



GLOSSARY OF
FINANCIAL TERMS

Financial Terms

- **AGI (Adjusted Gross Income)**—This is what the IRS considers your annual income BEFORE you've subtracted personal exemptions, deductions, and credits. It can be found on the last line of the front page of your 1040 form.
- **APR (Annual Percentage Rate)**—This is the percentage that the financial institution will charge you in order to loan you money (through a loan, credit card, or other type of credit.) If your APR on a credit card is 18%, it means that if you charge \$100, the credit card will charge you \$18 for that loan. Your total balance that month will be \$118
- **Annual Fee** In addition to an APR, some credit cards also charge an annual fee. This fee will be added on to your balance at the same time every year.
- **Annual Report** This is a report that every public company is required to submit to their stockholders at the end of their fiscal year. The report covers the year's financial results as well as business strategies and financial projections for the coming year Also found here: a company's assets, liabilities, earnings, and profits or losses.
- **Annuity** An annuity is the way in which an insurance company pays the insured back - either in a lump sum or through regular payments over a fixed time period - in exchange for regular payments at the start of the agreement.
- **Asset Allocation** This term refers to the varying percentages of investments within different asset classes throughout one's portfolio. For example: 40% stock, 40% bonds, and 20% cash.
- **Asset Allocation Fund** This is a "one-stop-shop" mutual fund that includes evenly distributed stocks, bonds, and cash equivalent assets in its portfolio.
- **Automatic Investment Plan (AIP)** This is a plan where money is withdrawn from one's bank account on a regular basis and automatically invested into a pre-determined stock or mutual fund.

"Bad" Debt Credit used to purchase items that depreciate in value or are no longer around when the bill arrives - for example food or restaurant meals. This is especially so if a balance is revolved and interest is paid on the original charge.

- **Bankruptcy** The process of petitioning a court to discharge one's debts. There are two types of personal bankruptcy:
Chapter 7 is the liquidation of assets
Chapter 13 is a debt repayment plan

Basis/Cost Basis An asset's monetary value, generally its purchase price, plus the amount of subsequent deposits. This is the number that is used to determine a capital gain or capital loss for tax purposes.

- **Bear Market** A prolonged period of a stock market that is in decline.
- **Beneficiary** The individual who is identified to inherit specific property following the death of the insurance policy owner.
- **Before (Pre-) Tax Dollars** When one invests in a 401(k) and some IRAs, the money is not taxed at the time of contribution and is not counted against one's annual income tax. Taxes are paid when the investment is liquidated at a later date.
- **Bond** When you invest in a bond, you are investing in a corporation or a unit of government. The bond is essentially an IOU from the organization who is receiving the money to the bond holder (you). The bond holder is promised interest for loaning their money to the bond issuer and the return of their investment at a specified future date.
- **Bull Market** A term used to describe an ongoing period of rising stock prices.
- **Buy and Hold** When one purchases securities believed to be of high quality with the intention of holding on to them for a number of years so that they can properly mature.
- **Capital Gain/Appreciation** The increase in the market value of an investment.

- **Cash Investments (a.k.a., "Cash Equivalents)** Fast turn-around securities that are appropriate for emergency savings and short-term financial goals. They can be liquidated for use quickly. Examples include money market funds and savings accounts.
- **Cash Value** The savings component of a whole life, variable life, or universal life insurance policy. In other words, how much you have contributed to the policy from the start.
- **CD-** Much like a bond, a CD is a fixed amount of money deposited with a financial institution for a specified amount of time. An acronym for Certificate of Deposit, CDs are sold by banks with principal insured by the Federal Deposit Insurance Corporation (FDIC). Interest paid on CDs varies with the amount deposited and the length of time the money is invested. Brokerage firms also sell CDs on occasion.
- **Commission Brokers** are paid percentage fees to trade securities on behalf of their clients. The total fee is based on the number of shares trade or the dollar amount of the trade.
- **Compound Interest--**Interest credited daily, monthly, quarterly, semi-annually, or annually on both principal and previously credited interest.
- **Consumer Price Index (CPI)-**The Consumer Price Index (CPI) is a measure of inflation used by the U.S. Bureau of Labor Statistics. In other words, how much the price of milk or wheat or oil has risen.
- **Core** Holding this is the foundation of a portfolio to which an investor might add additional securities.
- **Co-signer** Someone who agrees to make payments on a loan if the primary borrower does not.
- **Conversion-**The transfer of funds from a traditional IRA to a Roth IRA. IRA conversions are taxable in the year, for the year.

Credit Union A member-owned financial institution. Acting much like a bank, consumers can partake in checking and savings accounts, credit cards, safe deposit boxes, and loans. The difference from a bank is that profits benefit the members rather than the institution. Credit Unions commonly are led by some kind of common affiliation such as employment or school.

- **Debt Limit** This is the maximum amount of debt that a person should hold in the form of a percentage (generally is no more than 15% to 20%) of their monthly take home income.
- **Disability Insurance** This, (important!) form of insurance will replace lost earnings in the event that the holder is ill or hurt and cannot work.
- **Diversification** Much like “not putting your eggs all in one basket,” diversification is a wide range of investment types that protect the holder in their diversity and variety.
- **Dividend** A distribution of income from investments to shareholders. When a public company makes money, shareholders receive a percentage of the income based on the amount of shares that they hold.
- **Dollar-Cost Averaging** Investing the same amount in the same investment outlet at a regular time interval.
- **Dow Jones Industrial Average (DJIA)**-The Dow Jones Industrial Average is an average of the stock price of 30 baseline stocks. Often used as a barometer of the current quality of stock market activity. Because the Dow Jones Industrial Average uses such a small number of stocks, it is often criticized for being a poor representation for the health of the market as a whole, which is why other indexes, such as the Standard and Poor's 500.
- **Earned Income** This is income that comes not from investment pay-offs but in the form of wages and/or salaries from a professional job and/or net earnings from self-employment.
- **Elimination Period** The number of days required, following the initial insurance payment, before benefits are valid and can be applied.
- **Expense Ratio** The percentage of assets that are deducted from a mutual fund, to pay the expense of management and operation.

- **Federal Deposit Insurance Corporation (FDIC)** Federal agency that insures bank deposits for up to \$100,000. In other words, an FDIC insured bank will always have your money, even if the bank goes bankrupt.
- **Financial Planning** Establishing financial goals, especially for retirement, and developing an savings and investment plan that will allow you to achieve them. This includes all aspects of personal finance including managing cash flow, investing, insurance, taxes, and estate planning.
- **401(k) Plan** A tax-deferred retirement savings plan available to employees of for-profit corporations.
- **403(b) Plan** is similar to a 401(k), it too is a tax-deferred retirement savings plan but rather than for employees of for-profit corporations, it is for employees of tax-exempt educational, medical, or research organizations, colleges, and public schools.
- **Future Value** The amount that a sum of money today will be worth in the future following the accumulation of compound interest.
- **"Good" Debt** Credit that is used to purchase items that retain or increase in value over time. For example, home improvements or any educational endeavor.
- **Gross Income** This is your full salary or income BEFORE the deduction of income tax, social security, etc.
- **Growth Fund** This is an aggressive mutual fund that invests in stock with a focused objective of capital appreciation.
- **Income Fund** A mutual fund that invests in stocks or bonds with a high potential for immediate income, either dividends (e.g., utility stocks) or interest (e.g., bonds).
- **Index** Commonly known indexes are the widely quoted Dow Jones Industrial Average. This is a group of securities who, together, represent the current health of the stock exchange as a whole.

- **Index Fund** A type of mutual fund that aims to match the current state of a measurable index (such as Dow Jones,) by investing in the exact securities found in the index.
- **Installment Loan** This is a loan that is paid back in installments - a home mortgage is an installment loan.
- **Interest (Borrowing)** The cost applied to the borrower for borrowing money. This is generally expressed as a percentage of the amount borrowed.
- **Interest (Saving)** The return on an investment, such as 2% earned on the amount invested in a bond.
- **Interest Rate Risk** The risk that the value of fixed-income securities - such as a CD or bond - will decline when interest rates rise.
- **Investing** The process of purchasing assets such as stocks, bonds, real estate, and mutual funds with the expectation of future income and/or capital gains (growth in value).
- **Investment Clubs** Organizations of investors who meet regularly, study investment options, and contribute money toward the purchase of securities.
- **IRA** is an acronym for Individual Retirement Account, IRAs are tax-deferred accounts established by workers with earned income to save for retirement.
- **IRA (Roth)** A type of IRA where contributions are not tax-deductible. Earnings on savings are also tax-exempt if made more than five years after a Roth IRA is established and after age 59 .
- **"Junk" Bond** Are high-risk and high-reward investments. They are offered by issuers with low bond ratings and, therefore, have a greater chance of default.
- **Keogh Plan** A tax-deferred savings plan for self-employed workers to plan for retirement.
- **Laddering** Creating a CD or bond portfolio with a combination of assets, all of which have different maturity dates. As each bond or CD matures, the proceeds are reinvested at the longest time interval to maintain the ladder.

- **Leverage** The use of borrowed money to make an investment (e.g., a home mortgage).
- **Liability** Money owed that will decrease an individual's or businesses net worth.
- **Life Insurance** A contract with a life insurance company where a policyholder pays a premium in exchange for an amount paid out to his or her beneficiaries in the event of death.
- **Liquidity** The ability to convert an asset to cash quickly without loss of value.
- **Long-Term Care Insurance** Type of insurance that covers the cost of support such as home health care or a nursing home when the insured finds him or herself unable to perform basic activities of daily living.
- **Marginal Tax Rate** The rate that you pay on the highest dollar of personal or household (if married) earnings. This is also known as your "tax bracket".
- **Maturity** The date on which the principal amount of a bond or CD must be paid out to the investor by the recipient of the investment.
- **Money Market Mutual Fund** A type of mutual fund that invests in short-term, liquid cash assets.
- **Morningstar** An investment research company. Morningstar is respected for its ratings of mutual funds. Morningstar fund reports are found in the reference section of many libraries.
- **Mortgage** This common loan is used to purchase a home with the real estate used as collateral to secure the loan. Mortgage payment interest is very often tax-deductible.
- **Mutual Fund** This is an investment company that pools deposits from many shareholders and invests in the stock, bond, or cash assets. The pool of a mutual fund's investments are from an especially chosen set of companies that have been selected to achieve the specific objectives of the fund.
- **Net Asset Value (NAV)** The market value of a mutual fund's total assets. This, after deducting potential fund liabilities and divided by the number of shares outstanding. NAV is the price per share of a fund.

- **Net ("Take-Home") Income** The final sum that a worker receives in a paycheck after items such as income taxes, FICA tax, retirement plan savings, union dues, and other mandatory items have been deducted.
- **Net Worth** Total financial worth, arrived at by subtracting one's debts from their assets.
- **New York Stock Exchange (NYSE)** Located on Wall Street in New York City, the largest, oldest stock exchange. They trade the stock of established companies that meet a stringent list of requirements.
- **Penalty** An additional amount due when the original terms of retirement savings plan are not fulfilled. An example is the 10% penalty for early withdrawals before age 59 on an IRA.
- **Penny Stocks** Stocks that sell for \$5 per share or less. They are considered low credibility/high risk.
- **Pension** An employment-based retirement savings plan that pays benefits to workers at retirement.
- **Periodic Expenses** Household expenses that occur generally one to four times a year. Examples include quarterly insurance premiums or property tax payments.
- **Portfolio** At RWR, this is considered your financial wardrobe. A combined holding of stocks, bonds, cash equivalents, or other assets.
- **Portfolio Rebalancing** Periodic adjustments to one's investment holdings so as to maintain a desired set of asset allocation.
- **Premium** A fee paid to an insurance company in exchange for third-party protection against an unlikely risk such as loss of a home, disability, or liability.
- **Present Value** Current value of a sum of money that will be received at a future date.
- **Principal** The original amount of money invested or borrowed, not counting dividends or interest.

- **Probate** When a court of law oversees the process of validating a will, paying debts of the deceased, and distributing the proceeds to the will's named beneficiaries.
- **Prospectus** An official booklet that describes the history, scope, intention, and makeup of a mutual fund.
- **Retirement Planning** When a woman makes lifestyle and financial decisions for later life, typically for the period of time after paid employment ceases.
- **Return** An investment's gain or loss. Returns can be positive or negative.
- **Risk Potential** investment loss. For example, a high-risk investment includes a high chance of loss.
- **Risk Tolerance** How a woman feels about financial risk. Would a big loss be tolerable? Would she rather be more conservative with lower risks and lower potential gains? That is her risk tolerance.
- **Rollover** This is the transfer of funds from a retirement savings plan, such as a 401(k) or 403(b), to a traditional IRA. If done with integrity, rollovers are a non-tax able event.
- **Sales Charge/Load** The cost of the purchase of mutual fund shares.
- **Secured Debt** A debt that is secured by some kind of valuable collateral in order to reduce the risk to the lender. An example is a car loan where the car is used as security (collateral) for the loan.
- **Securities** A term used to refer to stocks and bonds.
- **Share of Stock** A unit of ownership in a company. The value of a share will vary according to market conditions and other factors.
- **Simplified Employee Pension (SEP)** A tax-deferred retirement savings plan for entrepreneurs and small business owners.

- **Social Security** This is a government program that provides retirement and disability benefits to American workers and their dependents. Workers invest into the Social Security program throughout their lives in the form of payroll taxes. At the time of retirement, a worker can begin to receive payments as a result of their life-long investment.
- **Taxable Income** The amount of income that qualifies to be taxed after subtracting adjustments, deductions, and exemptions from gross income.
- **Tax-Deferred-Investments** are examples of investment earnings are not taxed in the current year but will be later, usually at the time of withdrawal. Examples of tax-deferred investments are Individual Retirement Accounts (IRAs), employer 401(k) and 403(b) plans, and annuities.
- **Tax-Exempt (Tax-Free) Investments** where earnings are free from tax liability. An example of a tax-exempt investment is a municipal bond.
- **Term Life Insurance** Type of life insurance policy that pays benefits only if the policyholder dies within the period of time covered by the policy. Term policies are generally the least expensive type of life insurance policy because there is no cash value (savings) component.
- **The Time Value of Money** The concept that a dollar received today is not worth the same as a dollar received at a previous or future time period, due to the interest that can be earned on the money.
- **Treasuries (Bills, Notes, and Bonds)** These are investments that can be made in the U.S. government. Treasury bills are the shortest term investment, followed by Treasury notes (intermediate-term), and Treasury bonds (long-term). All three types are available for a minimum deposit of \$1,000 or in multiples thereof.
- **Trust** A legal instrument that grants control of one's assets to a person or financial institution. Trusts can be revocable or irrevocable and can manage property while the creator is alive (living trust) or following the creator's death (testamentary trust).
- **Trustee** A person or financial institution who manages the property of others.

- **Unsecured Debt** Such as credit card, this is debt that is secured only by a promise to pay, and not a piece of collateral for security.
- **U.S. Savings Bonds** Available in two forms (Series EE and inflation-adjusted Series I), these are low-cost federal debt securities. For additional information about purchasing U.S. savings bonds, check www.easysaver.gov or www.savingsbonds.gov.
- **Value Line** An investment research company that rates the performance of company stocks. Value Line reports are found in the reference section of many libraries and can also be found online.
- **Vesting** The date when you are scheduled to receive money that your employer has contributed to your retirement account.
- **Volatility** The degree of price fluctuation - high or low - associated with a specific investment or market index. The greater the fluctuation, the greater the volatility.
- **Whole Life Insurance** Unlike term life insurance, this policy combines protection for the life of an insured person in addition to a savings component known as the cash value.
- **Withholding** Deduction of federal and state income taxes, Social Security taxes, and other items, such as union dues and health insurance premiums, from your paycheck.