MAESTRO WEALTH
ADVISORS
Orchestrating Your Financial Future

FINANCIAL TERMS

A

Alpha – In simple terms, "alpha" is the value a manager brings to the portfolio that goes above and beyond the "beta", a market or benchmark itself provides. As an example, a stock market index generates a base-level return for a portfolio. If the S&P 500 gains 10%, then a stock portfolio starts with that tailwind. If you want a return equivalent to the market, you can just "buy beta" via an index fund or ETF.
Annual Percentage Yield - The rate of return on an investment for a one-year period. For an interest-bearing deposit account, such as a savings account, APY is equal to one plus the periodic rate (expressed as a decimal) raised to the number of periods in one year. Due to compounding, the APY will be greater than the periodic interest rate multiplied by the number of periods in the year.
Annuity - An annuity is a contract between you and an insurance company in which the company promises to make periodic payments to you, starting immediately or at some future time. You buy an annuity either with a single payment or a series of payments called premiums.
The two most common types of annuities are fixed, variable and indexed annuity, also referred to as an equity-indexed annuity or a fixed-index annuity. They are often marketed as tax-deferred savings products. Annuities come with a variety of fees and expenses, such as surrender charges, mortality and expense risk charges and administrative fees. Annuities also can have high commissions, reaching seven percent or more.

B

Blue Chips – Companies with big market capitalizations and is generally a market leader or among the top 3 companies in its sector.
Bond - An interest bearing or discounted debt security issued by corporations and governments. Bonds are essentially loans by the investor to the issuer in return for interest payments.
Broker – A person who is in the business of buying and selling securities – stocks, bonds, mutual funds and certain other investment products, on behalf of its customers, and are technically called Registered Representatives.

C

Capital Asset – An asset which is generally significant, such as homes, cars, real estate, stocks, art, or collectibles.
Capital Gain – An increase in the value of a capital asset resulting in a higher value than when it was originally purchased.

Certificate of deposit (CD) - A deposit at a bank or other financial institution that has a fixed return (usually via an interest rate) and a set maturity. The depositor does not have access to the funds in a certificate of deposit until maturity;

in exchange, he/she is usually entitled to interest. CDs are insured by the FDIC up to a certain amount.
Certified Financial Planner™ (CFP®) – A professional designation which identifies those who meet the high standards of competency and ethics established and enforced by the CFP® Board. Some of those standards include continuing education, professional experience, and strict adherence to the CFP Board's code of ethics.
Chartered Retirement Planning Counselor (CRPC®) – A professional designation which identifies those who have completed graduate-level training covering every step of the retirement planning process. CRPC® certification identifies a specialist in the field of retirement planning and requires regular continuing education.
Closed-end funds – A fund with a set number of outstanding shares. When their asset size become too big to manage efficiently, sometimes the fund family will close these funds to all investors.
Commission - A fee charged by a broker for executing a securities transaction.
Common stock - A security representing equity ownership in a public or private corporation.
Compounding - When an investment generates earnings on reinvested earnings.
Corporate bond - An interest bearing or discounted debt security issued by a corporation.
Cost Basis - The original price paid for an investment (including commissions).

D

Defined benefit pension plan - An employer-provided retirement plan that pays according to a formula, usually a combination of tenure and salary.
Defined contribution plan - A tax-advantaged retirement plan in which workers contribute a percentage of their incomes to these accounts. The employee and/or employer can make contributions on a regular basis for as long as the plan is active. Not all companies match worker contributions, and some that do match do so with company stock rather than cash. The amount the employee ends up with in retirement depends on the contributions made and the return on those invested funds. For the most part, workers use their own money to fund these plans and bear all investment risk. Depending on the plan, the employee can make pre-tax or after-tax contributions. Participants in a 401(k) or SIMPLE IRA, for example, get to deduct contributions from their gross income, so they pay less to the IRS upfront. When the employee retires, the money is taxed upon withdrawal from the account. With a Roth 401(k), workers put money in after payroll taxes are withheld, meaning the account doesn't offer an immediate tax benefit. But when the money is withdrawn, it is tax-free.
Discount broker - A brokerage that executes orders to buy and sell securities at commission rates lower than a full-service brokerage.
Diversification - Investing in separate asset classes (stocks, bonds, cash) and/or stocks of different companies in an attempt to lower overall investment risk.
Dividend - A share of a company's profit paid to common and preferred shareholders. Typically, dividends are paid on a quarterly basis and are determined by the company's board of directors.
Dollar cost averaging - Investing equal amounts of money at regular intervals. The money deducted from your paycheck if you participate in your company's 401(k) program is an example of dollar cost averaging. Theoretically, you will buy more shares when the price of your investment has declined, and fewer shares when the price has risen. This may lead to an overall cost basis that is lower than the average price per share.

E

Estate Planning - The process of developing a roadmap to transfer assets to your beneficiaries with the least financial and emotional impact possible.
Exchange Traded Fund (ETF) – An investment vehicle that tracks an index similar to an index fund. ETFs trade like common stocks and experience price changes throughout the day. Generally, they have a higher daily liquidity and lower fees than mutual funds.

F

FINRA – Financial Industry Regulatory Authority, an independent, non-governmental regulator for all securities firms in the U.S.
Full-service broker – A broker who provides clients an all-inclusive selection of services such as advice on security selection and financial planning.

G

Government bond - An interest bearing or discounted debt security issued by the federal government.

I

Individual Retirement Account (IRA) - IRAs are retirement accounts with tax advantages. You may contribute up to the limit for each taxable year. Or, if you're age 50 or older, you can put aside more. But your contributions can't exceed your earned income. The investment grows tax-free until you begin making withdrawals, usually after age 59½. Take money out before then and you will usually get hit with a 10 percent penalty unless you meet certain specified requirements.
Inflation - A rise in the prices of goods and services.
Interest – Payment for the use of borrowed money.
Investment - The purchase of a financial product or other item of value with an expectation of favorable future returns. In general terms, investment means the use of money in the hope of making more money.

J

Junk bond - Bonds that are rated as below investment grade. The issuers of these bonds - which are judged to be at a higher risk of default – typically pay an attractive dividend to compensate investors for the additional risk. Also called a high-yield bond.

L

Large cap stock - Large caps are stocks of companies whose market value is above a designated minimum, usually in the neighborhood of $10 billion.
Life-cycle fund - Also known as a target-date or target-retirement fund, it's a mutual fund that rebalances its investment mix based on proximity to a target date. As the date approaches, the fund automatically shifts its assets into a more conservative stance. This prevents investors from having to choose and manually shift their assets into more conservative funds as they near retirement age.
Lifestyle fund - A mutual fund that with an asset allocation mix that fits a risk and return profile chosen by the investor. Asset allocations are based on whether the fund has a conservative, moderate, balanced or aggressive investing approach.
Liquidity: Easily converted into cash. A liquid asset or security can be easily bought or sold with little or no impact on price.

M

Money market deposit account - A savings account which is insured by the Federal government and offers many of the same services as checking accounts although transactions may be somewhat more limited. They are very safe and highly liquid investments, but offer a lower interest rate than most other investments.
Money market mutual fund - A mutual fund that invests in very short-term, high-liquidity investments. Similar to a savings account without the Federal government insurance, though usually offering better interest rates.
Municipal bond - A debt instrument issued by a state or local government. The advantage of investing in municipal

bonds (or "munis") is their exemption from federal, and sometimes state and local, taxes.
Mutual fund - An investment mix of stocks, bonds and other securities held by a group of investors. A professional portfolio manager uses the money pooled from the group to buy and sell securities based on the fund's objective. Investors buy shares in a mutual fund and share the losses and earnings from its performance.

N

Net Asset Value (NAV) - The value per share of a mutual fund or exchange traded fund (ETF) at a specific date or time.
No load fund – An open-ended investment company whose shares are sold without a sales charge.
Principal: The original cash put into an investment.
Return: The revenue on an investment, expressed as a percentage of the total amount invested. Also called rate of return.

O

Open-end Fund – A type of mutual fund where new shares can be issued all the time in response to demand. Most mutual funds are open-end funds.
Option – The right to buy or sell a given asset at a predetermined price for a set period of time.

Q

Qualified Charitable Distribution (QCD) – A QCD is a direct transfer of funds from your IRA custodian, payable to a qualified charity. QCDs can be counted toward satisfying your required minimum distributions (RMDs) for the year, as long as certain rules are met. In addition to the benefits of giving to charity, a QCD excludes the amount donated from taxable income, which is unlike regular withdrawals from an IRA. Keeping your taxable income lower may reduce the impact to certain tax credits and deductions, including Social Security and Medicare.

R

REIT – Real Estate Investment Trust, is an investment company that invests exclusively in real estate and mortgages.
Required minimum distribution (RMD) - Generally, if you have a traditional IRA, you must begin taking money out of the account by April 1 of the year after you turn 72. The amount is a minimum distribution determined by your age and life expectancy. The IRS has established simplified tables that a traditional IRA owner can use to determine the required distribution. If required payments are not made on time, the IRS will collect an excise tax. Roth IRAs aren't subject to minimum distribution requirements until after the Roth owner dies.
RIA – Registered Investment Advisor, an advisor or firm registered with the Securities and Exchange Commission (SEC) or state securities authorities that provides investment advice or counsel to an investor.
Risk - The quantifiable likelihood of loss or less-than-expected returns. The uncertainty associated with any investment.
Risk tolerance - The measurement of an investor's willingness to suffer a decline (or repeated declines) in the value of investments while waiting and hoping for them to increase in value.
Rollover IRA - This is the term used when transferring assets from one tax-deferred retirement plan to another. You'll want to do a direct transfer into an IRA rollover account. If you keep the money separate from your traditional IRA account you'll be able to move the IRA rollover account into your new employers' 401(k) plan after you've met their length of employment requirement. If you accept a check, then the money in the account will be subject to mandatory withholding.
Roth 401(k) - An employer-sponsored retirement plan that lets employees have the option of setting aside money from their paychecks that's taxed upfront and saving it in a retirement account where it can grow tax-free forever. Money can

be withdrawn tax- and penalty-free as long as the participant is age 59½ and has held the account for at least five years.
Roth IRA - an individual retirement account in which withdrawals are tax-free if the account has been open for at least five years and you're at least 59½ when you start to withdraw money. Contributions to a Roth are not tax-deductible.
Rule of 72 - A formula used to determine the amount of time it will take for invested money to double at a given compound of interest rate, which is 72 divided by the interest rate.

S

Savings account - A deposit account at a bank or savings and loan which pays interest but cannot be withdrawn by check writing.
Savings bond - A registered, non-callable, non-transferable bond issued by the U.S. Government, and backed by its full faith and credit.
Savings match for employees' IRA (SIMPLE IRA) - A retirement plan that allows employees of small businesses with 100 or fewer employees and self-employed persons to make contributions to an IRA.
Like a 401(k), employees set up contributions to come out of their income before they receive their paychecks and enjoy an annual tax deduction. The money gets taxed as income when taken out of the account at retirement. As with a company-sponsored 401(k), employees are limited to the investment vehicles that come with the plan their employer selects.
SEC – Securities and Exchange Commission, and independent, federal agency that oversees and regulates the securities industry and enforces securities laws.
Securities - A fancy name for shares of stock, bonds, or any kind of financial asset that can be traded.
Self-directed IRA - An IRA that is set up with a brokerage is said to be "self-directed." You have the responsibility of deciding how the money will be invested - stocks, bonds, mutual funds, certificates of deposit and even real estate. Beware: Custodian fees in a self-directed IRA will be considerably higher than those that the bank or broker charge, especially for real estate.
SEP-IRA - easy to establish and don't have the annual reporting requirements of other self-established retirement plans. Yet they can become financially problematic if more employees are hired, because the employer will be making the contributions on their behalf.
Simplified employee pension plan IRA (SEP-IRA) - A retirement plan similar to an individual retirement arrangement for self-employed individuals and their employees. But where an individual establishes the IRA account, an SEP is set up by the employer.
Small cap stock - Companies with a market capitalization, typically $1 billion or less – but there is no specific definition.
Social Security - Social Security is a federal government program designed to provide income for qualifying retired people, their dependents, and disabled people who meet the Social Security test for disability.
Stock - An ownership share in a corporation. Each share of stock is a proportional stake in the corporation's assets and profits and purchasing a stock should be thought of as owning a proportional share of the successes and failures of that business.

T

Time horizon - The expected amount of time a customer plans to invest to achieve a particular financial goal.
Treasury bill - A short-term discounted security issued by the U.S. government, with a maturity of one year or less.
Treasury bond - A long-term security issued by the U.S. government, with a maturity of 10 years or more, paying interest semi-annually.
Treasury note - An intermediate-term security issued by the U.S. government, having a maturity of 1 to 10 years and paying interest semi-annually.

Y

Yield - The income relative to the current share price that a company will pay out to the shareholders on a regular basis, usually expressed in percentage terms.

Numbers

401(k) - An employer-sponsored retirement-savings program through which employees can make regularly scheduled contributions. 401(k) contributions grow tax-deferred until withdrawn from the account at retirement. Deposited money is put into an investment vehicle, which can differ from one plan to another. These can range from certificates of deposit to stocks, bonds and mutual funds. Because 401(k) contributions get taken out of your paycheck automatically before you receive it, contributing to a 401(k) lowers your taxable income.
529 – A tax advantaged savings and investment vehicle sponsored by a state or state agency to pay for future college costs.
1031 Exchange – Section 1031 is an Internal Revenue Code provision that defers tax on qualifying exchanges of like-kind real estate. Qualifying Section 1031 exchanges are called 1031 exchanges, like-kind exchanges, or Starker exchanges.

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