



P R E M I A
G L O B A L A D V I S O R S

A Wealth of Advice

LOOKUP GLOSSARY

A GUIDE TO IMPORTANT
FINANCIAL PLANNING TERMS

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401(a):

A type of employer-sponsored retirement plan similar to a 401(k) but typically offered to specific groups of employees and with different contribution rules.

401(k):

A tax-advantaged retirement savings plan in the United States where employees can contribute a portion of their salary, often with employer matching.

403(b):

A tax-advantaged retirement savings plan for certain employees of public schools, tax-exempt organizations, and certain ministers, similar to a 401(k) but with some differences.

403(c):

A retirement plan for employees of public educational institutions and certain non-profit organizations, similar to a 401(k) but with some differences in contribution limits and rules.

457 Plan:

A tax-advantaged retirement savings plan available to employees of state and local governments, as well as certain non-profit organizations.

529 ABL Account:

A tax-advantaged savings account designed for individuals with disabilities, allowing for qualified disability-related expenses without affecting eligibility for government assistance programs.

529 Plan:

A tax-advantaged savings plan designed to encourage saving for future education costs, offering various investment options for account holders.

Accrual Accounting:

An accounting method that recognizes revenue and expenses when they are earned or incurred, regardless of when the cash is actually received or paid.

Back-End Load:

A sales charge or fee assessed when an investor redeems mutual fund shares, typically applied as a percentage of the total redemption amount.

Balanced Fund:

A type of mutual fund that combines a mix of stocks, bonds, and sometimes cash, aiming to provide investors with a diversified and balanced portfolio.

Basis Point (BPS):

A unit of measure used in finance to describe percentage changes in interest rates or other financial metrics, with one basis point equal to one-hundredth of a percentage point.

Bear Market:

A market condition characterized by a prolonged decline in investment prices, typically more than 20%, often accompanied by pessimism and a lack of investor confidence.

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Blue Chip Stocks:

Shares of large, well-established companies with a history of stable performance, often considered less risky than stocks of smaller companies.

Bond:

A debt security that represents a loan made by an investor to a borrower, typically a government or corporation, with periodic interest payments and the return of the principal at maturity.

Bull Market:

A market condition characterized by a sustained rise in investment prices, often accompanied by optimism and a high level of investor confidence.

Buy and Hold:

An investment strategy where an investor buys securities and holds onto them for an extended period, regardless of short-term market fluctuations.

Callable Bond:

A bond that can be redeemed by the issuer before its maturity date, potentially leading to the payment of the face value and any call premium.

Capital Asset Pricing Model (CAPM):

A financial model that calculates the expected return on an investment based on its risk relative to the overall market.

Capital Gain:

The profit realized from the sale of an asset, such as stocks, real estate, or other investments, resulting in a positive difference between the purchase and sale prices.

Cash Flow:

The net amount of cash moving into and out of a business, investment, or financial product, providing insights into liquidity and financial health.

Certificate of Deposit (CD):

A time deposit offered by banks with a fixed term and fixed interest rate, often providing higher interest rates than regular savings accounts.

Chartered Financial Analyst (CFA):

A professional designation for financial analysts, recognized globally, awarded by the CFA Institute.

Closed-End Fund:

A type of investment fund with a fixed number of shares that are traded on an exchange, often at a discount or premium to their net asset value.

Collateral:

Assets pledged as security for a loan, serving as a guarantee for the lender in case the borrower fails to repay the loan.

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Common Stock:

A type of equity security representing ownership in a corporation, with voting rights and the potential for dividends.

Compound Interest:

The process where interest is earned not only on the initial investment but also on the accumulated interest from previous periods, leading to exponential growth.

Convertible Bond:

A type of bond that can be converted into a predetermined number of shares of the issuer's common stock, providing potential upside for bondholders.

Convertible Preferred Stock:

A type of preferred stock that can be converted into a predetermined number of common shares, providing the investor with potential equity participation.

Credit Score:

A numerical representation of an individual's creditworthiness, often used by lenders to assess the risk of lending money or extending credit.

Debit Spread:

An options trading strategy that involves the simultaneous purchase and sale of options contracts, resulting in a net debit to the investor's account.

Debt-to-Equity Ratio:

A financial metric indicating the proportion of a company's capital that comes from debt compared to equity, providing insight into its financial structure and risk.

Defined Benefit Plan:

A retirement plan that promises a specified monthly benefit to the participant upon retirement, often based on salary and years of service.

Defined Contribution Plan:

A retirement plan where both employees and employers contribute to individual accounts, with the ultimate benefit depending on the contributions and investment performance.

Diversification:

The practice of spreading investments across various assets to reduce risk by avoiding overexposure to a single investment or asset class.

Dividend:

A payment made by a corporation to its shareholders, usually in the form of cash or additional shares, representing a portion of the company's profits.

Dividend Yield:

A financial ratio calculated by dividing the annual dividend payment by the current market price of the stock, representing the dividend income as a percentage of the stock's value.

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Down Payment:

The initial payment made by a buyer when purchasing a home or other expensive item, typically representing a percentage of the total purchase price.

Earnings Per Share (EPS):

A financial metric that represents the portion of a company's profit allocated to each outstanding share of common stock, providing insight into profitability on a per-share basis.

Emergency Fund:

A reserve of money set aside to cover unforeseen expenses or financial emergencies, providing a financial safety net.

Employee Stock Ownership Plan (ESOP):

A retirement plan that allows employees to become partial owners of the company they work for by acquiring shares of the company's stock.

Equity Financing:

The process of raising capital by selling shares of ownership in a business, often through the issuance of common stock.

Estate Planning:

The process of managing and distributing one's assets in a way that aligns with their wishes and minimizes taxes, ensuring a smooth transfer of wealth to heirs.

Exchange-Traded Fund (ETF):

A type of investment fund and exchange-traded product that represents a basket of assets, such as stocks or bonds, and is traded on stock exchanges.

Face Value:

The nominal or dollar value of a security, typically used for bonds or fixed-income investments, representing the amount the issuer promises to repay at maturity.

Fiduciary:

A person or entity entrusted with the responsibility to act in the best interest of another party, often related to financial advisors or trustees.

Financial Planner:

A professional who helps individuals and families create comprehensive financial plans, including budgeting, investment, retirement, and estate planning.

Fixed-Income Securities:

Investments that pay a fixed interest or dividend, such as bonds, providing a predictable income stream to investors.

Fixed Rate Mortgage:

A mortgage where the interest rate remains constant for the entire term of the loan, offering predictable monthly payments.

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Foreign Exchange (Forex):

The global marketplace for trading national currencies against one another, facilitating international trade and investment.

Front-End Load:

A sales charge or fee applied when an investor purchases mutual fund shares, typically deducted upfront from the invested amount.

Futures Contract:

A standardized financial agreement to buy or sell a specific quantity of a commodity, financial instrument, or asset at a predetermined price on a future date.

Global Macro Strategy:

An investment strategy that focuses on large-scale economic and geopolitical factors to make broad asset allocation decisions across various markets.

Gross Domestic Product (GDP):

The total monetary value of all goods and services produced within a country's borders in a specific time period, serving as a key economic indicator.

Gross Margin:

A financial metric that represents the percentage of revenue that exceeds the cost of goods sold, providing insights into a company's profitability.

Hedge Fund:

An investment fund that employs various strategies to generate returns for its investors, often with more flexibility and risk than traditional investment funds.

Hedging:

A risk management strategy that involves using financial instruments or other methods to offset potential losses in an investment or portfolio.

High-Yield Bond:

A bond with a lower credit rating, typically offering higher interest rates to compensate for the increased risk of default.

Income Statement:

A financial statement that summarizes a company's revenues, expenses, and profits over a specific period, providing insights into its operational performance.

In-the-Money:

A term used in options trading to describe a situation where the current price of the underlying asset is favorable for the option holder, leading to potential profit if exercised.

Index Fund:

A type of mutual fund or exchange-traded fund (ETF) that aims to replicate the performance of a specific market index, providing broad market exposure at a lower cost.

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Inflation:

The rate at which the general level of prices for goods and services rises, eroding purchasing power over time.

Initial Public Offering (IPO):

The first sale of a company's stock to the public, marking the transition from private to public ownership.

Interest Rate:

The cost of borrowing money, often expressed as a percentage, representing the interest charged on a loan or earned on an investment.

Investment Advisor:

A professional who provides advice and guidance on investment strategies, portfolio management, and financial planning to clients.

Joint and Survivor Annuity:

An annuity payment option that provides income for two individuals, typically spouses, with payments continuing to the surviving beneficiary after the death of one.

Joint Liability:

A legal obligation where two or more parties share responsibility for a debt or financial obligation, making each party individually responsible for the entire amount.

Joint Tenancy with Right of Survivorship (JTWROS):

A form of joint ownership of property where each party has an equal share, and if one owner dies, their share is automatically transferred to the surviving owner(s).

Keiretsu:

A business network of interrelated companies in Japan, often with cross-shareholding arrangements, collaborating closely in various business activities.

Key Performance Indicator (KPI):

A measurable value that demonstrates how effectively a company is achieving key business objectives, often used to evaluate and monitor performance.

Leverage:

The use of borrowed funds or debt to increase the potential return on an investment, but also amplifying the risk of financial loss.

Leveraged Buyout (LBO):

A financial transaction in which a company is acquired using a significant amount of borrowed funds, often with the intention of restructuring and improving its financial performance.

Lien:

A legal right or interest that a lender has in a borrower's property, often granted as security for a loan.

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Liquidity Risk:

The risk associated with the inability to quickly buy or sell an asset in the market without significantly affecting its price, potentially leading to losses.

Margin:

The difference between the total value of securities held in an investor's account and the loan amount provided by a broker to purchase those securities.

Margin Call:

A demand by a broker for an investor to deposit additional funds or securities to cover potential losses when the value of the account falls below a certain level.

Margin Trading:

The practice of borrowing funds to buy securities, using the purchased securities as collateral for the loan, amplifying both potential gains and losses.

Market Capitalization:

The total value of a company's outstanding shares of stock, calculated by multiplying the stock's current market price by the total number of outstanding shares.

Net Income:

The total earnings of a company after deducting expenses, taxes, and other financial obligations, often referred to as the bottom line.

Net Worth:

The difference between an individual's or entity's total assets and total liabilities, representing the overall financial health and value.

Nominal Interest Rate:

The stated interest rate on a loan or investment, not adjusted for inflation or compounding, providing a basic reference point for interest calculations.

Non-Recourse Loan:

A loan secured by collateral where the borrower is not personally responsible for repayment; the lender's only recourse is the collateral itself.

Open-End Fund:

A type of mutual fund that issues and redeems shares on demand at their net asset value, allowing investors to buy and sell shares at market prices.

Operating Income:

A measure of a company's profitability that represents its earnings from normal business operations, calculated by subtracting operating expenses from gross income.

Over-the-Counter (OTC):

The trading of financial instruments directly between two parties, outside of a centralized exchange, often involving customized or less standardized assets.

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Overhead:

The ongoing operational expenses of a business that are not directly tied to the production of goods or services but contribute to overall business costs.

Passive Income:

Income generated from investments or business activities in which the investor is not materially involved, such as dividends, interest, or rental income.

Passive Investing:

An investment strategy that aims to replicate the performance of a specific market index or benchmark, often through the use of index funds or exchange-traded funds (ETFs).

Portfolio:

A collection of financial assets such as stocks, bonds, and other investments held by an individual, institution, or fund.

Preferred Return:

A predetermined rate of return that certain investors, often in private equity or real estate investments, are entitled to receive before other participants receive distributions.

Preferred Stock:

A type of equity security that represents ownership in a company and typically carries fixed dividends, priority over common stockholders, and no voting rights.

Prepayment Penalty:

A fee charged by a lender when a borrower pays off a loan before its scheduled maturity date, designed to compensate the lender for potential lost interest.

Price-to-Earnings Ratio (P/E Ratio):

A financial ratio calculated by dividing the market price per share of a stock by its earnings per share, providing insight into the valuation of a company's stock.

Put Option:

A financial contract giving the holder the right, but not the obligation, to sell a specified amount of an underlying asset at a predetermined price within a specified timeframe.

Qualified Dividend:

A type of dividend that qualifies for the lower tax rates applicable to long-term capital gains, meeting specific criteria set by the tax code.

Qualified Plan:

An employer-sponsored retirement plan that meets specific requirements outlined by the Internal Revenue Service (IRS), providing tax advantages to both employers and employees.

Quantitative Analysis:

An investment approach that relies on mathematical and statistical methods to analyze financial data, identify patterns, and make informed investment decisions.

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Quantitative Easing:

A monetary policy tool used by central banks to stimulate the economy by purchasing financial assets, injecting money into the financial system.

Real Estate Investment Trust (REIT):

A company that owns, operates, or finances income-generating real estate, offering a way for individuals to invest in large-scale, income-producing real estate without having to directly manage properties.

Reciprocal Currency Arrangement:

An agreement between two or more countries to provide a mutual exchange of their currencies, often used to facilitate trade and maintain stability in foreign exchange markets.

Return on Investment (ROI):

A financial metric that calculates the profitability of an investment by dividing the net gain from the investment by the initial cost or outlay.

Risk Parity:

An investment strategy that allocates capital among different asset classes based on their risk contribution, aiming to achieve a balanced risk profile in a portfolio.

Risk Tolerance:

An investor's ability and willingness to withstand fluctuations in the value of their investments, often influenced by factors such as financial goals, time horizon, and risk preferences.

Rollover:

The process of transferring funds from one retirement account to another, often from an employer-sponsored plan to an individual retirement account (IRA).

Savings Account:

A basic, interest-bearing deposit account offered by financial institutions, providing a safe place for individuals to store and accumulate funds.

Savings Bond:

A government-issued debt security that accrues interest and is typically considered a low-risk investment, often used for long-term savings goals.

Securities Exchange Commission (SEC):

A U.S. government agency responsible for regulating and overseeing the securities industry, protecting investors, and maintaining fair and efficient markets.

Securitization:

The process of converting financial assets, such as loans or mortgages, into tradable securities, often through the creation of asset-backed securities (ABS).

Selling Short:

A trading strategy where an investor borrows shares and sells them with the expectation of buying them back at a lower price in the future, profiting from a decline in the stock's value.

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Simple Interest:

Interest calculated only on the initial principal amount, without taking into account any interest that may have already been earned or paid.

Sole Proprietorship:

A business structure where an individual owns and operates the business, assuming all responsibilities and liabilities, with no legal distinction between the individual and the business entity.

Stock Split:

A corporate action where a company divides its existing shares into multiple shares, often with the goal of making the stock more affordable for a broader range of investors.

Stockholder's Equity:

The residual interest in the assets of a company after deducting liabilities, representing the ownership interest of the company's shareholders.

Tax Advantage:

A financial benefit gained through the use of specific tax incentives or favorable tax treatment, often designed to encourage certain behaviors or investments.

Tax Credit:

A direct reduction of an individual's or business's tax liability, providing a dollar-for-dollar reduction in the amount owed to the government.

Taxable Event:

Any transaction or event that results in a tax liability, potentially triggering taxes on capital gains, income, or other financial gains.

Tenancy in Common (TIC):

A form of joint ownership where two or more individuals hold an undivided interest in a property, with each owner having the right to transfer their interest.

Tangible Assets:

Physical assets with a material existence, such as real estate, machinery, or inventory, that hold intrinsic value and can be used to generate income.

Target-Date Fund:

A mutual fund or investment option designed to align with a specific target retirement date, automatically adjusting the asset allocation over time to become more conservative as the target date approaches.

Time Value of Money (TVM):

The principle that a sum of money has a different value today than it will in the future, taking into account factors such as interest rates and inflation.

Treasury Stock:

Shares of a company's own stock that it has reacquired but not retired, reducing the total number of outstanding shares.

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Underwater Mortgage:

A situation where the outstanding balance on a mortgage exceeds the current market value of the property, leaving the homeowner with negative equity.

Underwater Option:

A situation in options trading where the market price of the underlying asset is below the strike price, resulting in a loss if the option is exercised.

Utility Stocks:

Shares of companies in the utility sector, often characterized by stable earnings and dividends, providing consistent income and lower volatility compared to other sectors.

Variable Cost:

Expenses that vary in direct proportion to the volume of production or sales, such as raw materials or labor, impacting the overall cost structure of a business.

Variable Cost Ratio:

A financial ratio that expresses variable costs as a percentage of sales, providing insight into the proportion of each sales dollar consumed by variable costs.

Value Investing:

An investment strategy that focuses on selecting stocks or other securities that appear to be undervalued relative to their intrinsic or fundamental value.

Wash Sale:

A transaction where an investor sells a security at a loss and repurchases the same or a substantially identical security within a short period, potentially disallowing the loss for tax purposes.

Weighted Average Cost of Capital (WACC):

A calculation that reflects the average cost of funds a company uses to finance its assets, taking into account the relative weights of each component.

Wholesale Banking:

Banking services provided by financial institutions to other large institutions, corporations, or government agencies, often involving large-scale transactions.

Withholding Tax:

A portion of an employee's income that is withheld by the employer and sent directly to the government as a prepayment of income taxes.

Xetra:

A fully electronic trading system for financial instruments, primarily used for trading stocks and exchange-traded funds (ETFs) on the Frankfurt Stock Exchange.

XIRR (Extended Internal Rate of Return):

A financial metric used to calculate the internal rate of return for cash flows that occur at irregular intervals, providing a more accurate measure of investment performance.

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Yield Curve:

A graphical representation of the relationship between the interest rates and the time to maturity of debt securities, providing insights into economic conditions and expectations.

Yield Spread:

The difference between the yield of a debt security and the yield of another benchmark security, indicating the risk premium associated with the riskier security.

Yield to Maturity (YTM):

The total return anticipated on a bond if it is held until it matures, considering both interest income and any capital gain or loss.

Zero Coupon Bond:

A debt security that does not make periodic interest payments, instead issued at a discount to its face value, with the investor receiving the face value at maturity.

Zero-based Budgeting:

A budgeting approach where each expense must be justified for each new budget period, starting from a zero base, rather than relying on historical budget amounts.

Zero-cost Collar:

An options trading strategy involving the purchase of a protective put option and the simultaneous sale of a covered call option, designed to limit potential losses and gains within a specific range.

About the Author

Miguel Sosa is the founding partner of Premia Global Advisors, LLC, a private wealth management advisory firm based in South Florida, serving multi-jurisdictional and multi-generational clients.

Previously, Mr. Sosa worked at Merrill Lynch for more than 30 years, most recently in its Private Banking and Investment Group, where he obtained his Global Institutional Consulting (GIC) Designation and served as a qualified Portfolio Manager. He was a member of the firm's Advisory Council to Management from 2002 to 2005.

Prior to joining Merrill Lynch, Mr. Sosa was a member of the U.S. Air Force. During his time of service, he received two Air Force Commendation medals. He earned his B.A. from the University of Maryland. He holds the Certified Investment Management Analyst (CIMA) and Global Financial Planner designations.

Mr. Sosa is an active member of his local community. He is currently a Board Member and Chair of the Investment Committee of the Nicklaus Children's Hospital System. He also serves on the Board of the Archdiocese of Miami Catholica Community Foundation and is the chair of its Investment Committee. Mr. Sosa is also a board member of the Peacock Foundation, a local foundation created by Mr. Henry B. Peacock, Jr., to support local charities.



Previously, he served on the Board of Trustees of St. Philip's Episcopal School for six years and was its Chairman for three. He also served as a Board Member for a local hospital, Pan American. He is a former President of the local chapter of Legatus, a Catholic lay organization of business leaders in the South Florida community.

Mr. Sosa has a passion for fishing and has fished some of the best waters in the North and South America.

He and his wife, Sadie, have three children, Alex†, Katina and Jacqueline.