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IN THE KNOW

INVESTMENT GLOSSARY

A

ALPHA Measures the excess return an investment generates compared to an index or benchmark after adjusting for risk

ALTERNATIVE INVESTMENTS Investments with a low correlation to traditional stock and bond markets that are intended to diversify a portfolio beyond the major asset classes that serve as a heavy weighting in most portfolios

ASSET ALLOCATION The attempt to optimally divide a portfolio across different categories of investment for the purpose of appropriately blending the portfolio to a particular investor's goals, timeline, risk profile, liquidity needs, and more

ASSET CORRELATION A statistical measure of how different groups of investments move in relation to one another. Correlation can be positive if two asset classes tend to move in the same direction or negative if two asset classes tend to move in the opposite direction of each other. Investors analyze these relationships to effectively diversify portfolios and mitigate risk

ASSET LOCATION The proper placement of where assets are held. For example, tax-inefficient investments may be better suited for retirement accounts, while tax-efficient equities may fit more naturally in taxable accounts

ASSET-BACKED SECURITY (ABS) A bond backed by assets such as auto loans, credit card receivables, or equipment leases. These securitized assets have grown in example and application in recent years

B

BASIS POINT A simplified way to reference .01% without having to say, "point zero one percent." For example, we would say "15 basis points" instead of 0.15%

BEAR MARKET Though it is not scientifically or academically defined, the generally accepted definition is when a given asset class declines in value by 20% or more. Cyclical bear markets are often short-lived and secular bear markets can last years

BETA
The measurement of a stock's sensitivity to overall market movements. It tells you whether a stock is more volatile or less volatile than the total market

BOOK VALUE
It is literally the "Assets minus Liabilities" of a company's balance sheet. That said, because "Assets" of public companies often include heavy complexity around "goodwill" and other "intangible" assets, it is not as black and white of an accounting metric as meets the eye

BPS
A short-hand term for "basis points" (defined above)

BREADTH
A health measurement of the stock market comparing the number of advancing stocks to declining stocks

BUSINESS DEVELOPMENT COMPANY (BDC)
An investment vehicle that raises capital to provide loans and financing to small and mid-sized private companies. Some BDC's are publicly-traded and some are private

C

CALL OPTION
A financial instrument/contract where a buyer has the right, but not the obligation, to purchase an underlying asset at a predetermined price before a set expiration date. Investors buy call options with the expectation that the asset's price will rise, allowing them to net a profit by buying the asset below market value

CAPEX
Short-hand for capital expenditures, the funds a business uses to acquire, build, maintain, repair, or upgrade long-term physical assets such as machinery, property, facilities, vehicles, technology equipment, and more. "Soft capex" can refer to research and development, intellectual property, and training investment

CAP RATE
For an investment property, the cap rate is reached by dividing its net operating income (Total Property Revenues - Total Operating Expenses) by its current market value. A lower cap rate indicates a more expensive property and higher cap rate means less expensive

COMPOUND ANNUAL GROWTH RATE (CAGR)
The annualized growth rate of an investment over a specified period

CONCENTRATION RISK
Investment risk that comes from inadequate diversification - where exposure to one investment, sector, or area of investment is so high that it is considered too concentrated or prevalent in a portfolio

CONSUMER PRICE INDEX (CPI)
The most widely followed measure of consumer price changes (managed by the Bureau of Labor Statistics)

CREDIT SPREAD
A measurement that looks at the difference in yields between some bond that has credit risk and a “risk-free” government bond. The expanding or contracting of credit spreads speaks to market sentiment around risk

D

DEFLATION
When prices are declining across the economy

DERIVATIVES
Financial instruments whose value is based on an underlying asset, such as a stock, bond, interest rate, & commodities. Each derivative has an underlying asset that dictates its pricing, risk, and basic term structure. Options, swaps, and futures are the primary types of derivative contracts

DIRECT LENDING A form of Private Credit describing loans made directly from investors to privately held companies without using a traditional bank or public bond issuance. Usually made to middle-market business, these are often floating rate and senior secured loans

DISINFLATION When prices are rising but the rate of growth of prices is declining

DIVIDEND A distribution of corporate profits paid to shareholders, typically in cash,though that cash dividend can (and often is) reinvested immediately into more shares of stock of the company paying the dividend

DOLLAR SWAP An agreement between the Federal Reserve and a foreign central bank to exchange currencies. It is generally an emergency liquidity mechanism for foreign countries

DOLLAR-COST AVERAGING Investing a fixed amount of money at regular intervals, regardless of market fluctuations and events, so as to buy more shares when prices are low and less when prices are high. It can be done as a timing risk mitigator, or because of recurring incoming cash flows

DOLLAR-WEIGHTED RETURN (DWR) The same as an Internal Rate of Return, it measures how one's actual portfolio did by factoring in the impact of cash flows

DOVISH The term used to describe a monetary policymaker who favors easier money, more accommodation, and lower interest rates

DOWNSIDE TOLERANCE A term to describe an investor's comfort level with how much the portfolio could fluctuate to the downside without creating discomfort or a panic reaction

DRAWDOWN FUND An alternative investment structure in which committed capital is "called" over several years while being deployed into investments. This structure is often used for Private Equity, Venture Capital, and some Real Estate funds

DURATION A measure of a bond’s sensitivity to changes in interest rates

E

EARNINGS-PER-SHARE (EPS) A company's net income divided by its outstanding shares, representing the portion of profit attributable to each share of stock

EARNINGS SEASON The period that generally runs from the middle of January, April, July, and October for the next three weeks where most public companies report their quarterly results from the prior quarter

EBITDA Earnings (corporate profits) without considering the impact of interest expense, taxes, depreciation, and amortization

EMERGING MARKET Countries that are not yet “developed” but still developing. It generally references industrialization, the size of the country's middle class, and how integrated with the global financial system a country is

EQUITY RISK PREMIUM The excess return over the risk-free rate that investors want in exchange for the risk and volatility they endure for holding a risk asset

ESTATE PLANNING	The process of organizing legal, financial, and tax affairs to transfer wealth efficiently to desired heirs. In addition to the transfer of assets, the process also involves key decisions such as who will have decision-making authority around health, financial, and family affairs
EXCHANGE-TRADED FUND (ETF)	A pooled investment vehicle that trades on an exchange like a stock. The fund may replicate an index (passive) or be managed by a manager (active). It could be stocks or bonds. But what makes it an ETF is that it is a fund which trades like a single stock
EX-DIVIDEND DATE	The first day a stock trades without the right to receive an upcoming dividend (meaning, investors must own the stock before this date to receive the payment)

F

FEDERAL FUNDS RATE	The target rate set by the Federal Reserve which dictates what commercial banks will charge each other for overnight, uncollateralized loans. This interbank lending is at the core of bank reserve and liquidity requirements and so it serves as a baseline for most borrowing costs
FEDERAL OPEN MARKET COMMITTEE (FOMC)	The branch of the Federal Reserve (featuring 12 members) that sets U.S. monetary policy, including the setting of interest rate targets and directing open market operations (the buying and selling of government securities to manage the supply of credit in the economy)
FIDUCIARY	A financial professional who is legally bound to put the client's best interest first, to avoid conflicts and self-dealing, and to act with the highest standard of loyalty and care
FISCAL POLICY	The policy realm focused on government influence of the economy, generally through taxation, spending, and budget decisions
FREE CASH FLOW	The operating cash flow of a business less its capital expenditures. It represents the real cash a company generates after covering its expenses. This is the money that is left over to pay dividends, reduce debt, or reinvest in the business
FUNDAMENTAL ANALYSIS	A manner of evaluating financial assets by studying revenues, profits, strategy, management, and more

G

GETTING YOUR FACE RIPPED OFF	A vernacular we use (and frequently used in our business) to describe someone losing far more, far quicker, than they thought would be possible
GROSS DOMESTIC PRODUCT	The total value of goods and services produced within a country, commonly used as one measurement for economic growth

H

HAWKISH	The term used to describe a monetary policymaker who favors tighter money, less accommodation, and higher interest rates

I

INTEREST RATE RISK	The risk that interest rates will change, negatively impacting the price of a fixed rate security (like a bond)

INTERNAL RATE OF RETURN (IRR) — The annualized return an investment generates after accounting for cash flows

INTRINSIC VALUE — What a company is worth based on the discounting of future cash flows rather than the stock price itself

INVERTED YIELD CURVE — Market condition where short term bonds are paying higher interest rates than long term bonds. This is typically indicative of something wrong in the economy or a policy error at the Fed

J

JOLTS (JOB OPENINGS AND LABOR TURNOVER SURVEY) — A monthly report from the Bureau of Labor Statistics that tracks job openings, hires, quits, and layoffs

M

MARKET CAPITALIZATION — The total value of a company's outstanding equity shares. It is generally the enterprise value of a company less the amount of debt it has

MARK-TO-MARKET — A reference to the current fair market value of an asset versus original purchase cost or last known sale price

MASTER LIMITED PARTNERSHIP (MLP) — A publicly traded partnership, typically an energy infrastructure business, that passes most of its income directly to investors at high distribution yields

MONETARY POLICY — The policy realm focused on central bank decisions, generally related to money supply, interest rates, and financial conditions

MORTGAGE-BACKED SECURITY (MBS) — A bond backed by pools of residential or commercial mortgages (so there are RMBS and CMBS)

MULTIPLE EXPANSION — A period of valuations increasing where the sentiment and appetite for risk assets increases

MULTIPLE — A synonym of the P/E ratio (the mathematical summary of the price of a stock or an index divided by the earnings of that company or index)

O

OPERATING LEVERAGE — The term for a company that can grow profits faster than revenues because costs rise at a slower pace than sales

P

PAYOUT RATIO — The percentage of a company's earnings paid out as dividends. There is not a perfect ratio as each company's earnings stability and balance sheet is different. In theory, too low of a ratio suggests a lack of seriousness about the dividend, and too high suggests vulnerability to the dividend if the company hits tough times

PRICE-TO-EARNINGS RATIO (P/E) — A valuation metric that compares a company's stock price to its earnings-per-share. It is widely considered the most common and useful valuation metric

PRIVATE CREDIT — A broad umbrella term describing loans made by non-bank lenders rather than through publicly traded bond markets or commercial banks. Typically carries higher yields than traditional public bonds in exchange for reduced liquidity and transparency

PRIVATE EQUITY MANAGER — A reference to the "general partner" of a private equity investment who has some capital invested, along with the capital of other investors, but who retains control and decision-making authority

PRIVATE EQUITY — The asset class where privately-held companies are bought for the purpose of being improved and paths to value creation pursued

PRODUCER PRICE INDEX (PPI) — A measurement of changes in prices at the producer/wholesale level (prices paid by sellers of products as opposed to buyers of products)

PUT OPTION — A financial instrument/contract where the buyer has the right, but not the obligation, to sell an underlying asset (e.g., a stock, currency, bond, commodity, future, or index) at a set price by a pre-established date. Investors buy put options to protect against an asset's price decreasing, allowing them to recoup a portion of the loss if it falls below the price of the put option

Q

QUALIFIED CHARITABLE DISTRIBUTION (QCD) — A direct IRA transfer to a qualified charity that may satisfy RMD requirements while avoiding taxable income

QUALIFIED DIVIDENDS (VS. ORDINARY DIVIDENDS) — Qualified dividends are taxed at lower "investment tax" rates and Ordinary dividends are taxed at "ordinary income" rates. Most dividends coming from an eligible corporation are qualified. Unique vehicles like REIT's and MLP's are examples of company structures whose dividends are not qualified. There also is a holding period requirement for a dividend to be "qualified"

QUANTITATIVE EASING (QE) — A monetary policy tool involving large-scale bond purchases to increase liquidity and bank reserves, and theoretically to stimulate economic activity

QUANTITATIVE TIGHTENING (QT) — A monetary policy tool involving reduction of Fed bond holdings to decrease liquidity and bank reserves, and theoretically to slow economic activity

R

REAL ESTATE INVESTMENT TRUST (REIT) — A company that owns, operates, or finances income-producing real estate and typically distributes 90% of its taxable income to shareholders as dividends

REAL RETURN — The return on an investment after factoring in the impact of inflation

REBALANCING — The process of buying some things and selling others within your portfolio to bring it back to the proper allocation. Over time, market movement can cause a portfolio to drift away from its original strategy. If something performs well it may become a larger share of the portfolio than intended, increasing risk. Rebalancing helps maintain discipline by realigning investments with the client’s goals, risk profile, and long-term financial plan

REINVESTMENT RISK — The risk that one will have to reinvest at a lower rate or yield than what a prior investment offered. For example, if one has a bond that pays 5%, but then when it matures the new rate is 3%, the investor faces a lower income than they previously enjoyed

REQUIRED MINIMUM DISTRIBUTION (RMD) — The minimum amount that must be withdrawn annually from certain retirement accounts after reaching an applicable age

RETURN ON EQUITY (ROE)	It divides Net Operating Profit by the Average Shareholders Equity in the business
RETURN ON INVESTED CAPITAL (ROIC)	It divides Net Operating Profit by Total Invested Capital and indicates how efficiently a company allocates capital to grow profitability
RISK-FREE RATE	A benchmark for comparing returns on riskier investments, highlighting the additional return required for risk-taking. A short-term U.S. Treasury bill is often used as the theoretical risk-free rate
RISK-OFF	A term to describe a period where investors tend to sell all risk assets and not just particular ones
ROTH IRA	A retirement account funded with after-tax dollars that allows tax-free qualified withdrawals and enjoys tax-free growth of portfolio income and gains

S

SECULAR MARKET CYCLE	A reference to an extended period of time of a market cycle, whether a good or bad cycle, that refers to structural and long-term dynamics versus cyclical ones
SEQUENCE OF RETURNS RISK	The risk that poor investment returns early in a time period can have a disproportionate negative impact on how long a portfolio lasts, even if average long-term returns are strong
SHARPE RATIO	A measurement of a risk-adjusted return, calculated by subtracting the risk-free rate from the return, and dividing that return by the investment's volatility
STEP-UP IN BASIS	The term used to describe a purchase price being adjusted to a date-of-death value versus actual purchase value when determining the taxability of a gain when a sale takes place. If a stock is bought at $10, is $90 when the owner dies, and it is then sold at $100, the "step-up" causes the taxable gain to be only $10 versus the actual gain of $90
STRATEGIC ASSET ALLOCATION	When an asset allocation is set according to an investor's goals and not adjusted for tactical or opportunistic considerations

T

TACTICAL ASSET ALLOCATION	When an asset allocation is actively adjusted to take advantage of a market or economic point-of-view, changes, or opportunities
TAX-LOSS HARVESTING	A tax strategy where investors sell investments at a loss to offset capital gains realized across the portfolio, or to "bank" losses for use against future gains
TECHNICAL ANALYSIS	A manner of evaluating financial assets by studying price movements, trading patterns, trends, and charts
TIME-WEIGHTED RETURN (TWR)	The compounded growth rate of an investment that ignores the impact of deposits and withdrawals (measures the portfolio manager more than the portfolio itself)
TRANCHE	A portion or “slice” of an investment, loan, or security that has its own risk, return, and repayment characteristics. Different tranches within the same investment may offer varying levels of risk and potential return, with some receiving repayment priority over others

V

VOLATILITY	A measurement of fluctuation (up or down) in the price of an investment

W

WASH SALE RULE	A rule that prevents taxpayers from claiming a loss deduction if substantially identical securities are repurchased within 30 calendar days

Y

YIELD CURVE	A graph of the interest rates of treasury bonds of escalating maturities
YIELD	The income an investment generates in a year divided by its current price
YIELD-ON-COST	The current annual dividend income divided by the original purchase price (we also refer to this as "YOI" - Yield on Original investment)
YIELD-TO-MATURITY	The total annualized return you can expect to earn on a bond if you hold it until its maturity date. It accounts for all remaining interest (coupon) payments, the time to maturity, and any capital gain or loss from buying the bond at a discount or premium