Definitions of Terms

Term	Definition
Active Management	A portfolio management approach that aims to outperform a market rate or return, or a specific benchmark, by choosing investments that deviate from the market portfolio or benchmark.
Alpha	The rate of return on an investment in excess of a benchmark or return predicted by a financial model. A higher alpha value implies greater outperformance.
Asset Allocation	The apportionment distribution of assets across various asset classes, often tailored to meet an investor’s objectives while considering risk tolerance and investment horizon.
Asset Class	A group of securities that exhibit similar characteristics and are subject to similar laws and regulations, such as equities (stocks), fixed income (bonds), and cash equivalents (money market instruments).
Basis Point (bp)	One basis point equals 0.01%.
Benchmark	A standard against which the performance of an investment portfolio can be measured.
Beta	A measure of a security or portfolio’s tendency to move in parallel with the market as a whole. A 1% move of the market is associated with a 1% move in the same direction as the market for a security or portfolio with a beta of 1; with a move of more than 1% in the same direction as the market for a security or portfolio with a beta above 1; and with a move of less than 1% in the same direction as the market for a security or portfolio with a beta below 1.
Book Value	The value of stockholder’s equity, as reported on a company’s balance sheet.
Book-to-Market Ratio (BtM)	The ratio of a firm’s book value of equity to its market value of equity. A high (low) BtM ratio indicates that the book value per share is high (low) relative to the stock price.

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Term	Definition
Cash-Flow-to-Price Ratio (CFP)	The ratio of a company's cash flow for the last fiscal year divided by market equity.
Credit Premium	The return difference between bonds of similar maturity but different credit quality.
Credit Spread	The yield difference between bonds of similar maturity but different credit quality.
Defined Contribution Plan	A retirement plan in which the employer, employee, or both make contributions on a regular basis for the employee's future use in retirement with no specific amount of benefits guaranteed. A common example is a 401(k) plan.
Dimension of Expected Returns or "Dimension"	A premium that is sensible, empirically robust in the data, and cost-effective to capture in well-diversified portfolios. At Dimensional, the equity dimensions are market, company size, relative price, and profitability. For fixed income, these dimensions are credit and term.
Diversification	Holding many securities or types of investments in a portfolio, often for the purpose of mitigating risk associated with owning a single security or type of investment.
Duration	A measurement of the sensitivity of the price of a fixed income investment to changes in interest rates. Generally, high duration bonds will have greater sensitivity to changing interest rates than lower duration bonds.
Efficient Market Theory	Postulates that market prices reflect the knowledge and expectations of all investors. It asserts that any new development is instantaneously priced into a security, thus making it impossible to beat the market consistently.
Equity Market	A market that involves the purchase and sale of stocks, typically conducted on trading exchanges. Also known as the stock market.
Equity Premium	The return difference between stocks and short-term bills.
Expected Return	The percentage increase in value a person may anticipate from an investment based on the level of risk associated with the investment, calculated as the mean value of the probability distribution of possible returns.
Fiduciary	An individual or entity that is legally or ethically required to act impartially and provide advice in the best interest of their clients.
Fixed Income Market	A market that involves the purchase and sale of bonds, such as those issued by the federal government, corporations, and local municipalities. Also known as the bond market.
Global Industry Classification Standard (GICS)	Catalogue of industries and sectors such as healthcare or energy developed by MSCI and Standard & Poor's Index Services Group providing standardized industry and sector definitions.
Growth Stock	A stock trading at a high price relative to a measure of fundamental value, such as book value or earnings.

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Term	Definition
Large Cap	Refers to a company with a relatively large market capitalization.
Market Cap-Weighted Index	A type of index that weights each security in proportion to its market capitalization.
Market Capitalization	The total market value of a company's outstanding shares, computed as price times shares outstanding.
Passive Management	A portfolio management approach that does not rely on trying to identify mispriced securities or time markets. One example of passive management is indexing.
Premium	A return difference between two assets or portfolios.
Price-to-Book Ratio (P/B)	The ratio of a firm's market value to its book value, where market value is computed as price multiplied by shares outstanding and book value is the value of stockholder's equity as reported on a company's balance sheet.
Price-to-Earnings Ratio (P/E)	The ratio of a company's current share price to its earnings per share.
Profitability	A company's operating income before depreciation and amortization minus interest expense scaled by book equity.
Profitability Premium	The return difference between stocks of companies with high profitability over those with low profitability.
Real Estate Investment Trust (REIT)	A company that owns and often operates commercial real estate or finances real estate. REITs are typically exempt from corporate taxation and have to distribute most of their taxable income as dividends to shareholders.
Real Return	The rate of return on an investment after adjusting for inflation.
Regression Analysis	A statistical technique for estimating the strength of the relation between one variable and one or more other variables.
Relative Price	Refers to a company's price, or the market value of its equity, in relation to another measure of economic value, such as book value.
Risk Premium	The additional return an investor requires to compensate for the risk borne.
Size Premium or Small Cap Premium	The return difference between small capitalization stocks and large capitalization stocks.
Small Cap	Refers to stocks with a relatively small market capitalization.
Socially Responsible Investing	An investment strategy that seeks to consider both financial return and investors' social values and preferences.
Standard Deviation	A measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.

Term	Definition
Term Premium	The return difference between bonds with different maturities but similar credit quality.
Term Spread	The yield difference between bonds with different maturities but similar credit quality.
Tracking Error	A measure used to quantify how closely a portfolio follows an index or benchmark, often defined as the standard deviation of the difference between the portfolio and index returns.
Trading/Transaction Cost	Expenses incurred when buying or selling securities. This includes explicit costs such as commissions, as well as implicit costs such as market impact.
Turnover or Portfolio Turnover	Measures the portion of securities in a portfolio that are bought and sold over a period of time.
Value Premium	The return difference between stocks with low relative prices (value) and stocks with high relative prices (growth).
Value Stock	A stock trading at a low price relative to measures of economic value such as book value or earnings.
Volatility	A statistical measure of the dispersion, or variability, of returns for a given security or portfolio. Volatility is often measured using standard deviation.
Weighted Average	An average in which each quantity to be averaged is assigned a weight, which determines the relative importance of each quantity.
Yield Curve	A graph that plots the interest rates at a specific point in time of bonds with similar credit quality but different maturity dates.

RM55292 10/16 1101175