Kummer Financial Glossary

401(k) Plan
A tax-deferred defined contribution retirement plan that gives eligible employees the opportunity to defer a portion of their current compensation into the plan. Amounts that are deferred are excluded from the participant's gross income for the year of the deferral. The plan may provide for employer-matching contributions and discretionary profit-sharing contributions.

403(b) Plan
A tax-deferred annuity retirement plan available to employees of public schools and colleges, and certain non-profit hospitals, charitable, religious, scientific and educational organizations.

457 Plan
A non-qualified deferred compensation plan available to employees of state and local governments and tax-exempt organizations.

529 Plan
Section 529 college savings plans allow an individual to contribute money to a child's education with the assets remaining in the grantor's control until they deem necessary to pass to the beneficiary (student). These assets can only be used for higher education and grow tax-free and are distributed tax-free to the student. The parent or other owner may change beneficiaries at any time and use the assets for multi-generational estate planning as well.

Absolute Return Investment Strategies:

- **Equity Long-Short Funds:** Funds that attempt to increase risk adjusted returns by buying undervalued stocks and selling short over-valued stocks.
- **Market Neutral Funds:** Funds maintain a balanced long/short position in order to earn the risk free rate of return based on US Treasuries plus the excess returns based on stock selection.
- **Managed Futures Funds:** Funds that seek to improve risk adjusted returns through buying and short-selling commodities futures contracts.
- **Global Macro-Economic Funds:** Seek higher risk adjusted returns based on trends in macro-economic data and differences between various countries.
- **Event Driven/Arbitrage Funds:** Funds that seek to improve risk-adjusted returns based on buying and short-selling equities and bonds based on primary research surrounding corporate events like merger, acquisitions, spin-offs, etc.
- **Multi-strategy:** Funds use various combinations of hedge fund strategies to improve risk adjusted returns.

Adjusted Gross Income (AGI)
The income number often used by IRS to determine eligibility for certain credits and deductions. This number is gross income adjusted by certain allowable deductions (i.e., IRA contributions, half of self-employment tax, etc.) but prior to itemized (or standard) deductions and exemptions and credits. The amount is usually the last number on the first page of Form 1040. (Also see "Taxable Income")

Advisor Share Class
A class of mutual fund shares with lower expenses than traditional share classes and no 12b-1 fees. These often are only available through advisors or can only be purchased with high minimum investments of $1 million or more. Varying funds may have similar or closely-related share classes including "institutional", Y shares, W shares, or I shares.

Alpha
A statistically generated number that is used to measure the value-added by the manager of a mutual fund after accounting for Beta or risk relative to the market or peers. (Also see “Beta”)

Alternative Investment
An investment that is not one of the three traditional asset types of stocks, bonds, or cash. These assets may provide a diversification benefit due to their low correlation to standard asset classes. Examples of alternative investments include real estate, commodities, managed futures, hedge funds and derivatives contracts.

Alternative Minimum Tax (AMT)
AMT is an alternative to the standard tax calculation designed to increase taxes on individuals that have high levels of non-taxable income due otherwise excludable income or substantial deductions. An individual will then owe taxes based on the higher of regular tax calculations and AMT. AMT disallows certain deductions including state income taxes.

Annuity
A contract between an insurance company and an individual which generally guarantees lifetime income to the individual on whose life the contract is based in return for either a lump sum or periodic payment to the insurance company. Interest earned inside an annuity is income tax-deferred until it is paid out or withdrawn.

Balanced Mutual Fund
A balanced mutual fund invests its portfolio assets in both stocks and bonds, frequently in equal portions in order to provide both growth and income opportunities.

Bear Market
Bear markets are movements in the stock market in which prices are falling, and the view is that they will continue falling: The economy will slow down, coupled with a rise in unemployment and inflation.

Beneficiary
The person who is designated to receive the benefits of a contract.

Beta
A statistically generated number that is used to measure the volatility of a security or mutual fund in comparison to the market as a whole. (Also see “Alpha”)

Blend Mutual Fund
A blend mutual fund typically invests its assets in both growth and value stocks in roughly equal portions.

Blue-Chip Stocks
The equity issues of financially stable, well-established companies that usually have a history of being able to pay dividends in bear and bull markets.

Bond
A loan made to a government or corporation by individual investors; bondholders get a set amount of interest over a predetermined period of time (e.g. quarterly, annually, at maturity, etc.), plus their initial investment (principal) when the bond matures.

Bull Market
Bull markets are movements in the stock market in which prices are rising and the consensus is that prices will continue moving upward. During this time, economic production is high, jobs are plentiful and inflation is low.

Cash Equivalents
Assets that can be quickly converted to cash. These include receivables, treasury bills, short-term commercial paper, short-term municipal and corporate bonds and notes.

Cash Value
Permanent life insurance policies provide both a death benefit and an investment component called a cash value. The cash value earns interest and often appreciates. The policyholder may accumulate significant cash value over the years and, in some circumstances, "borrow" the appreciated funds without paying taxes on the borrowed gains. As long as the policy stays in force the borrowed funds do not need to be repaid, but interest may be charged to your cash value account.

Commodity Fund
Mutual funds investing in assets with commodity exposure or in the stock of a company with significant commodity exposure. These commodities can include energy, metals, and agricultural products. In addition to traditional mutual funds, these will also include iPaths, a bond-based product similar to iShares and other ETFs. Commodities and commodity funds can perform differently than the overall stock and bond markets. This can lead to additional diversification benefits.

Common Stock
A security that represents ownership in a corporation.

Custodian
A financial institution, usually a bank or trust company that holds a person’s or company's cash and/or securities in safekeeping.

Cyclical Companies
Companies that report strong earnings when the overall economy is doing well and weaker earnings when the economy is in recession.

Debt to Equity Ratio
The ratio of a person's total monthly debt obligations compared to their total assets is called their debt to equity ratio. This ratio is used to evaluate a borrower's capacity to repay debts.

Deferred Compensation
Income withheld by an employer and paid at some future time, usually upon retirement or termination of employment.

Defined Benefit Plan
A defined benefit plan pays participants a specific retirement benefit that is promised (defined) in the plan document. Under a defined benefit plan benefits must be definitely determinable. For example, a plan that entitles a participant to a monthly pension benefit for life equal to 30 percent of monthly compensation is a defined benefit plan.

Defined Contribution Plan
In a defined contribution plan, contributions are allocated to individual accounts according to a pre-determined contribution allocation. This type of plan does not promise any specific dollar benefit to a participant at retirement. Benefits received are based on amounts contributed, investment performance and vesting. The most common type of defined contribution plan is the 401(k) profit-sharing plan.

Diversification
Spreading investment risk among a number of different securities, properties, companies, industries or geographical locations.

Dividends
A distribution of the earnings of a company to its shareholders. Dividends are "declared" by the company based on profitability and can change from time to time. There is a direct relationship between dividends paid and share value growth. The most aggressive growth companies do not pay a dividend, and the highest dividend paying companies may not experience dramatic growth.

Dollar Cost Averaging
Buying a mutual fund or securities using a consistent dollar amount of money each month (or other period). More securities will be bought when prices are low, resulting in lowering the average cost per share.

Dynamic Allocation Strategy (DAS)
A Kummer Financial Strategies proprietary investment allocation strategy. Dynamic allocation strategies may include an extra weighting in an existing core holding or it may add exposure to a new category. Both are designed to add diversification based on perceived opportunities resulting from a given market or economic environment. Dynamic strategies are used to create a more sustainable portfolio over the long term by actively managing risk and monitoring correlations across all asset classes and holdings.

Earnings Per Share (EPS)
Total net profits divided by the number of outstanding common shares of a company.

Economic Cycle
Economic events are often felt to repeat a regular pattern over a period of anywhere from two to eight years. This pattern of events tends to be slightly different each time, but usually has a large number of similarities to previous cycles.

Effective Tax Rate
The percentage of total income paid in federal and state income taxes.

Exchange-Traded Fund (ETF)
Exchange-Traded Funds combine the advantages of stocks with those of index funds. Like stocks, they are liquid, easy to use, and can be traded in whatever number of shares you wish. Like index funds, they provide diversification, market tracking, and low expenses. (iShares are the most extensive family of ETFs. Others include QQQ, SPDRs, VIPERs, HOLDRs, and Diamonds.)

Executor
The person named in a will to manage the estate of the deceased according to the terms of the will. (See "Personal Representative".)

Factor-Based All-Cap Strategy (FAS)
A Kummer Financial Strategies Factor-Based All-Cap Strategy is a concentrated, largely rules-based stock selection process that seeks long-term growth of capital with some income by owning individual equities of U.S. companies of varying sizes. The Strategy invests in U.S. stocks exhibiting characteristics associated with many factors identified by stock-market practitioners and academic researchers as being persistent drivers of returns across market cycles. These factors include, but are not limited to, size, momentum, low beta and value.

Fundamental Analysis
Fundamental analysis is a technique of estimating a stock's future value based on the in-depth study of the stock's underlying financial statements. Fundamental analysis is the opposite of technical analysis.

Growth Stock
The common equity of a company that tends to grow faster than the economy by reinvesting its dividends rather than paying them to its shareholders.

Guardian
A person or persons named to care for minor children until they reach the age of majority. A will is the best way to ensure that the person or persons whom you wish to have care for your minor children are legally empowered to do so in the event of your death.

Hedge
An investment used to offset potential adverse price movements of an asset. Normally, a hedge involves taking an offsetting position in a related security.

Householding
This is a way to structure an investment portfolio in which all of the accounts within a family's household are aggregated and managed within a single asset allocation instead of each account being managed with an individual allocation. Householding can improve the tax efficiency of a portfolio and reduce overall transaction costs resulting in higher after-tax returns.

Illiquid
The description of a security for which it is difficult to find a buyer or seller. An illiquid investment is an investment that may be difficult to sell quickly at a price close to its market value. Examples include stock in private unlisted companies, commercial real estate and limited partnerships.

Indexed Annuity
An indexed annuity is a fixed annuity, either immediate or deferred, that earns interest or provides benefits that are linked to an external equity reference or an equity index. The value of the index might be tied to a stock or other equity index. Some of the most commonly used indices are the S&P 500 and NASDAQ, which are equity indices. The value of any index varies from day to day and is not predictable. The earnings are usually credited after the previous year index returns and do not include dividends and may be capped not to include all market returns. The values grow tax deferred and typically have a very low guaranteed rate of 2% or less. They can have high expenses and may carry a high surrender charge. Withdrawals are taxed as ordinary income, rather than at capital gains rate. If you make withdrawals before you reach age 59 ½, you may also be subject to a 10 percent early withdrawal penalty.

Individual Retirement Account (IRA)
An Individual Retirement Account (IRA) is a personal savings plan that offers tax advantages to those who set aside money for retirement. Depending on the individual's circumstances, contributions to the IRA may be deductible in whole or in part. Generally, amounts in an IRA, including earnings and gains, are not taxed until distributed to the individual.

Inflation
A term used to describe the economic environment of rising prices and declining purchasing power.

Institutional Share Class (see "Advisor Share Class")

Interest Rate Risk
The uncertainty in the direction of interest rates. Changes in interest rates could lead to capital loss, or a yield less than that available to other investors, putting at risk the earnings capacity of capital.

Inverse ETF
An inverse exchange-traded fund (ETF) is constructed by using various derivatives for the purpose of profiting from a decline in the value of an underlying benchmark index. Investing in these ETFs is similar to holding various short positions, or using a combination of advanced investment strategies to profit from falling prices. One advantage is that these ETFs do not require the investor to hold a margin account as would be the case for investors looking to enter into short positions. Most investors look to purchase inverse ETFs so that they can hedge their portfolios against falling prices.

Investment Policy Statement (IPS)
An investment policy statement is designed to be used as a guideline for both current and future investment decisions. The IPS outlines goals and objectives of the investment, willingness to accept risk in hopes of higher returns, and provides a general asset allocation including which types of assets may help meet those goals. The IPS will not include specific investment recommendations.

Investment Risk
The chance that the actual returns realized on an investment will differ from the expected return.

IRA Rollover
An individual may withdraw, tax-free, all or part of the assets from one IRA, and reinvest them within 60 days in another IRA. One rollover may be initiated only once in any 12-month period, regardless of the number of IRA accounts owned by a person. The 12-month restriction does not apply to trustee-to-trustee transfers and rollovers from traditional IRAs to Roth IRAs. An individual must roll over into another IRA the same property he/she received from the old IRA.

iShares (see "Exchange-Traded Funds")

Fixed Annuity
A type of annuity that allows you to accumulate earnings at a fixed rate during a build-up period similar to a CD but allows tax deferred earnings while in the accumulation period. You pay the required premium, either in a lump sum or in installments. Withdrawals are taxed as ordinary income, rather than at the capital gains rate. If you make withdrawals before you reach age 59 ½, you may also be subject to a 10 percent early withdrawal penalty.

Large Cap
A large cap stock is a stock whose total market capitalization (total value of all shares) is large relative to other stocks. Even though there are only a few hundred large cap stocks, their value easily exceeds the value of the thousands of mid and small cap stocks combined.

Life Insurance
A contract between you and a life insurance company that specifies that the insurer will provide either a stated sum or a periodic income to your designated beneficiaries upon your death.

Liquidity
Liquidity is the measure of your ability to immediately turn assets into cash without penalty or risk of loss. Examples include a savings account, money market account, checking account, etc.

Living Will
If you become incapacitated this document will preserve your wishes and act as your voice in medical decisions. For example, if you are unable to speak for yourself as a result of medical reasons.

Marginal Tax Rate
The Marginal Tax Rate is the rate that applies to the last dollar of taxable income. It is important to know because of the progressive tax system: tax rates increase as income increases, which mean tax-savings strategies will reduce income at the highest taxable rate not the average tax rate.

Market Risk
Every investment carries some element of market risk, the risk that the entire market will decline, reducing the investment's value regardless of other factors.

Medical Power Of Attorney
This special power of attorney document allows you to designate another person to make medical decisions on your behalf.

Mid Cap
A mid cap stock is one issued by a company with between $1.5 billion and $9 billion in market capitalization.

Mutual Funds
A mutual fund is a pooling of investor (shareholder) assets, which is professionally managed by an investment company for the benefit of the fund's shareholders. Each fund has specific investment objectives and associated risk. Mutual funds offer shareholders the advantage of diversification and professional management in exchange for a modest management fee, typically 1% of total assets per year, or less.

Net Asset Value
The value of all the holdings of a mutual fund, less the fund's liabilities [also describes the price at which fund shares are redeemed].

Net Worth
Your net worth is the difference between your total assets and total liabilities.

Non-Qualified Accounts (also see Qualified Retirement Accounts)
A non-qualified (taxable) account is a brokerage account that does not satisfy certain IRS requirements making it unable to receive the same tax benefits that qualified retirement accounts are entitled to receive.

Non-Qualified Plan
A non-qualified retirement plan is one that does not satisfy certain IRS requirements making it unable to receive the same tax benefits that qualified plans are entitled to receive.

Personal Representative
The administrator for the estate of a deceased person.

Power Of Attorney
A legal document authorizing one person to act on behalf of another.

Qualified Retirement Accounts
An account established within the IRS rules that allow for pre-tax contributions and tax-deferred growth. This includes employer-sponsored plans such as 401(k), 401(a),403(b), SEP, and SIMPLE. While Individual Retirement Accounts (IRAs) are technically not Qualified, they do enjoy the same tax benefits and can be used to roll employer plans over into IRAs and retain the tax-deferral until withdrawal.

Qualified Retirement Plan
A qualified retirement plan is a retirement plan that meets certain specified tax rules contained primarily in section 401(a) of the Internal Revenue Code. These rules are called "plan qualification rules". If the rules are satisfied the plan's trust is tax deferred.

Rebalance
The process of realigning a portfolio to its intended allocation. This usually involves buying and selling positions.

Required Minimum Distributions (RMD)
An individual must start receiving distributions from a qualified plan by April 1 of the year following the year in which he/she reaches age 70 ½ , with certain exceptions. Subsequent distributions must occur by each December 31. These are based on life expectancy and are calculated based upon the value of all of the owner’s or beneficiary’s IRAs at the end of the prior year. Failure to take distributions as required can result in a substantial penalty. An **inherited IRA** may also be required to distribute regardless of the beneficiary’s age. (Also see “IRA” and “Roth IRA”.)

Risk
Investment risk is the chance that the actual returns realized on an investment will differ from the expected return. (Also see “Standard Deviation”.)

Roth IRA
Unlike a traditional IRA, contributions to a Roth IRA are not tax-deductible, but assets grow tax-free if contributions meet the qualifications for tax-free withdrawal. Roth IRAs do not require minimum distributions at 70 ½. (Also see “IRA” and “Required Minimum Distributions (RMD)”.)

Simplified Employee Pension (SEP)
A SEP provides employers with a "simplified" alternative to a qualified profit-sharing plan. Basically, a SEP is a written arrangement that allows an employer to make contributions towards his or her own and employees' retirement, without becoming involved in a more complex retirement plan. Under a SEP, IRAs are set up for each eligible employee. SEP contributions are made to IRAs of the participants in the plan. The employer has no control over the employee's IRA once the money is contributed.

Single Premium Immediate Annuity (SPIA)
An annuity contract that you buy with a lump sum amount and begin to receive income from within a short period of time, usually less than 13 months. An immediate annuity can be either fixed or variable. It usually is for a specific period of time such as 10 years or for the annuitant's lifetime. The payout is usually set up on a monthly basis, but could also be on a quarterly, semi-annually, or annually basis.

Small Cap
A small cap stock is generally defined as a company with less than $1 - 1.5 billion in market capitalization. Small caps as an asset class are sometimes considered to be less liquid, more volatile, and less well-known than large caps. Although, there are many small companies that contradict this perception.

Social Security

- **Social Security:** While you work, make above a certain amount of money, and pay Social Security taxes, you earn 'credits' toward Social Security benefits. If you earn enough credits, then when you reach a certain age you can apply for Social Security retirement benefits based on your highest 35 years of earnings. You have many options when applying for retirement benefits, including reduced benefits, full retirement benefits and delayed retirement benefits. Spouses, divorced spouses, widows/widowers, and dependent children may also be eligible for benefits based on your earnings. Disability benefits may also be available through Social Security. Contact the Social Security Administration (www.ssa.gov) for a complete understanding of your specific benefit options.

- **Full Retirement Age (FRA):** The age, based on date of birth, at which a person becomes eligible to receive full retirement benefits.

- **Early Retirement:** A person may begin taking Social Security retirement benefits at a reduced amount starting at age 62. If you take retirement benefits early, your benefit may remain permanently reduced.

- **Working while also receiving Social Security retirement benefits:** For the months before you reach FRA, your Social Security retirement benefits will be reduced if your earnings exceed certain limits. In the year you reach FRA, benefits are reduced by $1 for every $3 you earn over certain limits until the month you reach FRA. Before the year in which you reach FRA, benefits are reduced by $1 for every $2 in earnings you have above certain annual limits. At FRA, you get your full Social Security benefit payment regardless of how much you earn. Also, any wages you earn after signing up for Social Security may increase your benefit amount.

- **Delayed Retirement Credits (DRC):** Benefits are increased by a percentage each month a person delays taking Social Security benefits beyond FRA. These increases occur up to age 70.

Primary Insurance Amount (PIA): The monthly amount available to receive if you start taking Social Security benefits at FRA.

- **Government Pension Offset (GPO):** Social Security spousal or widow benefits may be reduced if you receive a government pension for work in which you did not pay Social Security taxes. Social Security benefits are reduced by two thirds of the amount of the government pension.

- **Windfall Elimination Provision (WEP):** Your Social Security benefits may be reduced if you receive a pension from an employer who does not withhold Social Security taxes from your salary and you qualify for Social Security retirement or disability benefits from work in other jobs for which you did pay Social Security taxes. The maximum percent that your Social Security benefits could be reduced is 50% of your pension for earnings after 1956 on which you didn't pay Social Security taxes.

Spousal IRA
An individual can set up and contribute to an IRA for his/her spouse. This is called a "Spousal IRA" and can be established if certain requirements are met. In the case of a spousal IRA, the individual and spouse must have separate IRAs. A jointly owned IRA is not permitted.

Standard Deviation
A measure of an investment's relative volatility, standard deviation is a statistical measure of the range of an investment's performance. In comparison to the historical standard deviation of the S&P 500 of about 19%, an investment with a higher standard deviation would be expected in the future to be more volatile than the index. Simply stated, when an investment has a high standard deviation, its range of performance has been very wide, indicating that there is a greater potential for volatility, meaning the potential for large gains or losses.

Taxable Income
Taxable income is the income number IRS uses to apply the tax rates and calculate taxes due before applicable credits and taxes paid. This number is less than Adjusted Gross Income as it is reduced by itemized or standard deductions and exemptions.

Tax-Deferred
The term tax-deferred refers to the deferral of income taxes on interest earnings until the interest is withdrawn from the investment. By leaving the interest in the investment untaxed, your compound rate of return in the investment is increased. Some vehicles or products that enjoy this special tax treatment include permanent life insurance, annuities, and any investment held in a non-deductible IRA.
Taxes are also deferred on the entire balance of accounts that hold pre-tax contributions such as 401(k) plans and IRAs where the contributions are deductible.

Technical Analysis
Technical analysis is a technique of estimating a stock's future value strictly by examining its prices and volume of trading over time. Technical analysis is the opposite of fundamental analysis.

Total Return
When measuring performance, the actual rate of return of an investment or a pool of investments over a given evaluation period. Total return includes interest, capital gains, dividends and distributions realized over a given period of time.

Total return accounts for two categories of return: income and capital appreciation. Income includes interest paid by fixed-income investments, distributions or dividends. Capital appreciation represents the change in the market price of an asset.

Trust
A fiduciary relationship where one person, the trustor, gives another person, the trustee, the right to hold property for the benefit of a third party, the beneficiary.

Unconstrained Bond Fund
Fixed income mutual funds that are not tied to a benchmark, thus giving a fund manager the unrestricted ability to hold a variety of bond choices within the same position. These holdings can include U.S investment-grade bonds, high-yield bonds, international bonds, emerging market bonds, municipal bonds, money market instruments, as well as other fixed income type securities. Although not constrained to a particular benchmark, these funds follow an investment mandate consistent with the fixed income category.

Value Stock
The common equity of a company that appears to be priced at a bargain relative to what the market should pay for it in the future.

Variable Annuity
A variable annuity is a contract offered by an insurance company that can be used to accumulate savings tax-deferred. You allocate your premium among a number of subaccounts or investment portfolios offered through the contract. Your contract value, which fluctuates over time, reflects the performance of the underlying investments held by the funds you have selected, minus the contract expenses. Most variable annuities offer multiple riders, some of which are Living Benefit Riders that provide a guaranteed amount of growth and then can provide consistent retirement income for life. Withdrawals are taxed as ordinary income, rather than at capital gains rate. If you make withdrawals before you reach age 59 ½, you may also be subject to a 10 percent early withdrawal penalty. Unlike fixed annuities, variable annuities are securities registered with the Securities and Exchange Commission (SEC).

Will
The most basic and necessary of estate planning tools, a will is a legal document declaring a person's wishes regarding the disposition of their estate. A will ensures that the right people receive the right assets at the right time. If an individual dies without a will they are said to have died intestate.

Yield
The yield on an investment is the total proceeds paid from the investment and is calculated as a percentage of the amount invested.