



Financial Glossary

This glossary has many commonly used terms but is not meant to be an exhaustive list. The terms and definitions are intended for educational use only and were taken from reputable sources such as: Investor.gov, ABA.org, FINRA.org, Investopedia.com, CFP.net, SSA.gov and FINRA.org.

401(k) Plan

An employer-sponsored retirement plan that gives employees a choice of investment options, typically mutual funds. Employees who participate in a traditional 401(k) plan have a portion of their pre-tax salary invested directly in the option or options they choose. These contributions and any earnings from the 401(k) investments are not taxed until they are withdrawn.

529 Education Savings Plan

A type of 529 that lets an account owner open an investment account to save for the account beneficiary's qualified higher education expenses or tuition for elementary or secondary public, private, or religious schools.

Accrued Interest

A term used to describe an accrual accounting method when interest that is either payable or receivable has been recognized, but not yet paid or received. Accrued interest occurs as a result of the difference in timing of cash flows and the measurement of these cash flows.

Advanced Directive

A document expressing a person's wishes about critical care when he or she is unable to decide for him or herself. However, it does not authorize anyone to act on a person's behalf or make decisions the way a power of attorney would.

Annuity

An annuity is a contract between you and an insurance company that requires the insurer to make payments to you, either immediately or in the future. You buy an annuity by making either a single payment or a series of payments. Similarly, your payout may come either as one lump-sum payment or as a series of payments over time.



Asset Allocation

A process of deciding where to put money to work in the investment universe.

Attorney-in-Fact

The person named as an agent under a power of attorney to handle the financial affairs of another.

Benchmarks

A standard against which the performance of a security, mutual fund or investment manager can be measured.

Beneficiary

A person who will receive the benefit of property from an estate or trust through the right to receive a bequest or to receive income or trust principal over a time.

Bonds

A bond is a debt security, similar to an IOU. Borrowers issue bonds to raise money from investors willing to lend them money for a certain amount of time. When you buy a bond, you are lending to the issuer, which may be a government, municipality, or corporation. In return, the issuer promises to pay you a specified rate of interest during the life of the bond and to repay the principal, also known as face value or par value of the bond, when it "matures," or comes due after a set period of time.

Brokers

Technically known as registered representatives, they buy and sell securities – stocks, bonds, mutual funds and other investment products – for their customers, including individual investors.

Broker-Dealer

A person or company that is in the business of buying and selling securities – stocks, bonds, mutual funds and other investment products – on behalf of their customers (as broker), for its own account (as dealer), or both.

CD's

A certificate of deposit (CD) is a savings account that holds a fixed amount of money for a fixed period of time, such as six months, one year, or five years, and in exchange, the issuing bank pays interest. When you cash in or redeem your CD, you receive the money you originally invested plus any interest. Certificates of deposit are considered to be one of the safest savings options. A CD bought through a federally insured bank is



insured up to \$250,000. The \$250,000 insurance covers all accounts in your name at the same bank, not each CD or account you have at the bank.

Capital Gain

An increase in a capital asset's value that is realized when the asset sells for more than the purchase price.

- Short-term capital gain – A gain realized by the sale or exchange of a capital asset that has been held for exactly one year or less.
- Long-term capital gain – A gain from a qualifying investment owned for longer than 12 months and then sold. The amount of an asset sale that counts towards a capital gain is the difference between the sale value and the purchase value.

Certified Financial Planner (CFP)

An individual who has earned this designation has met the education, experience, examination, ethics standards and continuing education established by the Certified Financial Planners Board of Standards.

CIMA

Stands for the Certified Investment Management Analyst designation.

Commodities

Commodity futures contracts are an agreement to buy or sell a specific quantity of a commodity at a specified price on a particular date in the future. Metals, grains, and other food, as well as financial instruments, including U.S. and foreign currencies, are traded in the futures market. With limited exceptions, trading in futures contracts must be executed on the floor of a commodity exchange. Exchange-traded commodity futures and options provide traders with contracts of a set unit size, a fixed expiration date, and centralized clearing. In centralized clearing, a clearing corporation acts as a single counterparty to every transaction and guarantees the completion and credit worthiness of all transactions.

Credit Rating Agencies (CRAs)

Credit Rating Agencies provide opinions on the creditworthiness of a company or security. They indicate the credit quality by means of a grade. Generally, credit ratings distinguish between investment grade and non-investment grade. For example, a credit rating agency may assign a "triple A" credit rating as its top "investment grade" rating, and a "double B" credit rating or below for "non-investment grade" or "high-yield" corporate bonds. Credit rating agencies registered as such with the SEC are known as "Nationally Recognized Statistical Rating Organizations."

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Custodian

A financial institution that holds customers' securities for safekeeping to minimize the risk of their theft or loss. They hold securities and other assets in electronic or physical form. Since they are responsible for the safety of assets and securities that may be worth hundreds of millions or even billions of dollars, custodians tend to be large and reputable firms.

Decedent

A person who has died.

Defined-Benefit Plan

An employer-sponsored retirement plan where benefits are calculated on factors such as salary history and duration of employment.

Derivatives

Derivatives are financial instruments whose performance is derived, at least in part, from the performance of an underlying asset, security or index. For example, a stock option is a derivative because its value changes in relation to the price movement of the underlying stock.

Descendants

An individual's children, grandchildren, and more remote persons who are related by blood or because of legal adoption. An individual's spouse, stepchildren, parents, grandparents, brothers or sisters are not included. The term "descendants" and "issue" have the same meaning.

Discretionary Asset Management

A form of investment management in which buy and sell decisions are made by a portfolio manager or investment counselor for the client's account.

Dividend

A portion of a company's profit paid to shareholders. Public companies that pay dividends usually do so on a fixed schedule although they can issue them at any time.

Durable Power of Attorney

A power of attorney that does not terminate upon the incapacity of the person making the power of attorney.



Draw Down

A drawdown is the peak-to-trough decline during a specific recorded period of an investment, fund or commodity security, It is usually quoted as the percentage between the peak and the subsequent trough.

ETF's

ETFs are a type of exchange-traded investment product that must register with the SEC under the 1940 Act as either an open-end investment company (generally known as “funds”) or a unit investment trust.

Like mutual funds, ETFs offer investors a way to pool their money in a fund that makes investments in stocks, bonds, or other assets and, in return, to receive an interest in that investment pool. Unlike mutual funds, however, ETF shares are traded on a national stock exchange and at market prices that may or may not be the same as the net asset value (“NAV”) of the shares, that is, the value of the ETF's assets minus its liabilities divided by the number of shares outstanding.

Estate Planning

A process by which an individual designs a strategy and executes a will, trust agreement, or other documents to provide for the administration of his or her assets upon his or her incapacity or death.

Estate Tax

A tax imposed on a decedent's transfer of property at death.

Family Office

An arrangement to coordinate the legal, tax, and other needs of one or more families, either through a true office staffed with employees or through outsourcing to the family's regular advisors.

Family Trust

A trust established to benefit an individual's spouse, children or other family members.

Fiduciary

An individual designated to manage money or property for beneficiaries and required to exercise the standard of care set forth in the governing document under which the fiduciary acts and state law.



Fiduciary Standard

This standard requires that a financial adviser act solely in the client's best interest when offering personalized financial advice. Under federal law, in particular the Investment Advisers Act of 1940, investment advisers are regulated by the SEC or appropriate state authorities and are required to provide services to their customers under the fiduciary standard.

FINRA

The Financial Industry Regulatory Authority (FINRA) is not part of the government. They are a not-for-profit organization authorized by Congress to protect America's investors by making sure the broker-dealer industry operates fairly and honestly. They offer Broker Check on their website, a way for investors to check the background of investment professionals.

Fundamental Analysis

A method of evaluating a security that entails attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors.

Gift Tax

The tax on completed lifetime transfers from one individual to or for the benefit of another that exceed the gift tax exemption amount.

Heir

An individual entitled to a distribution of an asset or property interest under applicable state law in the absence of a will. "Heir" and "beneficiary" are not synonymous, although they may refer to the same individual in a particular case.

Hedge Funds

Hedge funds pool money from investors and invest in securities or other types of investments with the goal of getting positive returns. Hedge funds are not regulated as heavily as mutual funds and generally have more leeway than mutual funds to pursue investments and strategies that may increase the risk of investment losses. Hedge funds are limited to wealthier investors who can afford the higher fees and risks of hedge fund investing, and institutional investors, including pension funds.



Income

The earnings from principal, such as interest, rent, and cash dividends.

Income Tax

A tax that governments impose on financial income generated by all entities within their jurisdiction. By law, businesses and individuals must file an income tax return every year to determine whether they owe any taxes or are eligible for a tax refund.

Insurance

Long-Term Care Insurance

A risk-management product to help cushion the financial blow of prolonged and expensive elder care or custodial care. Like other forms of insurance, most long-term care policies have caps, or maximum benefit amounts. That means almost no policy will pay for the total cost of your long-term care. But having this kind of insurance reduces the amount you're responsible for paying—perhaps leaving more assets available for your spouse, if you have one, to live on in the meantime.

Term Life Insurance

Term life provides coverage for a specified and limited period, known as the term. Premiums for most term policies tend to go up as you age or at the end of each renewal period. After the term ends, so does the policy and its coverage if it's not renewed.

Universal Life Insurance

Universal life provides coverage for the life of the insured and also offers flexible premium payments and insurance coverage. The cost of your insurance protection and in some cases other costs are deducted from the cash or policy account value.

Variable Life Insurance

Variable life is a type of security that offers fixed premiums and a minimum death benefit. Unlike whole life insurance, its cash value is invested in a portfolio of securities. As the policyholder, you can choose the mix of investments from those the policy offers. However, the policy's investment return is not guaranteed, and the cash value will fluctuate.



Variable Universal Life Insurance

This type of security combines features of universal life insurance and variable life insurance. It offers flexibility in premium payments and insurance coverage, as well as an investment account.

Whole Life Insurance

Whole life or ordinary life insurance is a type of permanent life insurance. It provides coverage for the life of the insured and can build cash value, which is a savings feature. Premium payments typically remain the same for the life of the insured.

Interest

The price for borrowing money. It is expressed as a percentage rate over a period of time. Interest rates may be fixed, meaning the rate is set and will not change, or may be variable, or “floating,” meaning the rate may move higher or lower over time.

Investment Advisor

Individuals or companies that provide advice about securities tailored to the needs of their clients. Common names for this type of professional include asset managers, investment counselors, investment managers, portfolio managers and wealth managers.

JD

Stands for Juris Doctor degree, the highest education available for legal studies within the United States.

Joint Tenancy

An ownership agreement in which two or more persons own property, usually with rights of survivorship.

Medical Power of Attorney/Health Care Power of Attorney

A document that appoints an individual (and “agent”) to make health care decisions when the grantor of the power is incapacitated. Also referred to as a “health care proxy.”

Medicare

The federal health insurance program for i) people 65 years of age or older; ii) certain younger people with disabilities; or iii) people with permanent kidney failure and dialysis or a transplant.



Medicaid

A joint federal and state program that helps with medical costs for people with low incomes and limited resources. Medicare programs vary from state to state, but most health care costs are covered if you qualify for both Medicare and Medicaid.

Money Market Funds

Money market funds are a type of mutual fund developed in the 1970s as an option for investors to purchase a pool of securities that generally provided higher returns than interest-bearing bank accounts. They have grown significantly in the ensuing decades.

There are many kinds of money market funds, including ones that invest primarily in government securities, tax-exempt municipal securities, or corporate and bank debt securities. In addition, money market funds are often structured to cater to different types of investors. Some funds are intended for retail investors, while other funds that typically require high minimum investments are intended for institutional investors. The rules governing money market funds vary based on the type of money market fund.

Mutual Funds

A mutual fund is a company that pools money from many investors and invests the money in securities such as stocks, bonds, and short-term debt. The combined holdings of the mutual fund are known as its portfolio. Investors buy shares in mutual funds. Each share represents an investor's part ownership in the fund and the income it generates.

Options

- Options are contracts giving the owner the right to buy or sell an underlying asset, at a fixed price, on or before a specified future date.
- Options are derivatives (they derive their value from their underlying assets). The underlying assets can include, among other things, stocks, stock indexes, exchange traded funds, fixed income products, foreign currencies, or commodities.
- Option contracts trade in various securities marketplaces between a variety of market participants, including institutional investors, professional traders, and individual investors.
- Options trades can be for a single contract or for several contracts.

Power of Attorney

Authorization, by a written document, that one individual may act in another's place as agent or attorney-in-fact with respect to some or all legal and financial matters. The scope of authority granted is specified in the document and may be limited by statute in



some states. A power of attorney terminated upon death of the person granting the power (unless “coupled with an interest”) and may terminate on the subsequent disability of the person granting the power (unless the power is “durable” under the instrument or state law).

Probate Tax

A tax imposed by many jurisdictions on property passing under an individual’s will or by a state’s intestacy law.

Profit-Sharing Plan

A plan that gives employees a share in the profits of the company. Each employee receives a percentage of those profits based on the company’s earnings. Also known as “deferred profit-sharing plan” or “DPSP.”

Property

Property refers to anything that may be the subject of ownership, whether real or personal, legal or equitable, or any interest therein.

Property Tax

A tax assessed on real estate by the local government. The tax is usually based on the value of the property (including the land) you own.

REITs

Real estate investment trusts (“REITs”) allow individuals to invest in large-scale, income-producing real estate. A REIT is a company that owns and typically operates income-producing real estate or related assets. These may include office buildings, shopping malls, apartments, hotels, resorts, self-storage facilities, warehouses, and mortgages or loans. Unlike other real estate companies, a REIT does not develop real estate properties to resell them. Instead, a REIT buys and develops properties primarily to operate them as part of its own investment portfolio.

Registered Representative

Individuals who work for broker-dealers – the sales personnel whom most people call brokers – are technically known as registered representatives.

Risk

All investments involve some degree of risk. In finance, risk refers to the degree of uncertainty and/or potential financial loss inherent in an investment decision. In



general, as investment risks rise, investors seek higher returns to compensate themselves for taking such risks.

Every savings and investment product has different risks and returns. Differences include: how readily investors can get their money when they need it, how fast their money will grow, and how safe their money will be. There are a number of risks investors face, including:

Business Risk

With a stock, you are purchasing a piece of ownership in a company. With a bond, you are loaning money to a company. Returns from both of these investments require that the company stays in business. If a company goes bankrupt and its assets are liquidated, common stockholders are the last in line to share in the proceeds. If there are assets, the company's bondholders will be paid first, then holders of preferred stock. If you are a common stockholder, you get whatever is left, which may be nothing.

If you are purchasing an annuity, make sure you consider the financial strength of the insurance company issuing the annuity. You want to be sure that the company will still be around, and financially sound, during your payout phase.

Inflation Risk

Inflation is a general upward movement of prices. Inflation reduces purchasing power, which is a risk for investors receiving a fixed rate of interest. The principal concern for individuals investing in cash equivalents is that inflation will erode returns.

Interest Rate Risk

Interest rate changes can affect a bond's value. If bonds are held to maturity the investor will receive the face value, plus interest. If sold before maturity, the bond may be worth more or less than the face value. Rising interest rates will make newly issued bonds more appealing to investors because the newer bonds will have a higher rate of interest than older ones. To sell an older bond with a lower interest rate, you might have to sell it at a discount.

Liquidity Risk

This refers to the risk that investors won't find a market for their securities, potentially preventing them from buying or selling when they want. This can be the case with the more complicated investment products. It may also be the



case with products that charge a penalty for early withdrawal or liquidation such as a certificate of deposit (CD).

Longevity Risk

The risk of outliving your money.

Volatility Risk

Even when companies aren't in danger of failing, their stock price may fluctuate up or down. Large company stocks as a group, for example, have lost money on average about one out of every three years. Market fluctuations can be unnerving to some investors. A stock's price can be affected by factors inside the company, such as a faulty product, or by events the company has no control over, such as political or market events.

Risk Tolerance

The degree of variability in investment returns that an individual is willing to withstand. Risk tolerance is an important component in investing. An individual should have a realistic understanding of his or her ability and willingness to stomach large swings in the value of his or her investments.

Roth IRA

An individual retirement plan that bears many similarities to the traditional IRA, but contributions are not tax deductible and qualified distributions are tax free.

Sales Tax

A consumption tax imposed by the government on the sale of goods and services. A conventional sales tax is levied at the point of sale, collected by the retailer and passed on to the government.

SEC

The United States Securities and Exchange Commission's mission is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation.

Settlement Date

Defined as the date a trade is settled or as the payment date of benefits from a life insurance policy.



Stock Broker

An agent that charges a fee or commission for executing buy and sell orders submitted by an investor.

Stocks

Stocks are a type of security that gives stockholders a share of ownership in a company. Stocks also are called “equities.”

Technical Analysis

A method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity.

Trust

An arrangement whereby property is legally owned and managed by an individual or corporate fiduciary as trustee for the benefit of another, called a beneficiary, who is the equitable owner of the property.

Will

A writing specifying the beneficiaries who are to inherit the testator's assets and naming a representative to administer the estate and be responsible for distributing the assets to the beneficiaries.

Yield

Yield is typically expressed as a percentage. It is a measure of the income an investment pays during a specific period, typically a year, divided by the investment's price. All bonds have yields, as do dividend-paying stocks, most mutual funds, and bank accounts including CDs.