Investment Terms

ADV – Disclosure document required to be filed (and updated annually) by a Registered Investment Advisor with the Securities and Exchange Commission. This form details the advisor's practices, operations, fees, and individuals associated with the advisor, if registered as a firm.

Alpha – The statistical measure of a portfolio's return in excess of the market return adjusted for risk. It is a measure of the manager's contribution to performance with reference to security selection. A positive alpha indicates the portfolio performed better than its benchmark.

Balanced Spending Rate – Specific to foundations and endowments, the spending rate which offsets inflation and additional cost increases.

8.0% - 3.0% - 1.0% = 4.0%
(Return) (Inflation) (Fees) (Balanced Spending Rate)

Basis Point – 1.00% = 100 Basis Points (BP)

Beta – The statistical measure of the volatility, or sensitivity, of rates of return on a portfolio in comparison to a market index. Beta measures the expected change in return per one percent change in the market's return. Thus, a portfolio with a beta of 1.1 would be 10% more volatile than the market.

Correlation Coefficient – Correlation measures the degree to which two investments move relative to each other; it is used for constructing a well-diversified portfolio. Traditionally, equities and fixed-income asset returns have not moved closely together. The asset returns are not strongly correlated. A fully diversified portfolio with various asset classes should have low correlation between the asset classes.

Dollar-Weighted Rate of Return – Method of performance measurement that calculates returns based on the cash flows of a portfolio. Also referred to as the internal rate of return (IRR).

Duration – A measure of the price sensitivity of a bond investment to a change in interest rates. The value of a given bond investment is more sensitive to interest rate changes as duration increases, i.e. longer duration bonds have greater interest rate volatility than shorter duration bonds. Duration is always shorter than **maturity** except for zero coupon bonds at which time they are equal. For example, if the duration of a bond or bond fund is four years, and if interest rates go up 1%, then the market value of the investment will go down 4%.

Market Capitalization (Cap) – A common stock's current price multiplied by the number of shares outstanding. It is the measure of a company's total value on a stock exchange.

Investment Terms – Continued

Modern Portfolio Theory (MPT) – Essential to portfolio theory is the relationship between risk and return and the assumption that investors must be compensated for assuming risk. This portfolio approach shifts emphasis from analyzing the characteristics of individual investments to determining the statistical relationships among the individual securities that comprise the overall portfolio.

Real Estate Investment Trust (REIT) – Funds that invest primarily in real estate equity instruments. The characteristics of these funds are more representative of small-cap stocks than direct investment in a diversified portfolio of real estate comprised of farm, residential, and commercial properties. REITs receive special tax considerations, and typically offer investors high yields as well as a highly liquid method of investing in real estate. An additional benefit to investing in REITs is that they are accompanied by dividend reinvestment plans (DRIPs).

Sharpe Ratio – A statistical measure of risk-adjusted return calculated by subtracting the risk-free return (usually 3 Month Treasury Bill) from the portfolio return, then dividing the result by the portfolio's standard deviation. The higher the Sharpe ratio, the better the fund's historical risk-adjusted performance.

Standard Deviation – A statistical measure of portfolio risk that is used to compare the relative performance of portfolios.

Time-Weighted Rate of Return – Method of performance measurement that strips the effect of cash flows on investment performance by calculating sub period returns before and after a cash flow and averaging these sub period returns. Time-weighted performance removes the impact of cash flows and as a result is widely accepted as the appropriate method of comparison for investment managers and market index returns.