10 Terms Every Investor Should Know

If you’re new to investing, you may encounter some unfamiliar jargon. Understanding the following terms may help you become a more confident investor.

Portfolio

An investment portfolio is a collection of investments owned by an individual or an institution. Typically, a portfolio comprises a mix of asset classes such as stocks, bonds, and cash. An investor’s risk tolerance, time horizon, and investment goals generally determine a portfolio’s asset allocation.

Stock

A stock is a security that represents ownership (or equity) in a corporation. An investor who purchases shares of stock owns a piece of the company and has a claim on a portion of the assets and earnings. Shareholders are subject to the potential benefits and risks of that position, which means they can make money if the company does well or lose money if the company does poorly.

Note: The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

Bond

A bond is a fixed-income security issued by a government entity or corporation to raise money needed for ongoing operations or to finance new projects. Investors who buy bonds are essentially lending money to the issuing organization and become a creditor. Bondholders typically receive interest payments at regular, predetermined intervals. These payments are based on a fixed annual interest rate, also known as the bond's coupon rate. Bondholders can expect to be paid the bond's full face amount at its stated maturity date, barring default by the issuer.

Note: The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost.

Cash

Cash is another investment type, or asset class. It includes currency and cash alternatives that offer low risk and high liquidity. Some examples of common cash alternatives are savings accounts, certificates of deposit (CDs), and U.S. Treasury bills.

Note: The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to $250,000 per depositor, per insured institution.

Note: U.S. Treasury securities are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest.

Mutual Fund

A mutual fund is a collection of stocks, bonds, and/or other securities purchased and managed by an investment company with funds from a group of investors. Shares are typically bought from and sold back to the investment company at the end of the trading day, with the price determined by the net asset value (NAV) of the underlying securities. Mutual funds offer investors the advantages of diversification and professional management. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

Exchange-Traded Fund

An exchange-traded fund (ETF) is also a portfolio of securities assembled by an investment company. But unlike mutual funds, ETF shares can be traded throughout the day on stock exchanges, like individual stocks, and the price may be higher or lower than the NAV because of supply and demand. ETFs typically have lower expense ratios than mutual funds, but you must pay a brokerage commission whenever you buy or sell ETFs, so your overall costs could be higher, especially if you trade frequently.

Note: The return and principal value of mutual funds and ETFs fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Before investing, carefully consider the fund's investment objectives, risks, fees, and expenses, which can be found in the prospectus. Read it carefully before investing.

Dividends

Dividends are the distributions of a company's earnings to shareholders, generally paid in cash or additional shares of the company's stock on a quarterly basis. The dividend amount per share is decided by the company's board of directors. Dividends must be reported as income by shareholders in the year received. Investors often view dividend payments as an indicator of the company's financial strength and future prospects.

Note: Investing in dividends is a long-term commitment. In exchange for less volatility and more stable returns, investors should be prepared for periods when dividend payers drag down, not boost, an equity portfolio. The amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. Dividends are typically not guaranteed and could be changed or eliminated.

Yield

Generally, the yield is the amount of current income provided by an investment. For stocks, the yield is calculated by dividing the total of the annual dividends by the current price. For bonds, the yield is calculated by dividing the annual interest by the current price. The yield is distinguished from the return, which includes price appreciation or depreciation. Investments seeking to achieve higher yields also involve a higher degree of risk.

Index

An index is a statistical composite used to track changes in economic conditions (such as inflation) or financial markets over time. Investors use some indexes as benchmarks against which the performance of certain investments can be measured. For example, the S&P 500 Index is considered to be representative of the U.S. stock market in general, but there are hundreds of other indexes based on a wide variety of asset classes (stocks/bonds), market segments (large/small cap), and styles (growth/value).

Note: The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

Bear/Bull Market

A bear market is generally defined as a period in which the prices of securities are falling, resulting in a downturn of 20 percent or more in several broad market indexes over a period of several months or longer. A bull market is a sustained period in which the market is rising and investor optimism is high, usually occurring over several months or years. Either of these market trends can influence the attitudes and behaviors of investors.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or schedule an appointment with a retirement counselor today.

Source: Broadridge Investor Communication Solutions, Inc.

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