

Definition of Investment Objective Terms

PORTFOLIO OBJECTIVE - Financial objective that an investor uses to determine which kind of investment is appropriate. For example, if the investor's objective is growth of capital, he may opt for growth-oriented mutual funds or individual stocks. If he is more interested in income, he might purchase income-oriented mutual funds or individual bonds instead. Consideration of investment objectives, combined with the risk tolerance of investors, helps an investor narrow his search to an investment vehicle designed for his needs at a particular time.

INCOME OBJECTIVE - Investment designed to produce current income for shareholders. Some examples of income investments are government, mortgage-backed security, municipal, international, and junk bonds. Several kinds of equity-oriented investments also can have income as their primary investment objective such as utilities stocks. All distributions from income investments are taxable in the year received by the shareholder unless it is held in a tax-deferred account such as an IRA or Keogh or the distributions come from tax-exempt bonds, such as with a municipal bond fund.

GROWTH OBJECTIVE - Investment that invests in growth stocks. The goal is to provide capital appreciation for the shareholders over the long term. Growth investments are more volatile than more conservative income or money market instruments. They tend to rise faster than conservative investments in bull (advancing) markets and to drop more sharply in bear (falling) markets.

TOTAL RETURN OBJECTIVE - Annual return on an investment including appreciation and dividends or interest. For bonds held to maturity, total return is yield to maturity. For stocks, future appreciation is projected using the current price/earnings ratio. In options trading, total return means dividends plus capital gains plus premium income.

INVESTMENT EXPERIENCE body of prior experience establishing "normal investment practice" with respect to the account relationship between a member firm and its customer. For example, the Rules of Fair Practice of the National Association of Securities Dealers (NASD) prohibit the sale of a new issue to members of a distributing dealer's immediate family, but if there was sufficient precedent in the investment history of this particular dealer-customer relationship, the sale would not be a violation.