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From A to Z:

Decoding common financial terms

Think about all the terms and jargon that the investment industry uses to describe investments and investment strategies. We literally have terminology from A to Z, and while all of it is useful for the right audience, so much of it can be terribly confusing without the proper context.

So are there terms we can lose — or at least define more clearly? Of course! Below, we dip into this alphabet soup to highlight terms that can cause confusion and offer up simpler suggestions to help get the point across.

	Term	What's the story?
A	**Alpha**	Simply put, alpha tells whether an investment has returned more than its peers.
B	**Beta**	Lose the Greek. Beta tells whether an investment is more or less risky than the overall market.
C	**Correlation**	Not a math aficionado? Then think of it this way: Correlation tells whether two investments tend to rise and fall together.
D	**Dollar-cost averaging**	What? This term just means that an investor makes regular, scheduled contributions into an investment.
E	**Expense ratio**	This is simply the cost of running a fund.

F

Foreign — "Foreign" can mean "unfamiliar," but many global companies are household names. Think of this as "investing in companies outside the US."

G

Go-anywhere fund — Some investors may interpret this as "undisciplined." A better term might be "flexible."

H

Hedging — Time for yard work? Nope. This just refers to a technique used by portfolio managers that seeks to reduce risk in a portfolio.

I

Investment grade — Pop quiz! What's another way to say investment grade? Try "higher quality."

J

Junk bond — Sounds like something investors should throw out, but that's not necessarily the case. Instead, the term "high yield" reinforces that these bonds' additional risk comes with additional return potential.

K

K-ratio — The calculation is complicated, but it seeks to answer a simple question: How consistent have a stock's returns been over time?

L

Long position — This may be the most basic investment concept of all – it means that you will make money if the stock you own rises in price.

M

Monte Carlo simulation — Seriously? Try "tested under many market conditions."

N

N	**Net asset value (NAV)**	A common term that may be commonly misunderstood, NAV is simply the current value of a fund share.
O	**Overbought/oversold**	Besides being physically impossible, this is confusing as well. A better way to think about this may be that the market "overreacted" to a situation.
P	**Passive**	This used to be a simple term, meaning that a fund tracked an index. With the advent of more innovative indexes, however, this term is sometimes used to signify that a fund tracks a traditional, market-cap-weighted, benchmark index. So, this term isn't necessarily complicated, but easily misunderstood without context into which definition is being used.
Q	**Qualified**	In terms of retirement plans, this means that a plan comes with tax benefits.
R	**REITs**	It's real estate investing – but instead of buying a building, you're investing in a real estate company.
S	**Style box**	Boxed stylishly, like a present? This is just a tool to help describe what type of fund an investor owns – from small-cap growth to large-cap value.
T	**Tracking error**	This measures the difference between the returns of a portfolio and the returns of a benchmark. But if a portfolio earns more, investors won't feel like that's an error!
U	**Unconstrained**	Just like "go-anywhere" funds, these are funds that are flexible – managers can invest wherever they see the best opportunity.

V

Volatility

It's a good word, but for long-term goals, is the day-to-day movement of the market all that important? This isn't a term to lose, but it's important to have context.

W

Wall Street

It's more of a symbol than a place, and it can create a distracting image for investors. Here, the key is to keep focused on an individual's unique goals and objectives – not the impersonal "Wall Street."

X

eXcess return

This is a bit of cheat, but let's make clear that "excess" doesn't mean "too much" or "undeserved." Excess return simply measures how much a fund outperforms its benchmark.

Y

Yield curve

This sounds like something out of a driving test. How about the phrase "interest rates from short to long?"

Z

Z-score

This term sounds like a sleep aid, but it measures "performance versus the averages." It's not meaningful for most people.

There were a lot of honorable mentions in the A-to-Z list, and some readers may have their own jargon pet peeves to nominate. But the bottom line is this: Words matter.

If you have a financial professional, don't hesitate to ask for an explanation of any terms you don't understand. And if you don't have a financial professional, consider finding one who can help you navigate your investment choices and build a portfolio that's right for you.

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