



# STARPoints

## Investment Terms for Real People

### A Resource Series for Saving & Investing

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FINANCIAL TERMS  
ARE PART OF OUR  
EVERYDAY LIFE.

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We read about them in the paper, hear about them on the radio and in the news nearly every day. Though the terms may seem familiar, what they mean may not always be clear. Following is a list of some basic investment terms and a brief definition of each:

**ASSET:** Anything you own that has monetary value, such as stocks, bonds, or other investments.

**ASSET CLASS:** A group of securities with similar characteristics. The three major asset classes are cash equivalents, stocks and bonds

**ASSET ALLOCATION:** Process of dividing your investments among the major asset classes.

**BEAR MARKET:** A period of time when the prices of securities in a market are falling or are expected to fall.

**BOND:** A certificate of debt issued by a company or government agency. When you purchase a bond you are lending money to the issuer. In exchange the issuer promises to repay the loan on a specific date with interest payments made periodically over the life of the loan.

**BOND FUND:** A group of bonds that are managed and offered for sale as a single investment by an investment company.

**BULL MARKET:** A period of time when the prices of securities in a market are rising or are expected to rise.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit usually offered by banks or credit unions. When you invest in a CD, you loan money to the issuing financial institution. In exchange, the issuer promises to pay a specific rate of interest over a defined period of time and to return your original investment amount when the CD matures.

**COMPOUNDING:** Money earned on an investment with the interest calculated monthly or annually and reinvested. Over time, compounding can help an investment grow substantially.

**DIVERSIFICATION:** The process of spreading money among different investments regardless of their asset class.

**DIVIDEND:** A portion of a company's profits that is paid out to stockholders.

**DOLLAR-COST AVERAGING:** An investment strategy in which you invest a set amount regularly and consistently, despite market conditions. This strategy helps you to buy more shares when prices are low, and fewer shares when prices rise.

**INDEX:** A measurement of the performance of a particular group of securities over time. An index can serve as a benchmark that represents a particular market. For instance, The Dow Jones Industrial Average and S&P 500 Index are two common indices that are used as benchmarks to measure the overall performance of the stocks of large capitalization U.S. companies.

**INTEREST:** The income a borrower pays to a lender or depositor.

**MONEY MARKET:** Short-term debt securities with a maturity of one year or less and often 30 days or less. They're very safe investments that return a relatively low interest rate.

**MUTUAL FUND:** A group of assets that are managed as a single investment by an investment company.

**PRINCIPAL:** The amount of an initial investment, or unpaid balance on a loan.

**PORTFOLIO:** A combination of investments, such as stocks, bonds and money market instruments.

**RISK:** The extent to which an investment can go up and down in value in response to many factors, including overall market performance, individual company or business performance, interest rate changes and the overall impact of inflation.

**SECURITY:** A stock, bond, or other type of investment.

**STOCK:** A share of ownership in a company which often includes voting rights.

**STOCK FUND:** A group of stocks that are managed and offered for sale as a single investment by an investment company.

**VOLATILITY:** The amount by which the price of an investment changes in the short term.

**YIELD:** The profit on an investment made through interest or dividends.

#### WANT TO KNOW MORE?

The more you know, the more confident you'll be as an investor.

For additional information on investing and investment terms check out financial glossaries at the resources below:

[www.CNNmoney.com](http://www.CNNmoney.com)

[www.investorwords.com](http://www.investorwords.com)

[www.marketwatch.com](http://www.marketwatch.com)

[www.reuters.com/glossary](http://www.reuters.com/glossary)