Investment Terms

Asset allocation
Percentage of **securities** your portfolio has in three primary classes: **equities,** bonds, and cash.
Balanced portfolio
Investment portfolio that contains a relatively even mixture of **equities** versus bonds (e.g., 60% equities and 40% bonds), targeted towards investors who want a combination of safety, income, and modest capital growth.
Burn rate
Average amount you spend every month on all expenses (rent/mortgage, groceries, entertainment, toys for your cat, etc.).
Cash flow
Measures total income from all sources (salary, bonuses, rental income, etc.) as well as total expenses (see **burn rate**). The difference between the two is your "net" cash flow, which is generally viewed on a monthly basis but can also be measured annually.
Dividend fund
A **mutual fund** that aims to provide investors with income from **equities** that regularly yield **dividends** in cash and/or stock.
Dividends
Excess revenue from company operations not earmarked for reinvestment that is often paid out (usually quarterly) to shareholders (those who own stock in the company).
Equities (a.k.a. stocks)
Shares in a business that is listed on a stock exchange. If you buy $1,000 worth of shares in a business at $10 per share, you would own 100 shares in that company. If that company has 100,000 shares outstanding, you would own 0.1% of the business. The value of these shares can go up or down depending on the markets and profitability of the company. Equities can also pay **dividends.**
ETF (exchange traded fund)
A basket of **securities** that trade as a single security on the stock exchange, typically advertised as coming with lower fees. An ETF is typically comprised of stocks but can be made up of other investments, such as bonds or commodities.
Fee / MER (management expense ratio)
The cost to invest in a portfolio of **securities.** This fee, called a management expense ratio (MER) in Canada, is taken off the return of those investments each year, regardless of whether the portfolio value is up or down. Although it is good to be aware of fees, note that lower fees aren't always best; sometimes better investments cost more. Talk to your financial planner for more information.

Worksheet 15.2

Fixed income securities (a.k.a. bonds)
This type of security is similar to stocks except instead of owning shares in the company, you are essentially loaning the company money in return for the promise from the company that they will pay you back after a fixed amount of time, plus interest. Interest, paid annually, is the company's incentive for you to loan them the money. It is generally expressed as a percentage of the bond. For instance, if you buy a five-year bond at $100 with an interest rate of 4%, then you would receive $4 per year for five years, and then after five years the company would also pay you back your $100.
Index
A diversified, representative basket of **securities** used to track the performance of all of the securities in a certain sector or country, etc. Examples would be the S&P 500 in the U.S., the TSX in Canada, or the FTSE in the U.K.
Mutual fund
An investment fund that raises money from shareholders and invests it in **securities** such as **equities,** bonds, etc.
Non-registered account
An investment account that is not registered with the government and does not provide any specific tax relief.
REIT (real estate investment trust)
These securities are companies that own or finance income-producing real estate. Similar to **mutual funds,** they provide investors with a diversified basket of investments that generally pay out regular income and the opportunity for growth over time.
Risk (investment)
The potential for loss of value (either temporary or permanent) in an investment portfolio.
Securities
Stock certificates, bonds, or other evidence of secured indebtedness or of a holder's right to participate in the profits or asset distribution of a for-profit company.
Volatility
The variability of price for a security, typically measured for stocks, mutual funds, or indexes. The most common measurement for this is standard deviation.