Savings and Investments Glossary

Annual Percentage Yield: The rate of return on an investment for a one-year period. For an interest-bearing deposit account, such as a savings account, APY is equal to one plus the periodic rate (expressed as a decimal) raised to the number of periods in one year. Due to compounding, the APY will be greater than the periodic interest rate multiplied by the number of periods in the year.

Bond: An interest bearing or discounted debt security issued by corporations and governments. Bonds are essentially loans by the investor to the issuer in return for interest payments.

Broker: One who sells financial products. Whether in insurance, real estate, or stocks, most brokers work under compensation structures that are at direct odds with the best interests of their clients. When using a broker, you should always find out how he or she is compensated.

Certificate of deposit (CD): An insured, interest-bearing deposit at a bank, requiring the depositor to keep the money invested for a specific length of time.

Commission: A fee charged by a broker for executing a securities transaction. One of the principal things investors should watch for when selecting a brokerage. "Full-service" brokers can have commissions running as high as $150 per trade or more, while discount brokers average less than $20 per trade.

Common stock: A security representing partial ownership in a public or private corporation.

Compounding: When an investment generates earnings on reinvested earnings.

Corporate bond: An interest bearing or discounted debt security issued by a corporation.

Cost Basis: The original price paid for an investment (including commissions).

Discount broker: A brokerage that executes orders to buy and sell securities at commission rates lower than a full-service brokerage.

Diversification: Investing in separate asset classes (stocks, bonds, cash) and/or stocks of different companies in an attempt to lower overall investment risk.

Dividend: A share of a company's earnings paid to each stockholder. Typically, dividends are paid on a quarterly basis and are determined by the company's board of directors.

Dollar cost averaging: Investing equal amounts of money at regular intervals. The money deducted from your paycheck if you participate in your company's 401(k) program is an example of dollar cost averaging. Theoretically, you will buy more shares when the price of your investment has declined, and fewer shares when the price has risen. This may lead to an overall cost basis that is lower than the average price per share.

Federal Deposit Insurance Corporation: A federal agency that insures deposits in member banks and thrifts up to $100,000.

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Full-service broker: Full-service brokers earn commissions for each trade made in a customer's account. They make more money by trading in and out of lots of investments. They are sometimes referred to as "full-price brokers."

Government bond: An interest bearing or discounted debt security issued by a unit of government.

Individual Retirement Account: A tax-deferred retirement account set up with a financial institution such as a bank, broker, or mutual fund in which contributions may be invested in many types of securities such as stocks, bonds, money market funds, CDs, etc.

Inflation: A rise in the prices of goods and services.

Interest: The return earned on an investment.

Investment: The purchase of a financial product or other item of value with an expectation of favorable future returns. In general terms, investment means the use of money in the hope of making more money.

Junk bond: Bonds that are rated as below investment grade. The issuers of these bonds -- which are judged to be at a higher risk of default -- have to pay an attractive dividend to compensate investors for the additional risk. Also called a high-yield bond.

Large cap stock: Large caps are stocks of companies whose market value is above a designated minimum, usually in the neighborhood of $10 billion.

Liquidity: A measure of how quickly an investment can be sold at a fair price and converted to cash.

Money market deposit account: A savings account which is insured by the Federal government and offers many of the same services as checking accounts although transactions may be somewhat more limited. They are very safe and highly liquid investments, but offer a lower interest rate than most other investments.

Money market mutual fund: A mutual fund that invests in very short-term, high-liquidity investments. Similar to a savings account without the Federal government insurance, though usually offering better interest rates.

Municipal bond: A debt instrument issued by a state or local government. The advantage of investing in municipal bonds (or "munis") is their exemption from federal, and sometimes state and local, taxes.

Mutual fund: The pooled cash of many shareholders that is invested according to a stated objective, as defined by the fund's prospectus.

No load fund: A mutual fund that does not charge a sales commission.

Principal: The original cash put into an investment.

Return: The annual return on an investment, expressed as a percentage of the total amount invested. Also called rate of return.

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Risk: The quantifiable likelihood of loss or less-than-expected returns.

Risk tolerance: The measurement of an investor's willingness to suffer a decline (or repeated declines) in the value of investments while waiting and hoping for them to increase in value.

Roth IRA: An individual retirement account to which contributions are not tax-deductible. Withdrawals from the account are tax-free.

Rule of 72: The estimation of doubling time on an investment, for which the compounded annual rate of return times the number of years must equal roughly 72 for the investment to double in value.

Savings account: A deposit account at a bank or savings and loan which pays interest, but cannot be withdrawn by check writing.

Savings bond: A registered, non-callable, non-transferable bond issued by the U.S. Government, and backed by its full faith and credit.

Securities: A fancy name for shares of stock, bonds, or any kind of financial asset that can be traded.

Small cap stock: Companies with a market capitalization of $1 billion or less.

Stock: An ownership share in a corporation. Each share of stock is a proportional stake in the corporation's assets and profits, and purchasing a stock should be thought of as owning a proportional share of the successes and failures of that business.

Time horizon: The length of time a sum of money is expected to be invested.

Treasury bill: A short-term discounted security issued by the U.S. government, with a maturity of one year or less.

Treasury bond: A long-term security issued by the U.S. government, with a maturity of 10 years or more.

Treasury note: An intermediate-term security issued by the U.S. government, having a maturity of 1 to 10 years.

Yield: The income relative to the current share price that a company will pay out to the shareholders on a regular basis, usually expressed in percentage terms.

Sources: All definitions are direct quotes from one of the sites below.
The Motley Fool : http://www.fool.com/school/Glossary/glossary.htm
Investment Words.com: http://www.investorwords.com/4979/time_horizon.html