GLOSSARY OF TERMS

Active Management	A portfolio management strategy that attempts to outperform a certain benchmark index (the opposite of Passive Management).
Asset Allocation	The positioning of a portfolio among various types of asset classes with the goal being to maximize risk adjusted returns.
BOJ	Bank of Japan. The Central Bank of Japan
Capital Gains	An increase in the value of an asset above its purchase price. The gain is not realized until the asset is sold.
Central Bank	An institution that manages a country's currency, money supply and interest rates. Major central banks include The Federal Reserve (U.S.), the ECB (European Union), and The Bank of Japan.
Common Stock	Securities that represent equity ownership in a corporation. Common stockholders are lower in seniority (in terms of the capital structure) than both preferred stock and bonds.
Compound Interest	"Interest on interest" - is interest added to the principal of a deposit or loan so that this added interest also earns interest going forward.
Correlation	A statistical measure that indicates the extent to which two or more variables fluctuate together. The numerical value for correlation can be from -1 to +1. A correlation of +1 means that the two variables move up and down in lock step. Correlation of -1 means that as one variable increases, the other decreases and vice-versa.
Coupon	The interest rate stated on a bond when it is issued. The Coupon is typically paid semi-annually. For example, if a bond has a 5% coupon, during the course of a year it will make two 2.5% interest payments.
Credit Risk	The risk of a borrower defaulting on its debt by failing to make the required payments.
Current Account Surplus	A country's current account is measured by the amount it exports (lends) to the rest of the world less the amount it imports (borrows) from the rest of the world. A current account surplus implies that a country is a net exporter of goods and saves more than it invests
Deflation	An environment where the general price level of goods is decreasing.
Disinflation	An environment where the general price level of goods is increasing at a decreasing rate.
Diversification	Holding different assets or asset classes that are not perfectly correlated in order to reduce risk.
Dividend	A distribution of a portion of a company's earnings to equity shareholders. They can be issued as cash, or additional shares of stock.
Duration / Interest Rate Risk	A measure of the sensitivity of a bond's price to a change in interest rates (typically measured in years). The longer the duration, the more sensitive a bond's price is to interest rate movements.
ECB	European Central Bank. This is the central bank of the European Union

Efficient Frontier	A concept in Modern Portfolio Theory - it plots many portfolios each with a different weighting of assets. Efficient portfolios are ones in which return is maximized for a given level of risk.
Eurozone	The group of European countries that have adopted the Euro (€) currency. The four largest members by population are: Germany, France, Italy and Spain.
Fed Funds Rate	A target rate set by the U.S. Federal Reserve. It is the interest rate at which banks lend money to each. In order to stimulate the economy, the Fed has kept this rate at effectively zero since the financial crisis.
GDP	Gross Domestic Product is the monetary value of all finished goods and services produced within a country's borders. The year-over-year growth of GDP is a primary measure of the health of a country's economy.
High Yield	A sector of the bond market that consists of higher paying bonds from companies with lower than investment grade credit ratings
Inflation	An environment where the general price level of goods is increasing. "Headline" inflation is a raw number typically reported through the CPI Index, while "Core" inflation excludes the effects of food and energy price changes (which can often be volatile).
Leverage/Deleverage	Leverage involves the use of debt (i.e. borrowing capital) to increase the potential return of an investment. Deleveraging is the act of paying off debt
Liquidity Risk	The risk that an asset cannot be bought or sold without adversely impacting the price.
NASDAQ	A computerized stock exchange. NASDAQ also refers to an index of more than 3,000 stocks, many of which are technology focused companies.
Net Asset Value (NAV)	For mutual funds and ETFs, the NAV is the total amount of assets in the fund (minus any liabilities) divided by the number of shares outstanding.
NYSE	The New York Stock Exchange is one of the largest stock based exchanges in the world.
P/E Ratio	Price-to-Earnings ratio. A valuation measure of a company, P/E is the price of a stock divided by the company's earnings per share. A high P/E relative to a company's peers may imply that the stock is too expensive
Par Value	For a bond, the par value is the maturity or face value of a bond. This is the amount from which interest is calculated and the amount that will be returned to the lender at the bond's maturity date.
Passive Management / Passive Investing	Also known as "Index Investing," a passive management strategy consists of trying to mimic (not beat) the return of a certain index or benchmark.
Preferred Stock	A type of stock that has a higher claim on assets and dividends than common stock. Preferred stock dividends typically must be paid before those of common stock.
Principal	As it relates to bonds, principal is the amount loaned to the bond issuer or the amount repaid to the lender at maturity.
Prospectus	A document that provides details about an investment. A prospectus is required by the SEC for securities being sold to the public and is meant to contain information that an investor needs in order to make an informed investment decision.
QE or Quantitative Easing	The monetary policy program used by the U.S. Federal Reserve and other central banks whereby the central bank buys large amounts of securities from the market in order to increase the money supply, lower interest rates, spur lending and foster liquidity.

Real Interest Rates or Real Return	Using "real" before a percentage rate typically means that is the return or rate after subtracting inflation. For example, if interest rates are at 5% and inflation is at 2%, the "real" interest rate is 3%.
Recession/Depression	Recession is a significant decline in economic activity that typically lasts from a few months to over a year. Technically, a recession is two or more consecutive quarters of a decline in GDP. A depression is a period of severe economic downturn (worse than a recession) that lasts two or more years.
Secular Market	A market driven by forces that could be in place for many years
Shiller Ratio	A type of price-to-earnings ratio that cyclically adjusts earnings over the past 10 year period. It is a valuation measure for the equity markets. A higher than normal Shiller Ratio may mean that the market is over-valued while a lower reading might be consistent with stocks being under-valued.
Standard Deviation	A measure of the dispersion of a set of data from its average. In finance, standard deviation is also a proxy for risk because it can measure the magnitude of price fluctuations over time.
Systematic Risk (Market Risk)	The risk inherent to the entire market as opposed to a specific security or company.
Unsystematic Risk (Company Specific Risk)	Security or company specific risk. This is the type of risk that can be minimized by diversification.
Volatility	A measure of the variation of price over time. Typically measured by standard deviation.
Yield	The income return on an investment. For bonds, current yield can be calculated as the interest payment divided by the bond's market price. For stocks, it is the dividend divided by the stock price.
Yield Curve	A chart that plots interest rates of equal credit quality bonds over different maturity dates.