Glossary

The following is a glossary of investment terms that will help you increase your overall knowledge of the investment industry. Some of the terms also have a general meaning, but only their specialized investment industry meaning is given here.

Accrued Interest: Interest accumulated on a bond or debenture since the last interest payment date.

Adjusted Cost Base: The deemed cost of an asset representing the sum of the amount originally paid plus any additional costs, such as brokerage fees and commissions.

Alpha: A statistical measure of the value a fund manager adds to the performance of the fund managed. If alpha is positive, the manager has added value to the portfolio. If the alpha is negative, the manager has underperformed the market

Annuitant: Person on whose life the maturity and death benefit guarantees are based. It can be the contract holder or someone else designated by the contract holder. In registered plans, the annuitant and contract holder must be the same person.

Annuity: A contract usually sold by life insurance companies that guarantees an income to the beneficiary or annuitant at some time in the future. The income stream can be very flexible. The original purchase price may be either a lump sum or a stream of payments. See **Deferred Annuity.**

Asset Allocation: Apportioning investment funds among different categories of assets, such as cash, fixed income securities and equities. The allocation of assets is built around an investors risk tolerance.

Asset Mix: The percentage distribution of assets in a portfolio among the three major asset classes: cash and equivalents, fixed income and equities.

Attribution Rules: A Canada Revenue Agency rule stating that an investor cannot avoid paying taxes at their marginal rate by transferring assets to other family members who have lower personal tax rates.

Back-End Load: A sales charge applied on the redemption of a mutual fund.

Balance Sheet: A financial statement showing a company's assets, liabilities and shareholders' equity on a given date.

Basis Point: A phrase used to describe differences in bond yields, with one basis point representing one-hundredth of a percentage point. Thus, if Bond X yields 11.50% and Bond Y 11.75%, the difference is 25 basis points.

Bear Market: A sustained decline in equity prices. Bear markets are usually associated with a downturn (recession or contraction) in the business cycle.

Blue Chip: An active, leading, nationally known common stock with a record of continuous dividend payments and other strong investment qualities. The implication is that the company is of "good" investment value.

Bond: A certificate evidencing a debt on which the issuer promises to pay the holder a specified amount of interest based on the coupon rate, for a specified length of time, and to repay the loan on its maturity. Strictly speaking, assets are pledged as security for a bond issue, except in the case of government "bonds", but the term is often loosely used to describe any funded debt issue.

Book Value: The amount of net assets belonging to the owners of a business (or shareholders of a company) based on balance sheet values. It represents the total value of the company's assets that shareholders would theoretically receive if a company were liquidated. Also represents the original cost of the units allocated to a segregated fund contract.

Bottom-Up Investment Approach: An investment approach that seeks out undervalued companies. A fund manager may find companies whose low share prices are not justified. They would buy these securities and when the market finally realizes that they are undervalued, the share price rises giving the astute bottom up manager a profit. See also **Top-Down Investment Approach.**

Bought Deal: A new issue of stocks or bonds bought from the issuer by an investment dealer, frequently acting alone, for resale to its clients, usually by way of a private placement or short form prospectus. The dealer risks its own capital in the bought deal. In the event that the price has to be lowered to sell out the issue, the dealer absorbs the loss.

Broker: An investment dealer or a duly registered individual that is registered to trade in securities in the capacity of an agent or principal and is a member of a Self-Regulatory Organization. The broker does not usually own the securities that it buys and sells, but acts as agent for the buyer or seller and charges a commission for it services.

Bull Market: A general and prolonged rising trend in security prices. Bull markets are usually associated with an expansionary phase of the business cycle**.** As a memory aid, it is said that a **bull** walks with his head up while a **bear** walks with his head down.

Callable: May be redeemed (called in) upon due notice by the security's issuer.

Call Option: The right to buy a specific number of shares at a specified price (the strike pr**ice)** by a fixed date. The buyer pays a premium to the seller of the call option contract. An investor would buy a call option if the underlying stocks price is expected to rise. See also **put option.**

Canadian Investor Protection Fund (CIPF): A fund that protects investors against the insolvency of any member firm. It is financed by the IDA and the exchanges (except the Winnipeg Commodity Exchange) which are collectively referred to as **Sponsoring Self-Regulatory Organizations (SSROs).**

Canadian Securities Administrators (CSA): The CSA is a forum for the 13 securities regulators of Canada's provinces and territories to co-ordinate and harmonize the regulation of the Canadian capital markets.

Capital Asset Pricing Model (CAPM): A model that looks at the relationship between risk and return. In simple terms, the CAPM says that the return on an asset or security is equal to the risk-free return plus a risk premium.

Capital Cost Allowance (CCA): An amount allowed under the Income Tax Act to be deducted from the value of certain assets and treated as an expense in computing an individual's or company's income for a taxation year. It may differ from the amount charged for the period in depreciation accounting.

Capital Gain: Selling a security for more than its purchase price. For non-registered securities, 50% of the gain would be added to income and taxed at the investor's marginal rate.

Capital Market: Financial markets where debt and equity securities trade. Capital markets include organized exchanges as well as private placement sources of debt and equity.

Capitalization or Capital Structure: Total dollar amount of all debt, preferred and common stock, contributed surplus and retained earnings of a company. Can also be expressed in percentage terms.

Carry Forward: The amount of RRSP contributions that can be carried forward from previous years. For example, if a client was entitled to place $13,500 in an RRSP and only contributed $10,000, the difference of $3,500 would be the unused contribution room and can be carried forward indefinitely.

Closet Indexing: A portfolio strategy whereby the fund manager does not replicate the market exactly but sticks fairly close to its market weightings by industry sector, country or region or by the average market capitalization.

Commodity: A product used for commerce that is traded on an organized exchange. A commodity could be an agricultural product such as canola or wheat, or a natural resource such as oil or gold. A commodity can be the basis for a futures contract.

Common Stock: Securities representing ownership in a company. They carry voting privileges and are entitled to the receipt of dividends, if declared. Also called common shares.

Consumer Price Index (CPI): Price index which measures the cost of living by measuring the prices of a given basket of goods. The CPI is often used as an indicator of inflation.

Contribution in Kind: The transfer of securities into an RRSP**.** The general rules are that when an asset is transferred there is a deemed disposition**.** Any capital gain would be reported and taxes paid. Any capital losses that result cannot be claimed.

Convertible: A bond, debenture or preferred share which may be exchanged by the owner, usually for the common stock of the same company, in accordance with the terms of the conversion privilege. A company can force conversion by calling in such shares for redemption if the redemption price is below the market price.

Conversion Privilege: The right to exchange a bond for common shares on specifically determined terms.

Correlation Coefficient: A measure of the relationship between the returns of two securities or two classes of securities.

Correlation: A measure of the relationship between two or more securities. If two securities mirror each other s movements perfectly, they are said to have a positive one (+1) correlation. Combining securities with high positive correlations does not reduce the risk of a portfolio. Combining securities that move in the exact opposite direction from each other are said to have perfect negative one (-1) correlation. Combining two securities with perfect negative correlation reduces risk.

Very few, if any, securities have a perfect negative correlation. However, risk in a portfolio can be reduced if the combined securities have low positive correlations.

Coupon Rate: The rate of interest that appears on the certificate of a bond. Multiplying the coupon rate times the principal tells the holder the dollar amount of interest to be paid by the issuer until maturity. For example, a bond with a principal of $1,000 and a coupon of 10% would pay $100 in interest each year. Coupon rates remain fixed throughout the term of the bond. See also Yield**.**

Current Yield: The annual income from an investment expressed as a percentage of the investment's current value. On a stock, it is calculated by dividing yearly dividend by market price; on bonds, by dividing the coupon by market price.

Cyclical Stock: A stock in an industry that is particularly sensitive to swings in economic conditions. Cyclical Stocks tend to rise quickly when the economy does well and fall quickly when the economy contracts. In this way, cyclicals move in conjunction with the business cycle. For example, during periods of expansion auto stocks do well as individuals replace their older vehicles. During recessions, auto sales and auto company share values decline.

Debenture: A certificate of indebtedness of a government or company backed only by the general credit of the issuer and unsecured by mortgage or lien on any specific asset. In other words, no specific assets have been pledged as collateral.

Debt/Equity Ratio: A ratio that shows whether a company's borrowing is excessive. The higher the ratio, the higher the financial risk.

Deferred Annuity: This type of contract, usually sold by life insurance companies, pays a regular stream of income to the beneficiary or annuitant at some agreed-upon start date in the future. The original payment is usually a stream of payments made over time, ending prior to the beginning of the annuity payments. See also **Annuity.**

Deferred Charges: An asset shown on a balance sheet representing payments made by the company for which the benefit will extend to the company over a period of years. Similar to a prepaid expense except that the benefit period is for a longer period. Deferred charges may include expenses incurred in issuing bonds, organizational expenses or research expenses.

Deferred Preferred Shares: A type of preferred share that pays no dividend until a future maturity date.

Deferred Profit Sharing Plan (DPSP): A trust arrangement whereby an employer distributes a certain percentage of company profits to his/her employees. It must be an arms length transaction, and employees are not eligible to make a contribution.

Deferred Revenue: The revenue recorded when a company receives payment for goods or services that it has not yet provided. For example, a prepaid subscription to a magazine.

Deferred Sales Charge: The fee charged by a mutual fund or insurance company for redeeming units. It is otherwise known as a redemption fee or back-end load**.** These fees decline over time and are eventually reduced to zero if the fund is held long enough.

Defined Benefit Plan: A type of registered pension plan in which the annual payout is based on a formula. The plan pays a specific dollar amount at retirement using a predetermined formula.

Defined Contribution Plan: A type of registered pension plan where the amount contributed is known but the dollar amount of the pension to be received is unknown. Also known as a money purchase plan.

Delist: Removal of a security's listing on a stock exchange**.**

Delayed Floater: A type of variable rate preferred share that entitles the holder to a fixed dividend for a predetermined period of time after which the dividend becomes variable. Also known as a fixed-reset or fixed floater.

Delayed Opening: Postponement in the opening of trading of a security the result of a heavy influx of buy and/or sell orders.

Delivery: Delayed Delivery - A transaction in which there is a clear understanding that delivery of the securities involved will be delayed beyond the normal settlement period. Good Delivery - When a security that has been sold is in proper form to transfer title by delivery to the buyer. Regular Delivery - Unless otherwise stipulated, sellers of stock must deliver it on or before the third business day after the sale.

Demand Pull Inflation: A type of inflation that develops when continued consumer demand pushes prices higher.

Demutualization: The process by which insurance companies, owned by policy holders, reorganize into companies owned by shareholders. Policy holders become shareholders in an insurance company.

Depletion: Refers to consumption of natural resources that are part of a company's assets. Producing oil, mining and gas companies deal in products that cannot be replenished and as such are known as wasting assets. The recording of depletion is a bookkeeping entry similar to depreciation and does not involve the expenditure of cash.

Deposit-based guarantee: A maturity guarantee consisting of separate guarantees and guarantee dates for each of the deposits made in a segregated fund policy over time.

Depreciation: Systematic charges against earnings to write off the cost of an **asset** over its estimated useful life because of wear and tear through use, action of the elements, or obsolescence. It is a bookkeeping entry and does not involve the expenditure of cash.

Derivative: A type of financial instrument whose value is based on the performance of an underlying financial asset, commodity, or other investment. Derivatives are available on interest rates, currency, stock indexes. For example, a call option on IBM is a derivative because the value of the call varies in relation to the performance of IBM stock.

Directors' Circular: A document that must be sent to all shareholders by the directors of a company that is the target of a takeover bid. A recommendation to accept or reject the bid, and reasons for this recommendation, must be included.

Domestic Bonds: Bonds issued in the currency and country of the issuer. For example, a Canadian dollar-denominated bond, issued by a Canadian company, in the Canadian market would be considered a domestic bond.

Direct Bonds: This term is used to describe bonds issued by governments that are first-hand obligations of the government itself.

Director: Person elected by voting common shareholders at the annual meeting to direct company policies.

Directional Hedge Funds: A type of hedge fund that places a bet on the anticipated movements in the market prices of equities, fixed-income securities, foreign currencies and commodities.

Directors' Circular: Information sent to shareholders by the directors of a company that are the target of a takeover bid. A recommendation to accept or reject the bid, and reasons for this recommendation, must be included.

Disclosure: One of the principles of securities regulation in Canada. This principle entails full, true and plain disclosure of all material facts necessary to make reasoned investment decisions.

Discount Rate: In computing the value of a bond, the discount rate is the interest rate used in calculating the present value of future cash flows.

Discretionary Account: A securities account where the client has given specific written authorization to a partner, director or qualified portfolio manager to select securities and execute trades for him. See also Wrap Account.

Disposable Income: Personal income minus income taxes and any other transfers to government.

Diversification: Spreading investment risk by buying different types of securities in different companies in different kinds of businesses and/or locations.

Dividend: An amount distributed out of a company's profits to its shareholders in proportion to the number of shares they hold. Over the years a preferred dividend will remain at a fixed annual amount. The amount of common dividends may fluctuate with the company's profits. A company is under no legal obligation to pay preferred or common dividends.

Dividend Discount Model: The relationship between a stock's current price and the present value of all future dividend payments. It is used to determine the price at which a stock should be selling based on projected future dividend payments.

Dividend Payout Ratio: A ratio that measures the amount or percentage of the company's net earnings that are paid out to shareholders in the form of dividends.

Dividend Tax Credit: A procedure to encourage Canadians to invest in preferred and common shares of taxable, dividend-paying Canadian corporations. The taxpayer pays tax based on grossing up (i.e., adding 25% to the amount of dividends actually received) and obtains a credit against federal and provincial tax based on the grossed up amount in the amount of 131/3%.

Dividend Yield: A value ratio that shows the annual dividend rate expressed as a percentage of the current market price of a stock. Dividend yield represents the investor's percentage return on investment at its prevailing market price.

Dollar Cost Averaging: Investing a fixed amount *of dollars* in a specific security at regular set intervals over a period of time, thereby reducing the average cost paid per unit.

Duration: A measure of bond price volatility. The approximate percentage change in the price or value of a bond or bond portfolio for a 1% point change in interest rates. The higher the duration of a bond the greater its risk.

Dynamic Asset Allocation: An asset allocation strategy that refers to the systematic rebalancing, either by time period or weight, of the securities in the portfolio, so that they match the long-term benchmark asset mix among the various asset classes.

Earned Income: Income that is designated by Canada Revenue Agency for RRSP calculations. Most types of revenues are included with the exception of any form of investment income and pension income.

Earnings Per Share (EPS): A value ratio that shows the portion of net income for a period attributable to a single common share of a company. For example, a company with $100 million in earnings and with 100 million common shareholders would report an EPS of $ 1 per share.

Efficient Market Hypothesis: The theory that a stock's price reflects all available information and reflects its true value.

Enterprise Value (EV): Reflects what it would cost to purchase a company as a whole. EV is calculated as the market value of the company's common equity, preferred equity and debt less any cash or investments that it records on its balance sheet.

Equity: Ownership interest in a corporation's stock that represents a claim on its earnings and assets. See also **stock.**

Exchange-Traded Funds (ETFs): Open-ended mutual fund trusts that hold the same stocks in the same proportion as those included in a specific stock index. Shares of an exchange-traded fund trade on major stock exchanges. Like index mutual funds, ETFs are designed to mimic the performance of a specified index by investing in the constituent companies included in that index. Like the stocks in which they invest, shares can be traded throughout the trading day.

Face Value: The value of a bond or debenture that appears on the face of the certificate. Face value is ordinarily the amount the issuer will pay at maturity. Face value is no indication of market value.

Fiduciary Responsibility: The responsibility of an investment advisor, mutual fund salesperson or financial planner to always put the client's interests first. The fiduciary is in a position of trust and must act accordingly.

Fiscal Policy: The policy pursued by the federal government to influence economic growth through the use of taxation and government spending to smooth out the fluctuations of the business cycle.

Fixed Asset: A tangible long-term asset such as land, building or machinery, held for use rather than for processing or resale. A balance sheet category.

Fixed-Income Securities: Securities that generate a predictable stream of interest or dividend income, such as bonds, debentures and preferred shares.

Floating Rate: A term used to describe the interest payments negotiated in a particular contract. In this case, a floating rate is one that is based on an administered rate, such as the Prime Rate. For example, the rate for a particular note may be 2% over Prime. See also Fixed Rate.

Floating-Rate Debentures: A type of debenture that offers protection to investors during periods of very volatile interest rates. For example, when interest rates are rising, the interest paid on floating rate debentures is adjusted upwards every six months.

Front-End Load: A sales charge applied to the purchase price of a mutual fund when the fund is originally purchased.

Fundamental Analysis: Security analysis based on fundamental facts about a company as revealed through its financial statements and an analysis of economic conditions that affect the company's business. See also **Technical Analysis.**

FundServ: An industry organization that administers segregated fund offerings as well as provides clearing and settlement services to mutual funds.

Futures: A contract in which the seller agrees to deliver a specified commodity or financial instrument at a specified price sometime in the future. A futures contract is traded on a recognized exchange. Unlike a forward contract, the terms of the futures contract are standardized by the exchange and there is a secondary market.

Gross Domestic Product (GDP): The value of all goods and services produced in a country in a year.

Growth Stock: Common stock of a company with excellent prospects for above-average growth; a company which over a period of time seems destined for above-average expansion.

Guaranteed amount: The minimum amount payable under death benefits or maturity guarantees provided for under the terms of the segregate fund contract.

Guaranteed Income Supplement (GIS): A pension payable to OAS recipients with no other or limited income.

Guaranteed Investment Certificate (GIC): A deposit instrument most commonly available from trust companies, requiring a minimum investment at a predetermined rate of interest for a stated term. Generally non-redeemable prior to maturity but there can be exceptions.

Guaranteed Investment Fund (GIF): A type of segregated fund whose underlying asset is a mutual fund. GIFs are often described as consisting of mutual funds with segregated fund "wrappers".

Hedging: A protective maneuver; a transaction intended to reduce the risk of loss from price fluctuations.

Hedge Funds: Lightly regulated pools of capital in which the hedge fund manager invests a significant amount of his or her own capital into the fund and whose offering memorandum allows for the fund to execute aggressive strategies that are unavailable to mutual funds such as short selling.

High Water Mark: Used in the context of how a hedge fund manager is compensated. The high water mark sets the bar above which the fund manager is paid a portion of the profits earned for the fund.

Income Splitting: A tax planning strategy whereby the higher-earning spouse transfers income to the lower-earning spouse to reduce taxable income.

Index: A measure of the market as measured by a basket of securities. An example would be the S&P/TSX Composite Index or the S&P 500. Fund managers and investors use a stock index to measure the overall direction and performance of the market.

Indexing: A portfolio management style that involves buying and holding a portfolio of securities that matches, closely or exactly, the composition of a benchmark **index.**

Inflation: A generalized, sustained trend of rising prices.

Inflation Rate: The rate of change in prices. See also **Consumer Price Index.**

Inflation Rate Risk: The risk that the value of financial assets and the purchasing power of income will decline due to the impact of inflation on the real returns produced by those financial assets.

Information Circular: Document sent to shareholders with a **proxy,** providing details of matters to come before a shareholders' meeting.

Initial Public Offering (IPO): A new issue of securities offered to the public for investment for the very first time. IPOs must adhere to strict government regulations as to how the investments are sold to the public.

Initial sales charge: A commission paid to the financial adviser at the time that the policy is purchased. This type of sales charge is also known as an acquisition fee or a **front-end load.**

Insider: All directors and senior officers of a corporation and those who may also be presumed to have access to non-public or inside information concerning more than 10% of the voting shares in a corporation. Insiders are prohibited from trading on this information.

Insider Report: A report of all transactions in the shares of a company by those considered to be insiders of the company and submitted each month to securities commissions.

Institutional Investor: Organizations, such as a pension fund or mutual fund company that trade large volumes of securities and typically have a steady flow of money to invest.

Interest Rate Risk: The risk that changes in interest rates will adversely affect the value of an investor's portfolio. For example, a portfolio with a large holding of long-term bonds is vulnerable to significant loss from changes in interest rates.

Intrinsic Value: That portion of a warrant or call options price that represents the amount by which the market price of a security exceeds the price at which the warrant or call option may be exercised (exercise price). Considered the theoretical value of a security (i.e., what a security should be worth or priced at in the market).

Investment Advisor (IA): An individual licensed to transact in the full range of securities. IAs must be registered in by the securities commission of the province in which he or she works. The term refers to employees of SRO member firms only. Also known as a Registrant or Registered Representative (RR).

Investment Counsellor: A professional engaged to give investment advice on securities for a fee.

Investment Dealer: A person or company that engages in the business of trading in securities in the capacity of an **agent** or **principal** and is a member of the IDA.

Investment Policy Statement: The agreement between a portfolio manager and a client that provides guidelines for the manager.

Investment Dealers Association (IDA) of Canada: The Canadian investment industry's national trade association and self-regulatory organization. The IDA seeks to foster efficient capital markets by encouraging participation in the savings and investment process, and by ensuring the integrity of the marketplace.

Irrevocable beneficiary: A beneficiary whose entitlements under the segregated fund contract cannot be terminated or changed without his or her consent.

Leverage: The effect of fixed charges (i.e., debt interest or preferred dividends, or both) on per-share earnings of common stock. Increases or decreases in income before fixed charges result in magnified percentage increases or decreases in earnings per common share. Leverage also refers to seeking magnified percentage returns on an investment by using borrowed funds, margin accounts or securities which require payment of only a fraction of the underlying security's value (such as rights, warrants or options).

Load: The portion of the offering price of shares of most open-end investment companies (mutual funds) which covers sales commissions and all other costs of distribution.

Long-Term Bond: A bond or debenture maturing in more than ten years.

Management Expense Ratio: The total expense of operating a mutual fund expressed as a percentage of the fund's net asset value. It includes the management fee as well as other expenses charged directly to the fund such as administrative, audit, legal fees etc., but excludes brokerage *fees*. Published rates of return are calculated after the management expense ratio has been deducted.

Management Fee: The fee that the manager of a mutual fund or a segregated fund charges the fund for managing the portfolio and operating the fund. The fee is usually set as fixed percentage of the fund's net asset value.

Margin: The amount of money paid by a client when he or she uses credit to buy a security. It is the difference between the market value of a security and the amount loaned by an investment dealer.

Margin Call: When an investor purchases an account on margin in the expectation that the share value will rise, or shorts a security on the expectation that share price will decline, and share prices go against the investor, the brokerage firm will send out a margin call requiring that the investor add additional funds or marketable securities to the account to protect the broker's loan.

Market: Any arrangement whereby products and services are bought and sold, either directly or through intermediaries.

Market Capitalization: The dollar value of a company based on the market price of its issued and outstanding common shares. It is calculated by multiplying the number of outstanding shares by the current market price of a share.

Market Correction: A price reversal that typically occurs when a security has been overbought or oversold in the market.

Market Order: An order placed to buy or sell a security immediately at the best current price.

Market Regulation Services Inc. (RS): An SRO that acts as the independent regulation services provider for Canadian equity markets, including the Toronto Stock Exchange (TSX), TSX Venture Exchange (TSX VN), and Canadian Trading and Quotation System (CNQ). RS regulates trading on these marketplaces to ensure transactions are executed properly, fairly and in compliance with trading rules.

Market Risk: The non-controllable or systematic risk associated with equities.

Market Timing: Decisions on when to buy or sell securities based on economic factors, such as the strength of the economy and the direction of interest rates, or based on stock price movements and the volume of trading through the use of technical analysis.

Maturity Guarantee: The minimum dollar value of the contract after the guarantee period, usually 10 years. This amount is also known as the annuity benefit.

Medium-Term Bond: A bond or debenture maturing in over three but less than ten years.

Monetary Policy: Economic policy designed to improve the performance of the economy by regulating money supply and credit. The Bank of Canada achieves this through its influence over short-term interest rates.

Money Market: That part of the capital market in which short-term financial obligations are bought and sold. These include treasury bills and other federal government securities maturing in three years or less and commercial paper, bankers' acceptances, trust company guaranteed investment certificates and other instruments with a year or less left to maturity. Longer term securities, when their term shortens to the limits mentioned, are also traded in the money market.

Money Purchase Plan (MPP): A type of Registered Pension Plan**;** also called a Defined Contribution Plan**.** In this type of plan, the annual payout is based on the contributions to the plan and the amounts those contributions have earned over the years preceding retirement. In other words, the benefits are not known but the contributions are.

Mortgage Backed Securities: Similar to bonds, the current $ 5,000 units with five-year terms are backed by a share in a pool of home mortgages insured under the National Housing Act. Units pay interest and a part of principal each month and, if homeowners prepay their mortgages, may pay out additional amounts of principal before normal maturity. They trade in the bond market at prices reflecting current interest rates.

Moving Average: The average of security or commodity prices calculated by adding the closing prices for the underlying security over a pre-determined period and dividing the total by the time period selected.

Multiple: A colloquial term for the price-earnings ratio of a company's common shares.

Mutual Fund Dealers Association (MFDA): The Self-Regulatory Organization (SRO) that regulates the distribution (dealer) side of the mutual fund industry in Canada.

NASDAQ: An acronym for the National Association of Securities Dealers Automated Quotation System. NASDAQ is a computerized system that provides brokers and dealers with price quotations for securities traded OTC.

Net Asset Value: For a mutual fund**,** net asset value represents the market value of the fund s share and is calculated as total assets of a corporation less its liabilities. Net asset value is typically calculated at the close of each trading day. Also referred to as the book value of a company's different classes of securities.

Net Earnings: That part of a company's profits remaining after all expenses and taxes have been paid and out of which dividends may be paid.

Net Profit Margin: A profitability ratio that indicates how efficiently the company is managed after taking into account both expenses and taxes.

New Issue: An offering of stocks or bonds sold by a company for the first time. Proceeds may be used to retire outstanding securities of the company, to purchase fixed assets or for additional working capital. New debt issues are also offered by government bodies.

Nominal GDP: Gross domestic product based on prices prevailing in the same year not corrected for inflation. Also referred to as current dollar or chained dollar GDP.

Nominee: A person or firm (bank, investment dealer, CDS) in whose name securities are registered. The shareholder, however, retains the true ownership of the securities.

Office of the Superintendent of Financial Institutions (OSFI): The federal regulatory agency whose main responsibilities regarding insurance companies and **segregated funds** are to ensure that the companies issuing the funds are financially solvent.

Old Age Security (OAS): A government pension plan payable at age 65 to all Canadian citizens and legal residents.

Outstanding Shares: That part of issued shares which remains outstanding in the hands of investors.

Overcontribution: An amount made in excess to the annual limit made to an RRSP**.** An overcontribution in excess of $2,000 is penalized at a rate of 1 percent per month.

Par Value: The stated face value of a bond or stock (as assigned by the company's charter) expressed as a dollar amount per share. Par value of a common stock usually has little relationship to the current market value and so no par value stock is now more common. Par value of a preferred stock is significant as it indicates the dollar amount of assets each preferred share would be entitled to should the company be liquidated.

Past Service Pension Adjusted (PSPA): An employer may increase a member's pension by the granting of additional past service benefits to an employee in a defined benefit plan**.** Plan members who incur a PSPA will have their **RRSP** contribution room reduced by the amount of this adjustment.

Peer Group: A group of managed products (particularly mutual funds) with a similar investment mandate.

Penny Stocks: Low-priced speculative issues selling at less than $1 a share. Frequently used as a term of disparagement, although some penny stocks have developed into investment caliber issues.

Pension Adjustment (PA): The amount of contributions made or the value of benefits accrued to a member of an employer-sponsored retirement plan for a calendar year. The PA enables the individual to determine the amount that may be contributed to an RRSP that would be in addition to contributions into a Registered Pension Plan.

Personal Disposable Income: The amount of personal income an individual has after taxes. The income that can be spent on necessities, non-essential goods and services, or that can be saved.

Policy-based guarantee: A maturity guarantee based on the date when the policy was first issued. This type of guarantee may involve restrictions on the size of and date of subsequent deposits.

Preferred Shares: A class of share capital that entitles the owners to a fixed dividend ahead of the company's common shares and to a stated dollar value per share in the event of liquidation. Usually do not have voting rights unless a stated number of dividends have been omitted. Also referred to as preference shares.

Prescribed Rate: A quarterly interest rate set out, or prescribed by Canada Revenue Agency under attribution rules. The rate is based on the Bank of Canada rate.

Present Value: The current worth of a sum of money that will be received sometime in the future.

Price-Earnings (P/E) Ratio: A value ratio that gives investors an idea of how much they are paying for a company's earnings. Calculated as the current price of the stock divided current earnings per share.

Private Placement: The underwriting of a security and its sale to a few buyers, usually institutional, in large amounts.

Probate: A provincial fee charged for authenticating a will. The fee charged is usually based on the value of the assets in an estate rather than the effort to process the will.

Program Trading: A sophisticated computerized trading strategy whereby a portfolio manager attempts to earn a profit from the price spreads between a portfolio of equities similar or identical to those underlying a designated stock index, e.g. the Standard & Poor 500 Index, and the price at which futures contracts (or their options) on the index trade in financial futures markets. Also refers to switching or trading blocks of securities in order to change the asset mix of a portfolio.

Prospectus: A legal document that describes securities being offered for sale to the public. Must be prepared in conformity with requirements of applicable securities commissions.

Put Option: A right to sell the stock at a stated price within a given time period. Those who think a stock may go down generally purchase puts.

Quantitative Analysis: The study of economic and stock valuation patterns in order to identify and profit from any anomalies.

Real Estate Investment Trust (REIT): An investment trust that specializes in real estate related investments including mortgages, construction loans, land and real estate securities in varying combinations. A REIT invests in and manages a diversified portfolio of real estate.

Real GDP: Gross Domestic Product adjusted for changes in the price level. Also referred to as constant dollar GDP.

Real Interest Rate: The nominal rate of interest minus the percentage change in the Consumer Price Index (i.e. the rate of inflation).

Registered Education Savings Plans (RESPs): A type of government sponsored savings plan used to finance a child's post secondary education.

Registered Pension Plan (RPP): A trust registered with Canada Revenue Agency and established by an employer to provide pension benefits for employees when they retire. Both employer and employee may contribute to the plan and contributions are tax-deductible. See also Defined Contribution Plan and Defined Benefit Plan.

Registered Retirement Income Fund (RRIF): A tax deferral vehicle available to RRSP holders. The planholder invests the funds in the RRIF and must withdraw a certain amount each year. Income tax would be due on the funds when withdrawn.

Registered Retirement Savings Plan (RRSP): An investment vehicle available to individuals to defer tax on a specified amount of money to be used for retirement. The holder invests money in one or more of a variety of investment vehicles which are held in trust under the plan. Income tax on contributions and earnings within the plan is deferred until the money is withdrawn at retirement. RRSPs can be transferred into Registered Retirement Income Funds upon retirement.

Reset: A contract provision which allows the segregated fund contract holder to lock in the current market value of the fund and set a new maturity date 10 years after the reset date. Depending on the contract, the reset dates may be chosen by the contract holder or be triggered automatically.

Retail Investor: Individual investors who buy and sell securities for their own personal accounts, and not for another company or organization. They generally buy in smaller quantities than larger institutional investors.

Retained Earnings: The cumulative total of annual earnings retained by a company after payment of all expenses and dividends. The earnings retained each year are reinvested in the business.

Return on Invested Capital: A profitability ratio that shows the amount earned on a company's total capital - the sum of its common and preferred shares and long-term debt. It is a useful measure of management efficiency.

Revocable beneficiary: A beneficiary whose entitlements under the segregated fund contract can be terminated or changed without his or her consent.

Right: A short-term privilege granted to a company's common shareholders to purchase additional common shares, usually at a discount, from the company itself, at a stated price and within a specified time period. Rights of listed companies trade on stock exchanges from the ex-rights date until their expiry.

Right of Rescission: The right of a purchaser of a new issue to rescind the purchase contract within the applicable time limits if the prospectus contained an untrue statement or omitted a material fact.

Risk Free Rate: The rate of return an investor would receive if he or she invested in a risk free investment, such as a treasury bill.

Risk Premium: A rate that has to be paid in addition to the risk free rate (T-bill rate) to compensate investors for choosing securities that have more risk than T-Bills.

Risk Return Trade-off: A graph that shows the relationship between the risk associated with an investment and the expected return on that investment. Investors hope to get higher returns when investing in higher risk securities.

Risk-tolerant: Descriptive term used for an investor willing and able to accept the probability of losing capital.

S&P/TSX Composite Index: A benchmark used to measure the performance of the broad Canadian equity market..

Scholarship Trusts: A type of managed product created to help parents save for their children's post-secondary education. The subscribers (parents or grandparents) make contributions that are used to purchase units in a scholarship trust.

SEC: The Securities and Exchange Commission, a federal body established by the United States Congress, to protect investors in the U.S. In Canada there is no national regulatory authority; instead, securities legislation is provincially administered.

Secondary Issue: Refers to the redistribution or resale of previously issued securities to the public by a dealer or investment dealer syndicate. Usually a large block of shares is involved (e.g., from the settlement of an estate) and these are offered to the public at a fixed price, set in relationship to the stocks market price.

Securities: Paper certificates or electronic records that evidence ownership of equity (stocks) or debt obligations (bonds).

Securities Acts: Provincial Acts administered by the securities commission in each province, which set down the rules under which securities may be issued and traded.

Segregated Funds: Insurance companies sell these funds as an alternative to conventional mutual funds. Like mutual funds, segregated funds offer a range of investment objectives and categories of securities e.g. equity funds, bond funds, balanced funds etc. These funds have the unique feature of guaranteeing that, regardless of how poorly the fund performs, at least a minimum percentage (usually 75% or more) of the investors payments into the fund will be returned when the fund matures.

Self Directed RRSP: A type of RRSP whereby the holder invests funds or contributes certain acceptable assets such as securities directly into a registered plan which is usually administered for a fee by a Canadian financial services company.

Settlement Date: The date on which a securities buyer must pay for a purchase or a seller must deliver the securities sold. For most securities, settlement must be made on or before the third business day following the transaction date.

Shareholders' Equity: A balance sheet item that represents the excess of the company's assets over its liabilities and shows shareholders interest in the company. Also referred to as net worth as it represents the ownership interest of common and preferred shareholders in a company.

Short Position: Created when an investor sells a security that he or she does not own. See also **short sale.**

Short Sale: The sale of a security which the seller does not own. This is a speculative practice done in the belief that the price of a stock is going to fall and the seller will then be able to cover the sale by buying it back later at a lower price, thereby making a profit on the transactions. It is illegal for a seller not to declare a short sale at the time of placing the order. See also **Margin.**

Short-term Bond: A bond or debenture maturing within three years.

Simplified Prospectus: A condensed prospectus distributed by mutual fund companies to purchasers and potential purchasers of fund units or shares.

Small Cap: Reference to smaller growth companies. Small cap refers to the size of the capitalization or investments made in the company. A small cap company has been defined as a company with an outstanding stock value of under $500 million. Small cap companies are considered more volatile than large cap companies.

Sole Proprietorship: A form of business organization that involves one person running a business whereby the individual is taxed on earnings at their personal income tax rate.

Spousal RRSP: A special type of RRSP to which one spouse contributes to a plan registered in the beneficiary spouse's name. The contributed funds belong to the beneficiary but the contributor receives the tax deduction. If the beneficiary removes funds from the spousal plan in the year of the contribution or in the subsequent two calendar years, the contributor must pay taxes on the withdrawn amount.

Spread: The gap between bid and ask prices in the quotation for a security. Also a term used in option trading.

SRO: Short for self regulatory organization such as the Investment Dealers Association of Canada and the principal stock exchanges.

Standard Deviation: A statistical measure of risk. The larger the standard deviation, the greater the volatility of returns and therefore the greater the risk.

Stock: Ownership interest in a corporations that represents a claim on its earnings and assets.

Stock Dividend: A pro rata payment to common shareholders of additional common stock. Such payment increases the number of shares each holder owns but does not alter a shareholder's proportional ownership of the company.

Stock Exchange: A marketplace where buyers and sellers of securities meet to trade with each other and where prices are established according to laws of supply and demand.

Stop Buy Orders: An order to buy a security only after it has reached a certain price. This may be used to protect a short position or to ensure that a stock is purchased while its price is rising. According to TSX rules these orders become limit orders when the stop price is reached.

Stop Loss Orders: The opposite of a stop buy order**.** An order to sell a security after its price falls to a certain amount, thus limiting the loss or protecting a paper profit. According to TSX rules these orders become limit orders when the stop price is reached.

Strategic Asset Allocation: An asset allocation strategy that rebalances investment portfolios regularly to maintain a consistent long-term mix.

Strip Bonds or Zero Coupon Bonds: Usually high quality federal or provincial government bonds originally issued in bearer form, where some or all of the interest **coupons** have been detached. The bond principal and any remaining coupons (the residue) then trade separately from the strip of detached coupons, both at substantial discounts from par.

Subordinate Debenture: A type of junior debenture. Subordinate indicates that another debenture ranks ahead in terms of a claim on assets and profits.

Superficial Losses: Occur when an investment is sold and then repurchased at any time in a period that is 30 days before or after the sale.

Surrender Value: The cash value of an insurance contract as of the date that the policy is being redeemed. This amount is equal to the market value of the segregated fund, less any applicable sales charges or administrative fees.

Systematic Withdrawal Plan: A plan that enables set amounts to be withdrawn from a mutual fund or a segregated fund on a regular basis.

T3 Form: Referred to as a Statement of Trust Income Allocations and Designations. When a mutual fund is held outside a registered plan, unit holders of an unincorporated fund is sent a T3 form by the respective fund.

T4 **Form:** Referred to as a Statement of Remuneration Paid. A T4 form is issued annually by employers to employees reporting total compensation for the calendar year. Employers have until the end of February to submit T4 forms to employees for the previous calendar year.

T5 Form: Referred to as a Statement of Investment Income. When a mutual fund is held outside a registered plan, shareholders are sent a T3 form by the respective fund.

Tactical Asset Allocation: An asset allocation strategy that involves adjusting a portfolio to take advantage of perceived inefficiencies in the prices of securities in different asset classes or within sectors.

Tax Loss Selling: Selling a security for the sole purpose of generating a loss for tax purposes. There may be times when this strategy is advantageous but investment principles should not be ignored.

T-Bills: See **Treasury bills.**

Technical Analysis: A method of market and security analysis that studies investor attitudes and psychology as revealed in charts of stock price movements and trading volumes to predict future price action.

Term Insurance: A type of insurance policy that pays a death benefit if the insured dies within the given contracted period. It is sometimes called pure insurance as it does not have a savings component and is put in place strictly for insurance purposes.

Top-Down Approach: A type of fundamental analysis. First, general trends in the economy are analyzed. This information is then combined with industries and companies within those industries that should benefit from the general trends identified.

Trailer Fee: Fee that a mutual fund manager may pay to the individual or organization that sold the fund for providing services such as investment advice, tax guidance and financial statements to investors. The fee is paid annually and continues for as long as the investor holds shares in the fund.

Transaction Date: The date on which the purchase or sale of a security takes place.

Treasury Bills: Short-term government debt issued in denominations ranging from $1,000 to $1,000,000. Treasury bills do not pay interest, but are sold at a discount and mature at par (100% of face value). The difference between the purchase price and par at maturity represents the lenders (purchasers) income in lieu of interest. In Canada, such gain is taxed as interest income in the purchaser's hands.

Treasury Shares: Authorized but unissued stock of a company or previously issued shares that have been re-acquired by the corporation. The amount still represents part of those issued but is not included in the number of shares outstanding. These shares may be resold or used as part of the option package for management. Treasury shares do not have voting rights nor are they entitled to dividends.

Trustee: For bondholders, usually a trust company appointed by the company to protect the security behind the bonds and to make certain that all covenants of the trust deed relating to the bonds are honoured. For a segregated fund, the trustee administers the assets of a mutual fund on behalf of the investors.

Underwriting: The purchase for resale of a security issue by one or more investment dealers or underwriters. The formal agreements pertaining to such a transaction are called underwriting agreements.

Unit: Two or more corporate securities (such as preferred shares and warrants) offered for sale to the public at a single, combined price.

Unit Value: The value of one unit of a segregated fund. The units have no legal status, and are simply an administrative convenience used to determine the income attributable to contract holders and the level of benefits payable to beneficiaries.

Value Manager: A manager that takes a research intensive approach to finding undervalued securities.

Value Ratios: Financial ratios that show the investor the worth of the company's shares or the return on owning them.

Volatility: A measure of the amount of change in the daily price of a security over a specified period of time. Usually given as the standard deviation of the daily price changes of that security on an annual basis.

Warrant: A certificate giving the holder the right to purchase securities at a stipulated price within a specified time limit. Warrants are usually issued with a new issue of securities as an inducement or sweetener to investors to buy the new issue.

Wrap Account: Also known as a wrap fee program. A type of fully discretionary account where a single annual fee, based on the accounts total assets, is charged, instead of commissions and advice and service charges being levied separately for each transaction. The account is then managed separately from all other wrap accounts, but is kept consistent with a model portfolio suitable to clients with similar objectives.

Yield - Bond & Stock: Return on an investment. A stock yield is calculated by expressing the annual dividend as a percentage of the stocks current market price. A bond yield is more complicated, involving annual interest payments plus amortizing the difference between its current market price and par value over the bond s life. See also **Current Yield.**

Yield to Maturity: The rate of return investors would receive if they purchased a bond today and held it to maturity**.** Yield to maturity is considered a long term bond yield expressed as an annual rate.

Zero Coupon Bonds: See **Strip Bonds.**