

# Glossary of Investment Terms

## **Agency Securities -**

Securities issued by U.S. Government agencies, such as the Federal Home Loan Bank. These securities have high credit ratings but are not backed by the full faith and credit of the U.S. Government.

## **Asset -**

Anything owned that has value; any interest in real property or personal property that can be used for payment of debts.

## **Asset Backed Securities -**

Financial instruments collateralized by one or more types of assets including real property, mortgages, and receivables.

## **Banker's Acceptance (BA) -**

A high-quality, short-term negotiable discount note, drawn on and accepted by banks which are obligated to pay the amount at maturity.

## **Basis Point (bp) -**

The smallest measure used in quoting yields or returns. One basis point is 0.01% of yield, 100 basis points equals 1%. A yield that changed from 8.75% to 9.50% increased by 75 basis points.

## **Benchmark -**

A standard unit used as the basis of comparison; a universal unit that is identified with sufficient detail so that other similar classifications can be compared as being above, below, or comparable to the benchmark.

## **Book Value (BV) -**

The value of individual assets, calculated as actual cost less allowance for any depreciation. Book value may be more or less than current market value.

## **Capital Gain -**

Also known as capital appreciation, capital gain measures the increase in value of an asset over time.

## **Carrying Amount -**

(See book value definition above.)

## **Certificates of Deposit (CDs) -**

A debt instrument issued by banks, usually paying interest, with maturities ranging from seven days to several years.

**Collateral -**

Property offered as security, usually as an inducement to another party, to lend money or extend credit.

**Collateralized Mortgage Obligations (CMOs) -**

Mortgage-backed securities, segmented into tranches, so that investors can choose a tranche that fits their desired timing of payments.

**Commercial Paper -**

Short-term obligations with maturities ranging from 1 to 270 days. They are issued by banks, corporations, and other borrowers to investors with temporarily idle cash.

**Coupon**

A certificate that accompanies a bond that indicates the amount of interest it pays and the date it is due. The interest is expressed as an annual percentage of the par value of the bond, and may be paid monthly, quarterly, semi-annually, annually, or at maturity. The certificate must be presented for payment either physically or electronically.

**Diversification -**

The spreading of risk by putting assets in several categories of investments, i.e., stocks, bonds, money market instruments, or a mutual fund with its broad range of stocks in one portfolio.

**Endowment Funds -**

Those funds that have been given to the state held in perpetual trust, the investment of which is made on behalf of designated beneficiaries. Composed primarily of proceeds from sales of donated land, only interest earned can be deemed expendable by beneficiaries. As the principal investment is to be held in perpetuity, maturities tend to be longer.

**Federal Funds Rate -**

The interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing oversight loans to meet reserve requirements. The federal fund rate is one of the most sensitive indicators of the direction of interest rates since it is set daily by the market.

**Federal Reserve Board -**

The governing body of the Federal Reserve System (12 regional Federal banks monitoring the commercial and savings banks in their regions). The board establishes policies on such key matters as reserve requirements and other regulations, sets the discount rate, and tightens or loosens the availability of credit in the economy.

**Fixed Income Security -**

A security such as a bond that pays a specified cash flow over a specific period of time.

**Index -**

A benchmark used in executing investment strategy which is viewed as an independent representation of market performance. An index implicitly assumes cost-free transactions; some assume reinvestment of income.

**Investment Income -**

The equity dividends, bond interest, and/or cash interest paid on an investment.

**Liability -**

The claim on the assets of a company or individual - excluding ownership equity. The obligation to make a payment to another.

**Liquidity -**

Liquidity refers to the degree of speed and ease with which an asset can be converted to cash.

**Marking to Market -**

Process of determining the value of an asset based upon the going market rate for like assets on any given day.

**Market Value -**

The price at which buyers and sellers trade similar items in an open marketplace. Bonds are considered liquid and are therefore valued at a market price.

**Maturity Date -**

The date on which the principal amount of a bond or other debt instrument becomes payable or due.

**Modified Duration -**

The weighted average time to receipt of all cashflows, including coupon payments, on a present value basis. For corporate bonds, cashflows to the stated maturity date are used, regardless of any options features. For mortgage-backed securities (pass-throughs, C.M.O.s and A.R.M.s) cashflows are derived from the PSA/CPR for the security.

**Money Market Fund -**

An open-ended mutual fund that invests in commercial paper, bankers' acceptances, repurchase agreements, government securities, certificates of deposit, and other highly liquid and safe securities and pays money market rates of interest. The fund's net asset value remains a constant \$1 per share - only the interest rate goes up or down.

**Moody's Investors Service -**

A financial services company which is one of the best known bond rating agencies in the country.

**Mortgage-backed Security -**

Ownership claim in a pool of mortgages or an obligation that is secured by such a pool. Also called a pass-through, because payments are passed along from the mortgage originator to the purchaser of the mortgage-backed security.

**Par Value -**

The stated or face value of a stock or bond. It has little significance for common stocks, however, for bonds it specifies the payment amount at maturity.

**Pooling -**

Combining of assets of different entities, i.e., two or more counties, for efficient investment purposes while maintaining separate accounting trails.

**Present value -**

The current value of a future cash flow or series of cash flows discounted at an appropriate interest rate or rates. For example at a 12% interest rate, the receipt of one dollar a year from now has a present value of \$0.89286.

**Principal -**

Face value of an obligation, such as a bond or a loan, that must be repaid at maturity.

**Prudent Person Rule -**

The standard adopted by some states to guide those fiduciaries with responsibility for investing money of others. Such fiduciaries must act as a prudent man would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investment.

**Realized Gain (Loss) -**

A gain (loss) that has occurred financially. The difference between the principal amount received and the cost basis after the sale of an asset.

**Repurchase Agreements ("Repos") -**

An agreement to purchase securities from an entity for a specified amount of cash and to resell the securities to the entity at an agreed upon price and time. Repos are widely used as a money market instrument.

**Securities Lending -**

A carefully collateralized process of loaning portfolio positions to custodians, dealers, and short sellers who must make physical delivery of positions. Securities lending can reduce custody costs or enhance annual returns.

**Standard and Poor's (S&P) -**

A financial services company which is one of the best known bond rating agencies in the country.

**Treasury Bill (T-Bill) -**

Short-term, highly liquid government securities issued at a discount from the face value and returning the face amount at maturity.

**Treasury Bond or Note -**

Debt obligations of the Federal government that make semiannual coupon payments and are sold at or near par value in denominations of \$1,000 or more.

**Trust -**

A fiduciary relationship in which a person, called a trustee, holds title to property for the benefit of another person, called a beneficiary.

**Unrealized Gain (Loss) -**

A profit (loss) that has not been realized through the sale of a security. The gain (loss) is realized when a security or futures contract is actually sold or settled.

**Yield -**

The return on an investor's capital investment.

**Yield Curve -**

A graph showing the term structure of interest rates by plotting the yields of all bonds of the same quality with maturities ranging from the shortest to the longest possible. The Y-axis represents the interest rate and the X-axis represents time with a normal curve being convex in shape.

**Yield to Maturity -**

A measure of the average rate of return that will be earned on a bond if held to maturity.