A

Annual Report - Yearly record of a publicly held company's financial condition. It includes a description of the firm's operations, management's discussion of the year's results, as well as a balance sheet, income statement and cash flow statement information. Securities and Exchange Commission rules require that it be distributed to all shareholders. A more detailed version is called a 10-K and is filed with the SEC.

Annual Meeting - Meeting of a company's stockholders held once a year at which its managers report on the year's results. It is at the annual meeting that shareholders can ask questions of management.

Asset - Any possession that has value in an exchange.

Average - An arithmetic mean return of selected stocks intended to represent the behavior of the market or some component of it. One example is the widely quoted Dow Jones industrial average (DJIA), which adds the current prices of the 30 DJIA stocks and divides the results by a predetermined number, the divisor.

B

Balance Sheet - Also called the statement of financial condition, it is a summary of a company's assets, liabilities and net worth at a specific time.

Bear - An investor who believes a security or the overall market in one asset class will decline. A bear market is a prolonged period of falling stock or bond prices, usually by 20 percent or more.

Bear Market - An overall downward trend in securities prices that reflects slower economic activity or investors' anticipation of it. In the post-World War II period, bear markets have typically lasted just under 12 months.

Blue Chip Company - A large, credit-worthy company known for the quality and wide acceptance of its products or services and its ability to make money and often pay dividends. Blue chip shares refer to stocks in these companies.

Board of Directors - Individuals elected by a company's shareholders who carry out certain tasks established in its charter. Boards are usually composed of a combination of inside and outside directors. The inside directors may include certain key executives, such as the chief executive officer, as well as directors who are considered close to the firm, such as representatives from firms that do a substantial amount of business with the company. Outside directors, on the other hand, have no direct connection with the firm. Members of the board serve on various committees created to rule on significant issues at the company. For example, the audit committee oversees the company's accounting methods and the compensation committee rules on executive pay at the company. Good corporate governance involves having strong, independent outside directors and a chairman of the board who is an outside director.

Book Value - A company's total assets minus liabilities, such as debt, and sometimes intangible assets as well. Companies whose shares trade below their book values are often sought out by so-called value investors.

Book Value per Share - A company's book value divided by its shares outstanding. Book value per share reflects accounting valuation but not necessarily market valuation.

Brokerage Firm - A company that conducts various aspects of securities trading, analysis and advisory services. Such firms employ brokers who buy and sell securities for customers' accounts, and investment bankers who provide advice on acquisitions and restructurings to corporate clients. These firms also trade securities for their own profit. Most are publicly traded companies.

Bull - An investor who thinks the market or a particular stock will rise.

Bull Market - A market characterized by generally rising security prices. Historically, at least in the postwar period, bull markets have lasted longer than bear markets. The longest bull market in history began in late 1990 and lasted until March 2000.

Buy-and-Hold Strategy - An investment strategy with little active buying and selling of stocks from the time the portfolio is created until the end of the investment horizon. Investors who adhere to this strategy do so in hopes of reducing their trading costs, thereby generating more net income.

C

Capital - Money invested in a firm or stock.

Capital Appreciation - Growth of capital; increase in the market price of a common stock.

Capital Gain - When a stock is sold for a profit, the capital gain is the difference between the net sales price of the securities and their net cost, or original basis price. If a stock is sold below cost, the difference is a capital loss.

Capital Gains Tax - The tax levied on profits from the sale of capital assets. A long-term capital gain, which is achieved once an asset is held for at least 12 months, is taxed at a maximum rate of 15 percent or 5 percent, depending on a taxpayer's income. Assets held for less than 12 months are currently taxed at regular income tax levels, which are considerably higher.

Commission - The fee paid to a broker to execute a trade, based on number of shares, bonds, options, and/or their dollar value. In 1975 deregulation led to the establishment of discount brokers, who charge lower commissions than full-service brokers. Full-service brokers offer advice and usually have a staff of analysts who follow specific industries. Discount brokers simply execute a client's order and usually do not offer an opinion on a stock.

Common Stock - Securities that represent equity ownership in a company. Common stock lets an investor vote on such matters as the election of directors. They also give the holder a share in a company's profits via dividend payments or the capital appreciation of the security. Common stockholders have junior status to the claims of secured/unsecured creditors, bondholders and preferred shareholders in the event of a company's liquidation.

Compound Growth Rate - The rate of growth of a figure, compounded over some period. Returns in an investment are usually figured using compound growth rates.

Compounding - The process of accumulating the value of money forward in time. For example, interest earned in one period earns additional interest during each subsequent period.

D

Direct Stock Purchase Program - Investors purchase securities directly from the issuer. These plans benefit investors because they can buy shares without paying a commission.

Discount Broker - A brokerage house that charges relatively low commission rates in comparison to a full-service broker. The discount broker's fees are lower because they usually do not offer services such as client advice and research.

Dividend - A portion of a company's profit paid to holders of its common and preferred stocks. A stock selling for $20 with an annual dividend of $1 a share yields the investor 5 percent. Dividends on common stock are discretionary and depend on the company's profits. *(SSG Section 3F)*

Dividend Reinvestment Plan (DRIP) - Automatic reinvestment of shareholder dividends in more shares of a company's stock, often without commissions. Some plans provide for the purchase of additional shares at a discount to the prevailing market price. Dividend reinvestment plans allow shareholders to accumulate stock over the long term. The DRIP is usually administered by the company without charges to the holder.

Dividend Yield - Represents annual dividends paid to shareholders divided by the prevailing price of the stock. *(SSG Section 5A)*

Dollar Cost Averaging - Method of purchasing securities by investing a fixed amount of money at set intervals. The investor buys more shares when the price is low and fewer shares when the price is high, thus reducing the overall cost.

Dow Jones Industrial Average (DJIA) - The bestknown U.S. index of stocks. A price-weighted average of 30 actively traded, well-established companies' shares. The Dow, as it is called, is a barometer of how shares of the largest U.S. companies are performing. There are hundreds of investment indexes around the world for stocks, bonds, currencies and commodities. Even though the Dow is composed of only 30 stocks, its performance has tracked that of the broader market indexes, such as the S&P 500, remarkably closely over long periods.

E

Earnings - Net income from a company over a specific period. Colloquially referred to as the "bottom line" because net earnings is the entry at the bottom of the income statement after all expenses and costs are deducted.

Earnings per Share (EPS) - A company's profit divided by the number of shares it has outstanding. If a company earns $2 million in one year and has 2 million shares of stock outstanding, its EPS would be $1 per share. If a company reduces the shares outstanding by buying back its own stock, for example, it can make earnings look better, even if the actual amount that it earned remains the same. *(SSG Section 3C)*

EPS - *See Earnings per Share.*

Equity - Ownership interest in a firm or asset. In real estate, dollar difference between what a property could be sold for and debts claimed against it, such as a mortgage. In a brokerage account, equity equals the value of the account's securities minus any money borrowed from a brokerage firm in a margin account. "Equities" is another name for stocks or company shares.

Exchange - A place in which shares, options and futures on stocks, bonds, commodities and indexes are traded. Principal U.S. stock exchanges are: New York Stock Exchange (NYSE), American Stock Exchange (AMEX), Chicago Board Options Exchange, Philadelphia Stock Exchange and Pacific Coast Exchange located in San Francisco. Because the shares on the National Association of Securities Dealers Automated Quotation System (Nasdaq) market are not traded in one physical location, it is not called an exchange but instead a stock market.

F

Financial Analyst - Professional who studies companies, analyzes financial statements, interviews corporate executives and attends investment presentations to write reports recommending either purchasing, selling or holding various stocks. Also called securities analyst and investment analyst.

Fiscal Year (FY) - Accounting period covering 12 consecutive months over which a company determines its earnings and profits. The fiscal year serves as a period of reference for the company and does not necessarily correspond to the calendar year.

Form 10-K - A report required by the SEC from public companies that provides for annual disclosure of certain audited financial information. This is the most common tool used by investors to compare a company's operations from year to year. The 10-K often includes more detailed information than the company's annual report, such as sales by product group, officer compensation, the status of legal proceedings and the management team's assessment of future risks and opportunities. The "Management Discussion" portion of the 10-K describes the company's performance and strategies in plain English.

Form 10-Q - The quarterly financial report required of public companies by the SEC. The SEC does not require that financial statements in the 10-Q, as

GLOSSARY

compared to the annual 10-K, be audited, but the filing often provides details about a company's announced quarterly earnings.

401(k) - Under section 401(k) of the Internal Revenue Code, a deferred-compensation plan set up by an employer so that employees can set aside money for retirement on a pretax basis. Employers may match a percentage of the amount that employees contribute to the plan. Contributions by both employees and employers, as well as investment earnings and interest, are not taxed until the employee withdraws the money. If the employee withdraws the money before retirement age, he or she pays an early withdrawal penalty tax. Many employers now offer these deferred-compensation plans in lieu of or in addition to pensions.

Fundamental Analysis - Security analysis that seeks to detect misvalued securities through an analysis of the firm's business prospects. Research often focuses on earnings, dividend prospects, expectations for future interest rates and risk evaluation of a company. Opposite of technical analysis. In macroeconomic analysis, information such as interest rates, gross domestic product, inflation, unemployment and inventories is used to predict the direction of the economy and, therefore, the stock market. In microeconomic analysis, information such as that found on the balance sheet, income statement, an assessment of products, management and other market items is used to forecast a company's future success or failure, and expected price action of the stock. NAIC's stock study methods are based on this type of fundamental analysis.

G

Growth Investing - An investing style that seeks capital appreciation rather than income. Growth investors assume more risk than income-seeking investors. Compare with value investing.

H

High Price - The highest price of a stock over the past 52 weeks, or other periods, adjusted for any stock splits. Can be measured using either closing prices or intraday prices. *(SSG Section 3A)*

I

Income Statement (Statement of Operations) - A financial statement showing a company's revenues and costs over a specific period. The difference between revenues and expenses is net income. Investors consult income statements to see that a company's sales are rising and that its costs are being kept under control. An income statement is also where investors go to check that a company's operations are generating enough money to cover the interest costs on its debt, for instance. When all costs, including taxes, are deducted from a company's sales, the resulting net income is divided by the number of shares outstanding to compute earnings per share.

Individual Retirement Account (IRA) - A retirement account that may be established by an employed person. IRA contributions have pre-established limits (up to $3,000 for 2003 for contributions made as late as April 15, 2004, plus a catch-up contribution of an additional $500 for those age 50 or older by Dec. 31, 2003). For those with earned income who don't participate in a qualified plan such as a 401(k), 403(b) or profit sharing plan, Traditional IRA contributions are tax-deductible, and gains in the account are tax-deferred until they are removed.

Investment Club - A group of people who combine their money into a larger pool, then invest collectively in stocks and bonds making decisions and advancing their investment education as a group.

L

Liability - A financial obligation, or the cash outlay that must be made at a specific time to satisfy the contractual terms of such an obligation.

Long-Term Investor - A person who makes investments for a period of at least five years to finance his or her long-term goals.

Low Price - The lowest price of a stock over the past 52 weeks or other periods, adjusted for any stock splits. Can be measured using either closing prices or intraday prices. *(SSG Section 3B)*

M

Management - The people who administer a company, create policies and provide the support necessary to implement the owners' business objectives.

Market Capitalization - The total dollar value of all outstanding shares based on current prices. Computed as shares times market price. Market capitalization is one measure of a corporation's size. Another is its total sales, used as a proxy for market capitalization by many NAIC investors.

Market Price - The reported price at which a security trades on an exchange at a given time.

Market Value - (1) The price at which a security is trading and could presumably be purchased or sold. (2) What investors believe a firm is worth; calculated by multiplying the number of shares outstanding by the current market price of a firm's shares. Also known as market capitalization.

N

Net Income - A company's total earnings, reflecting revenues adjusted for costs of doing business, depreciation, interest, taxes and other expenses. Investors want to see a company's net income rise year to year.

P

Payout Ratio - Generally, the proportion of earnings paid out to the common stockholders as cash dividends. More specifically, the firm's cash dividend divided by the firm's earnings in the same reporting period. If the ratio declines significantly, the company might have to suspend payment of its common stock dividend. *(SSG Section 3G)*

P/E Ratio - *See Price-Earnings Ratio.*

Portfolio Diversification - Investing in different asset classes and in securities of many issuers in an attempt to reduce overall investment risk and to avoid damaging a portfolio's performance by the poor performance of a single security, industry or country investment.

Price-Earnings (P/E) Ratio - A measure of the multiple of earnings at which a stock sells. Determined by dividing a stock's price by its earnings per share. Earnings per share for the P/E ratio is typically determined by dividing earnings for the past 12 months by the number of common shares outstanding. Earnings expected in the year ahead can also be used to calculate the P/E ratio. A higher multiple may mean investors have higher expectations for future growth and have bid up the stock's price. *(SSG Sections 3D-E)*

Profit Margin - Comparison of a company's earnings with its net sales, figured by dividing net income by revenue for the same 12-month period. Result is shown as a percentage. Indicator of profitability. Also called net profit margin; pre-tax margin when income before taxes is used. *(SSG Section 2A)*

Proxy Statement - Document intended to provide shareholders with information necessary to vote in an informed manner on matters to be brought up at a stockholders' meeting. Includes information on closely held shares. Information required by the SEC that must be provided to shareholders who wish to vote for directors and on other company decisions by proxy. These filings are also where shareholders find out how much a company's top executives are being paid in cash, stock and other perks.

R

Rate of Return - Calculated as the current value minus the value at the time of purchase divided by value at time of purchase. For equities, dividends are included with the current value. Often expressed in compound annual terms.

Return on Equity (ROE) - Key indicator of profitability. A percentage determined by dividing net income for the past 12 months by common shareholders' equity, or dividing earnings per share by book value per share. May be decomposed into return on assets multiplied by financial leverage or total assets divided by total equity. Investors use return on equity as a measure of how efficiently a company is using its money. *(SSG Section 2B)*

Revenue - *See Sales.*

Risk - The degree of uncertainty of return on an asset. There are many types of risk. For example, market risk refers to the volatility in stock prices; currency risk refers to the impact a rising or falling currency might have on an investment; and interest rate risk is the risk associated with the rise or fall in interest rates.

S

Sales - Income received by a company in exchange for goods and services recorded for a given accounting period. *(Shown visually in SSG Section 1)*

Securities and Exchange Commission (SEC) - The federal agency that regulates the U.S. financial markets. The SEC also oversees the securities industry and promotes full disclosure to protect the investing public against malpractice in the securities markets. www.sec.gov.

Shareholders' Equity - This is a company's total assets minus total liabilities, or its net worth.

S&P 500 Composite Index - Index of 500 widely held common stocks that measures the general performance of the market. This index is the benchmark against which many investment managers are judged. The mix of companies changes over time to reflect dominance of certain industries. Unlike the Dow Jones industrial average, the S&P 500 is a capitalization-weighted index, which means that as stocks rise in value they carry a heavier weighting in the index. As they fall, they hold less sway over the entire index.

Stock Selection Guide - NAIC's primary investment tool for analyzing a company and arriving at expectations for its growth and profitability in the future.

T

Total Capitalization - The total long-term debt plus all types of equity for a company, which constitutes its capital structure.

Trend Line - A technical chart line that depicts the past movement of a security and is used in an attempt to help predict future price movements.

U

Undervalued - A stock price perceived to be too low, as indicated by a particular valuation model. For instance, some might consider a particular company's stock price cheap if the company's price-earnings ratio is much lower than the average for its industry. Another method of valuation that might indicate a cheap stock would be if a company's shares are trading for a price below its asset value.

V

***Value Line Investment Survey* -** A proprietary investment service that provides research on stocks and ranks them for timeliness and safety. www.valueline.com.

W

Wall Street - Generic term for securities industry firms that buy, sell and underwrite securities and provide investment advice to institutional and individual investors.

Y

Yield - The percentage rate of return paid on a stock in the form of dividends, or the effective rate of interest paid on a bond or note.