate long-term interest rates. It establishes and enforces the regulations banks, savings and loans, and credit unions must follow. It also acts as a clearing house for certain financial transactions and provides banking services to the federal government.

## **Financial Aid**

Loans, grants, scholarships, and work-study programs provided by federally and privately funded sources to enable students to attend college.

## **Financial Statement**

A formal record of the financial activities of a business, person, or other entity. For a business, financial statements typically include a balance sheet, a profit and loss statement, and a cash flow statement.

## **First-to-Die Life Insurance**

Joint life insurance taken out on the lives of two or more people that pays its death benefit when the first insured person dies.

## **Fixed Annuity**

A contract with an insurance company that guarantees investment growth at a fixed interest rate as well as current or future payments in exchange for a premium or series of premiums. The interest earned on an annuity contract is not taxable until the funds are paid out or withdrawn. The guarantees of an annuity contract depend on the issuing company's claims-paying ability. Annuities have fees and charges associated with the contract, and a surrender charge also may apply if the contract owner elects to give up the annuity before certain time-period conditions are satisfied.

## **Fixed-Rate Mortgage**

A mortgage with a set interest rate that will not change over the life of the loan.

## **Foreclosure**

The legal process under which a creditor seizes the property of a borrower who has not made timely payments on his or her debt.

## **Front-End Load**

A sales fee paid at the time an investment is purchased. This fee is deducted from the investment—thus lowering the size of the investment.

## **Fundamental Analysis**

A method of evaluating securities that examines financial and economic factors—such as the current finances of a company and the prevailing economic environment—to determine whether the company's future value is accurately reflected in its current stock price.

## **Gift**

The voluntary transfer of assets under which the giver receives no compensation and retains no interest in his or her gift.

## **Gift Tax**

A tax the federal government and some states levy on the transfer of property as a gift. Generally gift taxes increase with the amount of the gift and are paid by the donor.

## **Gross Monthly Income**

Total monthly income generated from all sources before taxes and other expenses are considered.

## **Group Life Insurance**

Life insurance that insures all the members of a specific group, most often the employees of a specific company or the members of a professional association.

## **Health Savings Account (HSA)**

An account that offers individuals covered by high-deductible health plans a tax-advantaged means to save for medical expenses. Within certain limits, funds contributed to the account are not subject to federal income taxes. Unlike Flexible Spending Accounts (FSAs), funds can be rolled over from year to year if not spent.

## **Home Equity**

The real value of a home after all liabilities have been paid. Thus a home worth \$300,000 with a \$200,000 mortgage would have \$100,000 in equity.

## **Income**

Monies or other compensation received from any source. This includes wages, commissions, bonuses, Social Security

and other retirement benefits, unemployment compensation, disability, interest, and dividends. Generally, all income is taxable unless it is specifically exempted by law.

## **Index**

An average of the prices of a hypothetical basket of securities representing a particular market or portion of a market. Among the most well known are the Dow Jones Industrials Index, or the Dow; the Standard & Poor's 500 Index, or the S&P 500; and the Russell 2000 Index. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index.

## **Individual Retirement Account (IRA)**

A qualified retirement account for individuals. Contributions to a Traditional IRA may be fully or partially deductible, depending on your individual circumstance. Distributions from Traditional IRA and most other employer-sponsored retirement plans are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. Generally, once you reach age 70½, you must begin taking required minimum distributions.

## **Inflation**

An upward movement in the average level of prices. Each month, the Bureau of Labor Statistics reports on the average

level of prices when it releases the Consumer Price Index (CPI).

## **Initial Public Offering (IPO)**

A company's first public offering of stock. In an IPO, investment banks buy a company's shares and then offer them to the public at an offering price. As the stock is traded, the market price may be more or less than the offering price. Keep in mind that the return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

## **Interest Rate**

The cost to borrow money expressed as a percentage of the loan amount over one year.

## **Intestate**

The condition of an estate when its owner dies without leaving a valid will. In such circumstances, state law normally determines who inherits property and who serves as guardian for any minor children.

## **Investment Objective**

The stated financial goal of an investment.

## **Irrevocable Trust**

A trust that cannot be altered, stopped, or canceled after its creation without the permission of the beneficiary or trustee. Using a trust involves a complex set of tax rules and

regulations. Before moving forward with a trust, consider working with a professional who is familiar with the rules and regulations.

## **Joint Tenancy**

A form of property ownership under which two or more people have an undivided interest in the property and in which the survivor or survivors automatically assume ownership of the interest of any joint tenant who dies.

## **Jointly Held Property**

Property owned simultaneously by more than one person. All co-owners have an equal right to use the property, and no co-owner can exclude another co-owner from the property. The most common forms of jointly-held property are joint tenancy, tenancy in common, and, in some states, community property.

## **Keogh Plan**

A tax-deferred retirement plan for self-employed individuals and employees of unincorporated businesses. Keogh plans are similar to IRAs but have significantly higher contribution limits. Distributions from Keogh plans and most other employer-sponsored retirement plans are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. Generally, once you reach age 70½, you must begin taking required minimum distributions.

## **Key Employee**



An employee who has valuable skills, knowledge, or organizational abilities, who is considered critical to the success of a given company.

## **Key Person Insurance**

Company-owned insurance designed to cover the cost of replacing a key employee if he or she were to die or become disabled.

## **Life Insurance**

A contract under which an insurance company promises, in exchange for premiums, to pay a set benefit when the policyholder dies. Several factors will affect the cost and availability of life insurance, including age, health and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

## **Liquidity**

The ease and speed with which an asset or security can be bought or sold.

## **Living Trust**

A trust created by a living person which allows that person to control the assets he or she contributes to the trust during his or her lifetime and to direct their disposition upon his or her death.

## **Living Will**

A written document that allows the originator to designate someone to make medical decisions on his or her behalf in the event that he or she becomes incapacitated due to accident or illness.

## **Long-Term-Care Insurance**

Insurance that covers the cost of medical and non-medical services needed by those who have a chronic illness or disability—most commonly associated with aging. Long-term-care insurance can cover the cost of nursing home care, in-home assistance, assisted living, and adult day care.

## **Lump-Sum Distribution**

A one-time payment of the entire amount held in an employer-sponsored retirement, pension plan, annuity, or similar account, rather than breaking payments into smaller installments.

## **Management Fee**

The cost of having assets professionally managed. This fee is normally a fixed percentage of the fund's asset value; terms of the fee are disclosed in the prospectus.

## **Marital Deduction**

A provision of the tax code that allows an individual to transfer an unlimited amount of assets to his or her spouse at any time—including upon the individual's death—without triggering a tax liability.

## **Market Risk**

The risk that an entire market will decline, reducing the value of the investments in it without regard to other factors. This is also known as Systemic Risk.

## **Market Timing**

An investment philosophy under which investors buy and sell securities in an attempt to profit from short-term price fluctuations.

## **Maturity**

The date on which a debt security comes due for payment and on which an investor's principal is due to be repaid.

## **Medicaid**

The federal government's health program for eligible individuals and families with low income and resources. It is means tested, meaning those who apply for benefits must demonstrate they have need.

## **Medicare**

The federal government's health program for individuals aged 65 and over and for individuals who have certain disabilities or end-stage renal disease.

## **Money Market Fund**

A mutual fund that invests in assets that are easily converted into cash and which have a low risk of price fluctuation. This may include money market holdings, Treasury bills, and commercial paper. Money held in money market funds is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Money market funds seek to preserve the value of your investment at \$1.00 a share. However, it is possible to lose money by investing in a money market fund.

## **Municipal Bond**

A debt security issued by a state, county, city, or other political entity (such as a school district) to raise public funds for special projects. The income from municipal bonds is normally exempt from federal income taxes. It may also be exempt from state income taxes in the state in which the municipal bond is issued. Bond prices rise and fall daily. Municipal bonds are subject to a variety of risks, including adjustments in interest rates, call risk, market conditions, and default risk. Some municipal bonds may be subject to the federal alternative minimum tax. When interest rates rise, bond prices generally will fall. Certain municipal bonds may be difficult to sell. A municipal bond issuer may be unable to make interest or principal payments, which may

lead to the issuer defaulting on the bond. If this occurs, the municipal bond may have little or no value. If a bond is purchased at a premium, it may result in realized losses. It's possible that the interest on a municipal bond may be determined to be taxable after purchase.

## **Municipal Bond Fund**

A mutual fund offered by an investment company which specifically invests in municipal bonds. Mutual fund balances are subject to fluctuation in value and market risk. Shares, when redeemed, may be worth more or less than their original cost. Mutual funds are sold only by prospectus. Individuals are encouraged to consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money.

## **Mutual Fund**

A pooled investment account offered by an investment company. Mutual funds pool the monies of many investors and then invest the money to pursue the fund's stated objectives. The resulting portfolio of investments is managed by the investment company. Mutual fund balances are subject to fluctuation in value and market risk. Shares, when redeemed, may be worth more or less than their original cost. Mutual funds are sold only by prospectus. Individuals are encouraged to consider the charges, risks, expenses,

and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money.

## **National Association of Securities Dealers Automated Quotations (NASDAQ)**

An American stock exchange originally founded by the National Association of Securities Dealers. When the NASDAQ stock exchange began trading on February 8, 1971, it was the world's first electronic stock market.

## **Net Asset Value**

The net market value of a mutual fund's current holdings divided by the number of outstanding shares. The product of this division estimates the per-share value of the fund's assets.

## **Net Income**

A company's total revenues minus its costs, expenses, and taxes. Net income is the bottom line of a company's income statement (which may also be called the profit and loss statement).

## **Net Worth**

The value of a company's or individual's assets minus liabilities.

## **New York Stock Exchange (NYSE)**

A stock exchange located on Wall Street in New York City, NY. Many regard the NYSE as the largest exchange in the U.S., and possibly in the world.

### **Non-contributory Retirement Plan**

A retirement plan that is funded entirely by employer contributions, with no employee contributions.

### **Non-qualified Plan**

A retirement or employee benefit plan that is not eligible for favorable tax treatment.

### **Old-Age, Survivors, and Disability Insurance (OASDI)**

The official name of the Social Security program. In addition to retirement benefits, it offers disability income, veterans' pensions, public housing, and food stamps.

### **Partnership**

A contract under which two or more individuals manage and operate a business venture.

### **Permanent Life Insurance**

A class of life insurance policies that do not expire—as long as premiums are kept current—and which combine a death benefit with a savings component. This savings portion can accumulate a cash value against which the policy owner may be able to borrow funds. Several factors will affect the cost and availability of life insurance, including age, health and the type and amount of insurance purchased. Life

insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

## **Policy Loan**

A loan made by an insurance company to a policyholder. Policy loans are secured by the cash value of a life insurance policy. Withdrawals of earnings are fully taxable at ordinary income tax rates. If you are under age 59½ when you make the withdrawal, you may also be subject to a 10% federal income tax penalty. Also, withdrawals may reduce the benefits and value of the contract.

## **Policy Rider**

A provision to a life insurance policy that is purchased separately from the basic policy and that provides additional benefits at additional cost.

## **Policyholder**

The person or entity who holds an insurance policy; usually the client in whose name an insurance policy is written.

## **Portfolio**



The combined investments of an individual investor or mutual fund.

## **Power of Attorney**

A legal document that grants one person authority to act for another person in specific legal or financial matters in the event that said individual becomes incapacitated.

## **Preferred Stock**

Securities that represent ownership in a corporation and have a higher claim on a company's assets and earnings than common stock. Dividends on preferred stock are generally paid out before dividends to common stockholders.

## **Prenuptial Agreement**

A contract entered into by those contemplating marriage that sets forth how their individual property will be divided should they ultimately divorce.

## **Price/Earnings Ratio (P/E Ratio)**

A ratio calculated by dividing a stock's price by its earnings per share. Investors use this ratio to learn how much they are paying for a company's earnings.

## **Prime Interest Rate**

The interest rate commercial banks charge their most credit-worthy or "prime" customers. The prime interest rate is influenced by the federal funds rate.

## **Principal**

The original amount invested in a security, excluding earnings; the face value of a bond; or the remaining amount owed on a loan, separate from interest.

## **Probate**

The court-supervised process in which a deceased person's debts are paid and any remaining assets distributed to his or her heirs.

## **Property**

Anything over which a person or business has legal title. Property may be held in common or privately owned.

## **Profit-Sharing Plan**

A defined-contribution plan under which employees share in company profits. The funds within the plan accumulate tax deferred.

## **Prospectus**

A legal document that provides the information an investor needs to make an informed decision about an investment offered for sale to the public. Prospectuses are required by and filed with the Securities and Exchange Commission.

## **Qualified Retirement Plan**

A retirement plan that is established and operates within the rules laid down in Section 401(a) of the Internal Revenue Code, and thus receives favorable tax treatment.

### **Rate of Return**

A measure of the performance of an investment. Rate of return is calculated by dividing any gain or loss by an investment's initial cost. Rates of return usually account for any income received from the investment in addition to any realized capital gains.

### **Real Estate Investment Trust (REIT)**

A pooled investment that invests primarily in real estate. REITs trade like stocks on the major exchanges. Keep in mind that the return and principal value of REIT prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

### **Redemption**

The return of an investor's principal in a debt security—such as a preferred stock or bond—upon maturity or cancellation by the entity that originally issued the security. Redemption can also refer to the sale of units in a mutual fund.

### **Required Minimum Distribution (RMD)**

The amount which must be withdrawn annually from a qualified retirement plan beginning April 1 of the year following the year in which the account holder reaches age 72.

## **Revenue**

The amount of money a company brings in from its business activities during a given period, before expenses and taxes have been subtracted.

## **Revocable Trust**

A trust that can be altered or canceled by its grantor. During the life of the trust, any income earned is distributed to the grantor; upon the grantor's death, the contents of the trust are transferred to its beneficiaries according to the terms of the trust.

## **Risk**

The chance an investment will be lost or will provide less-than-expected returns.

## **Risk Tolerance**

A measurement of an investor's willingness or ability to handle investment losses.

## **Rollover**

A tax-free transfer of assets from one qualified retirement program to another. Rollovers must be made in accordance with specific requirements to avoid a taxable event.

## **Roth IRA**

A qualified retirement plan in which earnings grow tax deferred and distributions are tax free. Contributions to a Roth IRA are generally not deductible for tax purposes, and

there are income and contribution limits. Roth IRA contributions cannot be made by taxpayers with high incomes. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawal also can be taken under certain other circumstances, such as after the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

## **Roth IRA Conversion**

The process of transferring assets from a traditional, SEP, or SIMPLE IRA to a Roth IRA. Roth IRA conversions are subject to specific requirements and may be taxable.

## **Securities and Exchange Commission (SEC)**

A federal agency with a mandate to protect investors; to maintain fair, orderly, and efficient markets; and to facilitate capital formation. The SEC acts as one of the primary regulatory agencies for the investment industry.

## **Self-Directed IRA**

An individual retirement arrangement in which the account holder can direct the investment of funds, subject to certain conditions and limits.

## **Share**

A unit of ownership in a corporation or financial asset.

## **Savings Incentive Match Plan for Employees (SIMPLE)**

A qualified retirement plan that allows employees and employers to contribute to traditional IRAs set up for employees. SIMPLE plans are available to small businesses—those with 100 or fewer employees—that do not currently offer another retirement plan.

## **Split-Dollar Plan**

An arrangement under which an employer and employee share the obligations and benefits of a life insurance policy.

## **Split-Dollar Life Insurance**

An arrangement under which a life insurance policy's premium, cash values, and death benefit are split between two parties—usually a corporation and a key employee or executive. Under such an arrangement an employer may own the policy and pay the premiums and give a key employee or executive the right to name the recipient of the death benefit. Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a

policy are dependent on the ability of the issuing insurance company to continue making claim payments.

## **Spousal IRA**

An individual retirement arrangement under which an IRA is established for a non-working spouse and is funded with contributions from the working spouse. Spousal and non-spousal IRAs are subject to combined annual contribution limits and must meet certain requirements. Contributions to a traditional IRA may be fully or partially deductible, depending on your individual circumstance. Distributions from traditional IRAs and most other employer-sponsored retirement plans are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. Generally, once you reach age 70½, you must begin taking required minimum distributions.

## **Standard & Poor's 500 Index (S&P 500)**

An average calculated by summing the prices of 500 leading companies in leading industries of the U.S. economy and dividing the sum by a divisor which is regularly adjusted to account for stock splits, spinoffs, or similar structural changes. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index.

## **Stock**

An equity investment in a company. Stockholders own a share of the company and are entitled to any dividends and financial participation in company growth. They also have the right to vote on the company's board of directors. Keep in mind that the return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

### **Stock Certificate**

A legal document that certifies ownership of a specific number of shares of stock in a corporation. In many transactions, the stockholder is registered electronically, and no certificate is issued.

### **Stock Purchase Plan**

A program under which an employer offers its employees the opportunity to buy stock at a favorable price, often through payroll deduction.

### **Stock Split**

A decision by a company to increase the number of shares of stock it has outstanding by issuing more shares to its current shareholders. For example, in a 2-for-1 split each shareholder would receive as many new shares as he or she owns—effectively doubling the number of shares he or she owns. The price per share adjusts to account for the split. In the example of a 2-for-1 split, each of the new shares would have a par value of half the prior price.



## **Tax Credit**

A credit subtracted from income taxes after preliminary tax liability has been calculated.

## **Tax Deduction**

An amount that can be subtracted from a taxpayer's income before taxes are calculated. Taxpayers may use the standard deduction or may itemize deductions if allowable itemized deductions exceed the standard deduction.

## **Tax Deferred**

A condition of certain plans and accounts under which the funds in the plan or account along with any accrued interest, dividends, or other capital gains, are not subject to taxes until the funds are withdrawn.

## **Tax-Exempt Bonds**

Debt securities issued by a state, county, city, or other political entity (such as a school district) that generate income which is exempt from federal income taxes. Income from such bonds may also be exempt from state income taxes in the state in which the bond is issued. However, some tax-exempt bonds may be subject to the federal alternative minimum tax. Bond prices rise and fall daily. Municipal bonds are subject to a variety of risks, including adjustments in interest rates, call risk, market conditions, and default risk. When interest rates rise, bond prices generally will fall. Certain municipal bonds may be difficult to sell. A municipal bond issuer may be unable to make

interest or principal payments, which may lead to the issuer defaulting on the bond. If this occurs, the municipal bond may have little or no value. If a bond is purchased at a premium, it may result in realized losses. It's possible that the interest on a municipal bond may be determined to be taxable after purchase.

## **Taxable Income**

A taxpayer's gross income, minus any adjustments, itemized deductions or the standard deduction, and personal exemptions. Taxable income is used to compute tax liability.

## **Technical Analysis**

A method of evaluating securities by examining recent price movements and trends in an attempt to identify patterns that can suggest future activity. Generally, technical analysis is the opposite of fundamental analysis.

## **Tenancy in Common**

A form of property ownership under which two or more people have an undivided interest in the property and in which the interest of a deceased owner passes to his or her beneficiaries rather than to the surviving owners.

## **Term Insurance**

Life insurance that provides coverage for a specific period. If the policyholder dies during that time, his or her beneficiaries receive the benefit from the policy. If the policyholder outlives the term of the policy, it is no longer in

effect. Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

## **Testamentary Trust**

A trust created by a will or trust that is established on the death of the trustor. Using a trust involves a complex set of tax rules and regulations. Before moving forward with a trust, consider working with a professional who is familiar with the rules and regulations.

## **Time Horizon**

The amount of time an investor plans to hold an investment or portfolio of investments.

## **Title**

A legal document that serves as evidence of ownership of an asset or security.

## **Total Return**

The total of all earnings from an investment or portfolio, including both capital appreciation and any income received.

## **Treasuries**

Debt securities issued by the United States government. Treasury bills normally have maturities of less than one year, while Treasury notes have maturities between one and 10 years, and Treasury bonds have maturities between 10 and 30 years. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury security prior to maturity, it could be worth more or less than the original price paid.

## **Trust**

A trust is a legal arrangement that creates a separate entity which can own property and is managed for the benefit of a beneficiary. A living trust is created while its grantor is still alive. A testamentary trust is created upon the grantor's death—usually by another trust or by a will. Using a trust involves a complex set of tax rules and regulations. Before moving forward with a trust, consider working with a professional who is familiar with the rules and regulations.

## **Trustee**

An individual, corporation, or other entity that manages property held in a trust.

## **Trustee-to-Trustee Transfer**

A means for transferring assets from one qualified retirement program to another without triggering a taxable event.

### **Uniform Gift to Minors Act (UGMA)**

An act available in some states that allows assets to be held in a custodian's name for the benefit of a minor without the need to set up a trust. Once the child to whom the assets have been gifted reaches the age of maturity in his or her state, the assets become his or her property and can be used for any purpose.

### **Universal Life Insurance**

Permanent life insurance that allows the policyholder to vary the amount and timing of premiums and, by extension, the death benefit. Universal life insurance policies accumulate cash value which grows tax deferred. Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

### **Unlimited Marital Deduction**

A provision of the tax code that allows an individual to transfer an unlimited amount of assets to his or her spouse at any time—including upon the individual's death—without triggering a tax liability.

### **Variable Interest Rate**

An interest rate that moves up and down with a specific measure or index, such as current money market rates or a lender's cost of funds.

### **Variable Universal Life Insurance**

Permanent life insurance that allows the policyholder to vary the amount and timing of premiums and, by extension, the death benefit. Universal life insurance policies accumulate cash value which grows tax deferred. Within certain limits, policyholders can direct how this cash value will be allocated among subaccounts offered within the policy. Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

### **Volatility**

A measure of the range of potential fluctuations in a security's value. A higher volatility means the security's value can potentially fluctuate over a larger range of potential outcomes—up and down.

## **Whole Life Insurance**

Permanent life insurance with fixed premiums and death benefit. Whole life insurance policies accumulate cash value which grows tax deferred. Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

## **Will**

A legal document by which an individual or a couple identifies their wishes regarding the distribution of their assets after death as well as the guardianship of any minor children.

## **Withholding**

The process by which an employer holds back part of an employee's compensation to pay his or her share of income,

Social Security, and Medicare taxes. Amounts withheld are paid to the IRS in the employee's name.

## **Yield**

A measure of the performance of an investment. Yield is calculated by dividing the income received from an investment by the investment's initial cost. Yield differs from rate of return in that it accounts only for income; rate of return also includes appreciation or depreciation in the value of the investment.

## **Zero-Coupon Bond**

A bond that does not pay interest during its life. Zero-coupon bonds are purchased at a discount from their face value.

When a zero-coupon bond matures, the investor receives the face value of the bond. The market value of a bond will fluctuate with changes in interest rates. As rates rise, the value of existing bonds typically falls. If an investor sells a bond before maturity, it may be worth more or less than the initial purchase price. By holding a bond to maturity, an investor will receive the interest payments due plus his or her original principal, barring default by the issuer.

Investments seeking to achieve higher yields also involve a higher degree of risk. Bond prices rise and fall daily. Bonds are subject to a variety of risks, including adjustments in interest rates, call risk, market conditions, and default risk. When interest rates rise, bond prices generally will fall. Certain municipal bonds may be difficult to sell. A bond issuer may be unable to make interest or principal



payments, which may lead to the issuer defaulting on the bond. If this occurs, the bond may have little or no value. If a bond is purchased at a premium, it may result in realized losses. It's possible that the interest on a municipal bond may be determined to be taxable after purchase.