

## Exchange-Traded Fund Glossary

### **1 year forward growth**

Average major brokerage firm financial analyst estimate of future year's growth in earnings.

### **12 month yield**

Change in price of fund plus dividends received per share over past year divided by price of fund. A better measure of total return than simply rate of price rise.

### **12-b1 expenses**

Percentage of fund assets that fund manager may withdraw each year to pay for marketing and other non-operating expenses. Generally absent among ETFs but common and often large in actively traded funds.

### **3 year earnings growth**

Annualized rate of increase of earnings of past three years.

### **Alpha**

A measure of performance in percentage above or below what would have been predicted by risk as suggested by its Beta. Positive alpha means a fund performed greater than its risk would suggest, while negative Alpha means the fund under performed. An ETF of Alpha 1.5 outperformed its index by 1.5% as predicted by its Beta.

### **Annual turnover**

Percentage of value of stocks in a portfolio that are sold and replaced with new stocks each year. Turnover in indexing should be low.

### **Ask price**

Lowest price any seller is willing to accept for a security at a given time.

### **Authorized Participant**

Often called a specialist, this sophisticated professional trading firm helps create (trade stocks for an ETF) and redeem (trade an ETF for stocks) ETFs.

### **Asset class breakdown**

Percentage of holdings in different types of investments, ie. large stocks, international, bond, etc.

### **Balanced funds**

Funds that invest in both stocks and bonds in substantial amounts.

### **Benchmark index**

An index that correlates with a fund, used to measure a fund manager's performance.

### **Beta**

A measure of volatility. Beta is a fund's volatility measured against the benchmark index, which has a set beta of 1. Therefore, if a fund has a Beta higher than 1, it is moving up and down more than the rest of the market. A fund with a Beta of 2 will move up 20 percent when the market rises 10 percent.

**Bid price**

Highest price that any buyer is willing to pay for a security at any given time.

**Capital gains**

Profits on the sale of stocks determined at time of sale.

**Closet index fund**

An active fund with higher fees that actually tracks an index fairly closely.

**Deferred load**

Future sales charge that fund may charge as a fee at time of redemption (investor exit). Common in traditional mutual funds, rare in ETFs.

**Dividend yield**

A company's declared dividends per share as a percentage of its current share price.

**Dollar cost averaging**

Investment strategy of making steady fixed investments (monthly for example) to a mutual fund. Helpful to maintain savings discipline and smooth out market swings from investor's perspective.

**Enhanced**

A fund designed around an index but not tracking it verbatim. Often enhanced funds bet extra heavily on an index or bet against an index by selling it short.

**Exchange-traded fund (ETF)**

An index fund which is traded on the stock market.

**Expense ratio**

Percentage of fund assets that fund manager may withdraw each year to pay for operating expenses.

**Float**

The number of company shares actually available for purchase by public on open markets.

**Front load**

Percentage of investor's assets that fund may charge as a fee at time of investment. Common in traditional mutual funds, rare in ETFs.

**Grantor Trust**

ETF that at creation follows an index but remains static and does not attempt to track it. HOLDERS are main adherents to this form of ETF.

**Growth**

Describes stocks in a market which have relatively high Price-to-Earnings or other valuation ratio. Typically high growth, low-dividend companies. Can quickly outpace value stocks, but typically more risky.

**Index fund**

An index fund is a mutual fund that mirrors as closely as possible the performance of a stock market

index. For example, many mutual fund companies have since established S&P 500 index funds to mirror that index by purchasing all 500 stocks in the same percentages as the index.

### **Indexing**

Indexing is a strategy to match the average performance of a market or group of stocks. A set formula is used to represent the index's value at any given time. ETFs track indexes.

### **Large Cap**

Short for large capitalization, which describes companies whose market capitalization (total value) is among the largest in a market.

### **Management Investment Co.**

Common type of ETF that tracks indexes closely, allows sampling (not every stock in index is necessarily purchased) and derivatives in its operations. Similar to Unit Investment Trust. Examples include iShares, Sector SPDRs.

### **Market capitalization**

Total value of a company. Total number of shares multiplied by the price of a share.

### **Median market capitalization**

Market value (capitalization) of the middle stock in a portfolio of stocks if sorted by capitalization.

### **Minimum initial purchase**

Minimum an investor may deposit initially. It may be lower in some cases for IRA retirement accounts.

### **P/B ratio**

Average ratio of price to book value of stock in an ETF, weighted by their representation.

### **P/E ratio**

Average ratio of price to annualized earnings of stocks in an ETF, weighted by their representation.

### **Price spread**

The difference between the "bid" and "ask" price on a stock or ETF.

### **QQQ or Qube**

ETF which tracks the NASDAQ-100.

### **R squared**

A measurement of how closely a fund's performance correlates with an index. It can range between 0.00 and 1.00. An R squared of 1.00 indicates perfect correlation, while an R squared of 0.00 indicates no correlation. Used to assess tracking error or closet index funds.

### **REIT**

Real Estate Investment Trust, a type of mutual fund that owns portfolios of commercial real estate. There are indexes for this asset class, and REIT ETFs follow these indexes.

### **Returns**

Indicate the total percentage gain of a fund over that time period.

**Sector breakdown**

Percentage of a fund's equity holdings in various industries.

**Securities & Exchange Commission**

Federal agency that regulates U.S. financial markets, also known as SEC.

**Sharpe ratio**

A risk-adjusted measurement of fund performance. Sharpe ratio is calculated by dividing the excess return of a fund over the risk-free rate (Treasury bonds) by its standard deviation. The higher the Sharpe ratio, the better a fund's risk-adjusted performance.

**Standard deviation**

Measure of fund volatility in percentages. Standard deviation measures the average variability of the fund's returns over a time period. Stable investments like money market funds have standard deviations near zero, while high-risk equity funds often have a much higher one. A standard deviation of 10 means approximately 68% of the time a fund will be within 10% of its mean (average) price.

**Style drift**

When a fund moves away from its stated investment objective or the nature of its targeted asset class change over time.

**SPY**

First and largest ETF, Standard & Poor's Depository Receipts (SPDRs) track the S&P 500 and are pronounced just like the name for arachnid.

**Ticker**

Abbreviation used by brokerage firms to identify a fund easily. Every ETF has one.

**Total net assets**

Indicates the total amount of assets, including cash, that a fund holds as of a certain date.

**Tracking error**

Percentage amount a fund's assets deviate from its benchmark index. This should be quite small.

**Unit Investment Trust**

Common type of ETF that requires exact duplication of index and prohibits derivatives in operation. Like Management Investment Trusts. Examples include SPDRs and QQQs.

**Value**

Describes stocks in a market which have relatively low Price-to-Earnings or other valuation ratio. Typically slow growth, high dividend companies. Typically safer than growth stocks with high valuations.

**YTD**

The calendar Year-To-Date return from January 1 to the present.