**Active Management:** The trading of securities to take advantage of market opportunities as they

occur, in contrast to passive management. Active managers rely on research, market forecasts,

and their own judgment and experience in selecting securities to buy and sell.

**Aggressive:** An investment approach that accepts above-average risk of loss in return for

potentially above-average investment returns.

**Aggressive Growth Fund:** An investment fund that takes higher risk of loss in return for

potentially higher returns or gains.

**AMEX Major Market Index (XMI):** An index that is an average of 20 Blue Chip Industrial

Stocks.

**Annual Report:** A yearly report or record of an investment’s (e.g., a mutual fund’s or

company’s) financial position and operations.

**Annual Rate of Return:** The annual rate of gain or loss on an investment expressed as a

percentage.

**Appreciation:** An increase in the value of an investment.

**Asset:** Anything with commercial or exchange value owned by a business, institution or

individual. Examples include cash, real estate and investments.

**Asset Allocation:** A method of investing by which investors include a range of different

investment classes such as stocks, bonds, and cash alternatives or equivalents − in their

portfolios. See Diversification.

**Asset Class:** A group of securities or investments that have similar characteristics and behave

similarly in the marketplace. Three common asset classes are equities (e.g., stocks), fixed income

(e.g., bonds), and cash alternatives or equivalents (e.g., money market funds).

**Average Annual Total Return:** The yearly average percentage increase or decrease in an

investment’s value that includes dividends, gains, and changes in share price.

**Back-end Load:** A fee imposed by some funds when shares are redeemed (sold back to the

fund) during the first few years of ownership. Also called a contingent deferred sales charge.

**Balanced Fund:** A fund with an investment objective of both long-term growth and income,

through investment in both stocks and bonds.

**Barclay’s Capital U.S. Aggregate Bond Index:** A common index widely used to measure

performance of U.S. bond funds.

**Basis Point:** One-hundredth of one percent, or 0.01%. For example, 20 basis points equal 0.20%.

Investment expenses, interest rates, and yield differences among bonds are often expressed in

basis points.

**Benchmark:** An unmanaged group of securities whose performance is used as a standard to

measure investment performance. Some well-known benchmarks are the Dow Jones Industrial

Average and the S&P 500 Index.

**Bond:** A debt security which represents the borrowing of money by a corporation, government,

or other entity. The borrowing institution repays the amount of the loan plus a percentage as

interest. Income funds generally invest in bonds.

**Bond Fund:** A fund that invests primarily in bonds and other debt instruments.

**Bond Rating:** A rating or grade that is intended to indicate the credit quality of a bond,

considering the financial strength of its issuer and the likelihood that it will repay the debt.

Agencies such as Standard & Poor’s, Moody’s Investors Service, and Fitch issue ratings for

different bonds, ranging from AAA (highly unlikely to default) to D (in default).

**Broker:** A person who acts as an intermediary between the buyer and seller of a security,

insurance product, or mutual fund, often paid by commission. The terms broker, broker/dealer,

and dealer are sometimes used interchangeably.

**Brokerage Window:** A plan feature that permits participants to purchase investments that are

not included among the plan’s general menu of designated investment alternatives.

**Capitalization (Cap**)**:** The total market value of a company's outstanding equity.

**Capital Appreciation Fund:** An investment fund that seeks growth in share prices by investing

primarily in stocks whose share prices are expected to rise.

**Capital Gain:** An increase in the value of an investment, calculated by the difference between

the net purchase price and the net sale price.

**Capital Loss:** The loss in the value of an investment, calculated by the difference between the

purchase price and the net sale price.

**Capital Preservation:** An investment goal or objective to keep the original investment amount

(the principal) from decreasing in value.

**Cash Alternative or Cash Equivalent:** An investment that is short term, highly liquid, and has

high credit quality.

**Collective Investment Fund:** Investments created by a bank or trust company for employee

benefit plans, such as 401(k) plans, that pool the assets of retirement plans for investment

purposes. They are governed by rules and regulations that apply to banks and trust companies

instead of being registered with the SEC. These funds are also referred to as collective or

commingled trusts.

**Commission:** Compensation paid to a broker or other salesperson for his or her role when

investments are bought or sold.

**Common Stock:** An investment that represents a share of ownership in a corporation.

**Company Stock Fund:** A fund that invests primarily in employer securities that may also

maintain a cash position for liquidity purposes.

**Competing Funds:** An investment fund that is identified by the investment manager of another

fund and which is subject to special rules relating to an investor’s ability to buy and sell

investments between the two funds. See Equity Wash Restriction.

**Compounding:** The cumulative effect that reinvesting an investment’s earnings can have by

generating additional earnings of their own.

**Conservative:** An investment approach that accepts lower rewards in return for potentially lower

risks.

**Contingent Deferred Sales Charge (CDSC):** A fee imposed when shares of a mutual fund or a

variable annuity contract are redeemed (sold) during the first few years of ownership. Also called

a back-end load.

**Corporate Bond:** A bond issued by a corporation, rather than by a government. The credit risk

for a corporate bond is based on the re-payment ability of the company that issued the bond.

**Credit Risk:** The risk that a bond issuer will default, meaning not repay principal or interest to

the investor as promised. Credit risk is also known as "default risk."

**Current Yield:** The current rate of return of an investment calculated by dividing its expected

income payments by its current market price.

**Custodian:** A person or entity (e.g., bank, trust company, or other organization) responsible for

holding financial assets.

**Deflation:** The opposite of inflation a decline in the prices of goods and services.

**Depreciation:** A decrease in the value of an investment.

**Designated Investment Alternative:** The investment options picked by your plan into which

participants can direct the investment of their plan accounts.

**Diversification:** The practice of investing in multiple asset classes and securities with different

risk characteristics to reduce the risk of owning any single investment.

**Dividend:** Money an investment fund or company pays to its stockholders, typically from

profits. The amount is usually expressed on a per-share basis.

**Dow Jones Industrial Average (Dow or DJIA):** A widely followed price-weighted index of 30

of the largest, most widely held U.S. stocks.

**Emerging Market:** Generally, economies that are in the process of growth and industrialization,

such as in Africa, Asia, Eastern Europe, the Far East, Latin America, and the Middle East which,

while relatively undeveloped, may hold significant growth potential in the future. Investing in

these economies may provide significant rewards, and significant risks. May also be called

developing markets.

**Emerging Market Fund:** A fund that invests primarily in emerging market countries.

**Employer Securities**: Securities issued by an employer of employees covered by a retirement

plan that may be used as a plan investment option.

**Equity/Equities:** A security or investment representing ownership in a corporation, unlike a

bond, which represents a loan to a borrower. Often used interchangeably with “stock.”

**Equity Fund:** A fund that invests primarily in equities.

**Equity Wash Restriction:** A provision in certain stable value or fixed income products under

which transfers made from the stable value or fixed income product are required to be directed to

an equity fund or other non-competing investment option of the plan for a stated period of time

(usually 90 days) before those funds may be invested in any other plan-provided competing fixed

income fund (such as a money market fund).

**Exchange Traded Fund (ETF):** An investment company, such as a mutual fund, whose shares

are traded throughout the day on stock exchanges at market-determined prices.

**Expense Ratio:** A measure of what it costs to operate an investment, expressed as a percentage

of its assets or in basis points. These are costs the investor pays through a reduction in the

investment's rate of return. See Operating Expenses and Total Annual Operating Expenses.

**Federal Deposit Insurance Corporation (FDIC):** A federal agency that insures money on

deposit in member banks and thrift institutions.

**Financial Industry Regulatory Authority (FINRA):** A self-regulatory organization for

brokerage firms doing business in the United States. FINRA operates under the supervision of

the SEC. The organization’s objectives are to protect investors and ensure market integrity.

**Financial Statements:** The written record of the financial status of a fund or company, usually

published in the annual report. The financial statements generally include a balance sheet,

income statement, and other financial statements and disclosures.

**Fixed Income Fund:** A fund that invests primarily in bonds and other fixed-income securities,

often to provide shareholders with current income.

**Fixed Return Investment:** An investment that provides a specific rate of return to the investor.

**Front-end Load:** A sales charge on mutual funds or annuities assessed at the time of purchase to

cover selling costs.

**Fund Family:** A group or “complex” of mutual funds, each typically with its own investment

objective, and managed and distributed by the same company. A Fund Family also could refer to

a group of collective investment funds or a group of separate accounts managed and distributed

by the same company.

**Fund of Funds:** A mutual fund, collective investment fund or other pooled investment that

invests primarily in other mutual funds, collective investment funds or pooled investments rather

than investing directly in individual securities (such as stocks, bonds or money market

securities).

**Glide Path:** The change over time in a target date fund’s asset allocation mix to shift from a

focus on growth to a focus on income.

**Global Fund:** A fund that invests primarily in securities anywhere in the world, including the

United States.

**Government Securities:** Any debt obligation issued by a government or its agencies (e.g.,

Treasury Bills issued by the United States).

**Growth Fund:** A fund that invests primarily in the stocks of companies with above-average risk

in return for potentially above-average gains. These companies often pay small or no dividends

and their stock prices tend to have the most ups and downs from day to day.

**Growth and Income Fund:** A fund that has a dual strategy of growth or capital appreciation and

current income generation through dividends or interest payments.

**Inception Date:** The date that a fund began operations.

**Income Fund:** A fund that primarily seeks current income rather than capital appreciation.

**Index:** A benchmark against which to evaluate a fund's performance. The most common indexes

for stock funds are the Dow Jones Industrial Average and the Standard & Poor's 500 Index.

**Index Fund:** An investment fund that seeks to parallel the performance of a particular stock

market or bond market index. Index funds are often referred to as passively managed

investments.

**Inflation:** The overall general upward price movement of goods and services in an economy.

Inflation is one of the major risks to investors over the long term because it erodes the

purchasing power of their savings.

**Interest/Interest Rate:** The fee charged by a lender to a borrower, usually expressed as an

annual percentage of the principal. For example, someone investing in bonds will receive interest

payments from the bond’s issuer.

**Interest Rate Risk:** The possibility that a bond’s or bond fund’s market value will decrease due

to rising interest rates. When interest rates (and bond yields) go up, bond prices usually go down

and vice versa.

**International Fund:** A fund that invests primarily in the securities of companies located, or with

revenues derived from, outside of the United States.

**Investment Adviser:** A person or organization hired by an investment fund or an individual to

give professional advice on investments and asset management practices.

**Investment Company:** A corporation or trust that invests pooled shareholder dollars in

securities appropriate to the organization’s objective. The most common type of investment

company, commonly called a mutual fund, stands ready to buy back its shares at their current net

asset value.

**Investment Objective:** The goal that an investment fund or investor seeks to achieve (e.g.,

growth or income).

**Investment Return:** The gain or loss on an investment over a certain period, expressed as a

percentage. Income and capital gains or losses are included in calculating the investment return.

**Investment Risk**: The possibility of losing some or all of the amounts invested or not gaining

value in an investment.

**Large Capitalization (Cap):** A reference to either a large company stock or an investment fund

that invests in the stocks of large companies.

**Large Cap Fund:** A fund that invests primarily in large cap stocks.

**Large Cap Stocks:** Stocks of companies with a large market capitalization. Large caps tend to

be well-established companies, so their stocks typically entail less risk than smaller caps, but

large-caps also offer less potential for dramatic growth.

**Lifecycle Fund:** A fund designed to provide varying degrees of long-term appreciation and

capital preservation based on an investor’s age or target retirement date through a mix of asset

classes. The mix changes over time to become less focused on growth and more focused on

income. Also known as “target date retirement” or “age-based” funds.

**Lifestyle Fund:** A fund that maintains a predetermined risk level and generally uses words such

as “conservative,” “moderate,” or “aggressive” in its name to indicate the fund’s risk level. Used

interchangeably with “target risk fund.”

**Lipper:** A leading mutual fund research and tracking firm. Lipper categorizes funds by objective

and size, and then ranks fund performance within those categories.

**Liquidity:** The ease with which an investment can be converted into cash. If a security is very

liquid, it can be bought or sold easily. If a security is not liquid, it may take additional time

and/or a lower price to sell it.

**Load:** A sales charge assessed on certain investments to cover selling costs. A front-end load is

charged at the time of purchase. A back-end load is charged at the time of sale or redemption.

**MSCI EAFE Index:** An index known by an acronym for the Europe, Australasia, and Far East

markets produced by Morgan Stanley Capital International (MSCI). Markets are represented in

the index according to their approximate share of world market capitalization. The index is a

widely used benchmark for managers of international stock fund portfolios.

**MSCI World Index:** An index of major world stock markets, including the United States. The

index is a widely used benchmark for managers of global stock fund portfolios.

**Management Fee:** A fee or charge paid to an investment manager for its services.

**Market Capitalization or Market Cap:** The market value of a company. Market capitalization

can be determined by multiplying the number of outstanding shares of a company’s stock by the

stock’s current market price per share.

**Market Risk:** The possibility that the value of an investment will fall because of a general

decline in the financial markets.

**Maturity Date:** The date on which the principal amount of a loan, bond, or any other debt

becomes due and is to be paid in full.

**Mid Capitalization (Cap):** A reference to either a medium sized company stock or an

investment fund that invests in the stocks of medium-sized companies.

**Mid Cap Fund:** A fund that invests primarily in mid-cap stocks.

**Mid Cap Stocks:** Stocks of companies with a medium market capitalization. Mid caps are often

considered to offer more growth potential than larger caps (but less than small caps) and less risk

than small caps (but more than large caps).

**Money Market Fund:** A mutual fund that invests in short-term, high-grade fixed-income

securities, and seeks the highest level of income consistent with preservation of capital (i.e.,

maintaining a stable share price).

**Morningstar:** A leading mutual fund research and tracking firm. Morningstar categorizes funds

by objective and size, and then ranks fund performance within those categories.

**Mutual Fund:** An investment company registered with the SEC that buys a portfolio of

securities selected by a professional investment adviser to meet a specified financial goal

(investment objective). Mutual funds can have actively managed portfolios, where a professional

investment adviser creates a unique mix of investments to meet a particular investment objective,

or passively managed portfolios, in which the adviser seeks to parallel the performance of a

selected benchmark or index.

**NASDAQ:** The National Association of Securities Dealers Automated Quotation, also called the

“electronic stock market.” The NASDAQ composite index measures the performance of more

than 5,000 U.S. and non-U.S. companies traded “over the counter” through NASDAQ.

**Net Asset Value (NAV):** The net dollar value of a single investment fund share or unit that is

calculated by the fund on a daily basis.

**New York Stock Exchange (NYSE):** The oldest and largest stock exchange in the United

States, founded in 1792.

**No-Load Fund:** A mutual fund whose shares are sold without a sales commission and which

does not charge a combined 12b-1 fee and service fee of more than 25 basis points or 0.25% per

year.

**Operating Expenses:** The expenses associated with running or operating an investment fund.

Operating expenses may include custody fees, management fees, and transfer agent fees. See

Expense Ratio and Total Annual Operating Expenses.

**Passive Management:** The process or approach to operating or managing a fund in a passive or

non-active manner, typically with the goal of mirroring an index. These funds are often referred

to as index funds and differ from investment funds that are actively managed.

**Portfolio:** A collection of investments such as stocks and bonds that are owned by an individual,

organization, or investment fund.

**Portfolio Manager:** The individual, team or firm who makes the investment decisions for an

investment fund, including the selection of the individual investments.

**Portfolio Turnover Rate:** A measure of how frequently investments are bought and sold within

an investment fund during a year. The portfolio turnover rate is usually expressed as a percentage

of the total value of an investment fund.

**Principal:** The original dollar amount of an investment. Principal may also be used to refer to

the face value or original amount of a bond.

**Prospectus:** The official document that describes certain investments, such as mutual funds, to

prospective investors. The prospectus contains information required by the SEC, such as

investment objectives and policies, risks, services, and fees.

**Rate of Return:** The gain or loss on an investment over a period of time. The rate of return is

typically reported on an annual basis and expressed as a percentage.

**Real Rate of Return:** The rate of return on an investment adjusted for inflation.

**Rebalance:** The process of moving money from one type of investment to another to maintain a

desired asset allocation.

**Redemption:** To sell fund shares back to the fund. Redemption can also be used to mean the

repayment of a bond on or before the agreed upon pay-off date.

**Redemption Fee:** A fee, generally charged by a mutual fund, to discourage certain trading

practices by investors, such as short-term or excessive trading. If a redemption fee is charged it is

done when the investment is redeemed or sold.

**Return:** The gain or loss on an investment. A positive return indicates a gain, and a negative

return indicates a loss.

**Risk:** The potential for investors to lose some or all the amounts invested or to fail to achieve

their investment objectives.

**Risk Tolerance:** An investor's ability and willingness to lose some or all of an investment in

exchange for greater potential returns.

**Round Trip Restriction:** A policy that limits the number of times an investor can exchange into

and out of a fund within a given time frame. This is intended to discourage frequent trading that

increases the costs to all the fund’s investors.

**Russell Indexes:** A group of indexes that are widely used to benchmark investment

performance. The most common Russell index is the Russell 2000 Index, an index of U.S. smallcap

stocks, which measures the performance of the 2,000 smallest U.S. companies in the Russell

3000 Index.

**Sales Charge:** A charge for buying an investment.

**Sector Fund:** A fund that invests in a particular or specialized segment of the marketplace, such

as stocks of companies in the software, healthcare, or real estate industries.

**Securities and Exchange Commission (SEC):** Government agency created by Congress in

1934 to regulate the securities industry and to help protect investors. The SEC is responsible for

ensuring that the securities markets operate fairly and honestly.

**Security:** A general term for stocks, bonds, mutual funds, and other investments.

**Separate Account:** An insurance company account that is segregated or separate from the

insurance company’s general assets. Also refers to a fund managed by an investment adviser for

a single plan.

**Share:** A representation of ownership in a company or investment fund.

**Share Class:** Some investment funds and companies offer more than one type or group of

shares, each of which is considered a class (e.g., “Class A,” “Advisor” or “Institutional” shares).

For most investment funds each class has different fees and expenses but all of the classes invest

in the same pool of securities and share the same investment objectives.

**Shareholder:** An owner of shares in an investment fund or corporation.

**Shareholder-Type Fees:** Any fee charged against your investment for purchase and sale, other

than the total annual operating expenses.

**Small Capitalization (Cap):** A reference to either a small company stock or an investment fund

that invests in the stocks of small companies.

**Small Cap Fund:** A fund that invests primarily in small-cap stocks.

**Small Cap Stocks:** Stocks of companies with a smaller market capitalization. Small caps are

often considered to offer more growth potential than large caps and mid caps but with more risk.

**Stable Value Fund:** An investment fund that seeks to preserve principal, provide consistent

returns and liquidity. Stable value funds include collective investment funds sponsored by banks

or trust companies or contracts issued by insurance companies.

**Standard & Poor's 500 Stock Index (S&P 500):** An index comprised of 500 widely held

common stocks considered to be representative of the U.S. stock market in general. The S&P

500 is often used as a benchmark for equity fund performance.

**Stock:** A security that represents an ownership interest in a corporation.

**Stock Fund:** A fund that invests primarily in stocks.

**Stock Symbol:** An abbreviation using letters and numbers assigned to securities to identify

them. Also see Ticker Symbol.

**Summary Prospectus:** A short-form prospectus that mutual funds generally may use with

investors if they make the long-form prospectus and additional information available online or

on paper upon request.

**Target Date Fund:** A fund designed to provide varying degrees of long-term appreciation and

capital preservation based on an investor’s age or target retirement date through a mix of asset

classes. The mix changes over time to become less focused on growth and more focused on

income. Also known as a “lifecycle fund.”

**Target Risk Fund:** A fund that maintains a predetermined asset mix and generally uses words

such as “conservative,” “moderate,” or “aggressive” in its name to indicate the fund’s risk level.

Often used interchangeably with “lifestyle fund.”

**Ticker Symbol:** An abbreviation using letters and numbers assigned to securities and indexes to

identify them. Also see Stock Symbol.

**Time Horizon:** The amount of time that an investor expects to hold an investment before taking

money out.

**Total Annual Operating Expenses:** A measure of what it costs to operate an investment,

expressed as a percentage of its assets, as a dollar amount, or in basis points. These are costs the

investor pays through a reduction in the investment's rate of return. See Expense Ratio and

Operating Expenses.

**Gross Profit Rate = Gross Profit ÷ Net Sales**

Evaluates how much gross profit is generated from sales. Gross profit is equal to net sales (*sales minus sales returns, discounts, and allowances*) minus cost of sales.

**Return on Sales = Net Income ÷ Net Sales**

Also known as "net profit margin" or "net profit rate", it measures the percentage of income derived from dollar sales. Generally, the higher the ROS the better.

**Return on Assets = Net Income ÷ Average Total Assets**

In financial analysis, it is the measure of the *return on investment*. ROA is used in evaluating management's efficiency in using assets to generate income.

**Return on Stockholders' Equity = Net Income ÷ Average Stockholders' Equity**

Measures the percentage of income derived for every dollar of owners' equity.

**Current Ratio = Current Assets ÷ Current Liabilities**

Evaluates the ability of a company to pay short-term obligations using current assets (cash, marketable securities, current receivables, inventory, and prepayments).

**Acid Test Ratio = Quick Assets ÷ Current Liabilities**

Also known as "*quick ratio*", it measures the ability of a company to pay short-term obligations using the more liquid types of current assets or "quick assets" (cash, marketable securities, and current receivables).

**Cash Ratio = ( Cash + Marketable Securities ) ÷ Current Liabilities**

Measures the ability of a company to pay its current liabilities using cash and marketable securities. Marketable securities are short-term debt instruments that are as good as cash.

**Net Working Capital = Current Assets - Current Liabilities**

Determines if a company can meet its current obligations with its current assets; and how much excess or deficiency there is.

**Receivable Turnover = Net Credit Sales ÷ Average Accounts Receivable**

Measures the efficiency of extending credit and collecting the same. It indicates the average number of times in a year a company collects its open accounts. A high ratio implies efficient credit and collection process.

**Days Sales Outstanding = 360 Days ÷ Receivable Turnover**

Also known as *"receivable turnover in days"*, *"collection period"*. It measures the average number of days it takes a company to collect a receivable. The shorter the DSO, the better. Take note that some use 365 days instead of 360.

**Inventory Turnover = Cost of Sales ÷ Average Inventory**

Represents the number of times inventory is sold and replaced. Take note that some authors use Sales in lieu of Cost of Sales in the above formula. A high ratio indicates that the company is efficient in managing its inventories.

**Days Inventory Outstanding = 360 Days ÷ Inventory Turnover**

Also known as *"inventory turnover in days"*. It represents the number of days inventory sits in the warehouse. In other words, it measures the number of days from purchase of inventory to the sale of the same. Like DSO, the shorter the DIO the better.

**Accounts Payable Turnover = Net Credit Purchases ÷ Ave. Accounts Payable**

Represents the number of times a company pays its accounts payable during a period. A low ratio is favored because it is better to delay payments as much as possible so that the money can be used for more productive purposes.

**Days Payable Outstanding = 360 Days ÷ Accounts Payable Turnover**

Also known as *"accounts payable turnover in days"*, *"payment period"*. It measures the average number of days spent before paying obligations to suppliers. Unlike DSO and DIO, the longer the DPO the better (as explained above).

**Operating Cycle = Days Inventory Outstanding + Days Sales Outstanding**

Measures the number of days a company makes 1 complete operating cycle, i.e. purchase merchandise, sell them, and collect the amount due. A shorter operating cycle means that the company generates sales and collects cash faster.

**Cash Conversion Cycle = Operating Cycle - Days Payable Outstanding**

CCC measures how fast a company converts cash into more cash. It represents the number of days a company *pays* for purchases, sells them, and collects the amount due. Generally, like operating cycle, the shorter the CCC the better.

**Total Asset Turnover = Net Sales ÷ Average Total Assets**

Measures overall efficiency of a company in generating sales using its assets. The formula is similar to ROA, except that net sales is used instead of net income.

**Debt Ratio = Total Liabilities ÷ Total Assets**

Measures the portion of company assets that is financed by debt (obligations to third parties). Debt ratio can also be computed using the formula: 1 minus *Equity Ratio*.

**Equity Ratio = Total Equity ÷ Total Assets**

Determines the portion of total assets provided by equity (i.e. owners' contributions and the company's accumulated profits). Equity ratio can also be computed using the formula: 1 minus *Debt Ratio*.

The reciprocal of equity ratio is known as *equity multiplier*, which is equal to total assets divided by total equity.

**Debt-Equity Ratio = Total Liabilities ÷ Total Equity**

Evaluates the capital structure of a company. A D/E ratio of more than 1 implies that the company is a leveraged firm; less than 1 implies that it is a conservative one.

**Times Interest Earned = EBIT ÷ Interest Expense**

Measures the number of times interest expense is converted to income, and if the company can pay its interest expense using the profits generated. EBIT is earnings before interest and taxes.

**Earnings per Share = ( Net Income - Preferred Dividends ) ÷ Average Common Shares Outstanding**

EPS shows the rate of earnings per share of common stock. Preferred dividends is deducted from net income to get the earnings available to common stockholders.

**Price-Earnings Ratio = Market Price per Share ÷ Earnings per Share**

Used to evaluate if a stock is over- or under-priced. A relatively *low P/E ratio* could indicate that the company is under-priced. Conversely, investors expect high growth rate from companies with *high P/E ratio*.

**Dividend Pay-out Ratio = Dividend per Share ÷ Earnings per Share**

Determines the portion of net income that is distributed to owners. Not all income is distributed since a significant portion is retained for the next year's operations.

**Dividend Yield Ratio = Dividend per Share ÷ Market Price per Share**

Measures the percentage of return through dividends when compared to the price paid for the stock. A high yield is attractive to investors who are after dividends rather than long-term capital appreciation.

**Book Value per Share = Common SHE ÷ Average Common Shares**

Indicates the value of stock based on historical cost. The value of common shareholders' equity in the books of the company is divided by the average common shares outstanding