Financial ABC's – Terms to Know

Annuity – An insurance product backed by the product's issuing insurance company entitling the investor to a series of regular payments.

Asset – An economic resource that has monetary value. There are several different types of assets such as real property, bank accounts, and investments.

Asset Allocation – The proportion of investments which aim to balance risk and reward. Stocks, bonds, and cash make up three major types of asset classes.

Bond (Fixed Income) – A debt instrument created for the purpose of raising capital for companies or government.

Cash Flow – The timing of money coming in and out.

Capital Gains – A rise in the value of an asset that gives it a higher worth than the purchase price. The gain is not realized until the asset is sold.

CFP® – This designation means that someone is a CERTIFIED FINANCIAL PLANNER™ professional who has been certified by a board to use this title and meets their rigorous standards.

Cost Basis – The original value of an asset, usually purchase price, adjusted for splits, dividends and return of capital distributions. This value helps to determine the capital gain

Dividend - A portion of a company's earnings that is paid out to shareholders.

Fiduciary – A Fiduciary is a person or organization that ethically and legally must act in another's best interest, usually with respect to finances.

Interest - Payment from a borrower to a lender of an amount above the repayment of the principal at a particular rate.

Liability – An obligation to pay something at a later date. Types of liabilities include auto and student loans, credit card balances, and mortgages.

Mutual Fund – Professionally managed portfolio of equities, bonds, and/or other securities. A way to pool resources with other investors.

Net Worth- The difference between assets (what you own) and liabilities (what you owe) is your net worth. Positive net worth means your assets exceed your liabilities.

Pension – A defined benefit provided by an employer at retirement age.

Rebalancing – Process of realigning the weightings of portfolio assets by buying and selling. Rebalancing helps control risk and keep your investment plan on course.

Roth IRA – A Roth IRA is a tax-advantaged, retirement savings account that allows you to withdraw your savings tax-free. Roth IRAs are funded with after-tax dollars; the contributions are not tax-deductible, but distributions avoid taxation.

SEP/SIMPLE IRA – Pre-tax retirement accts for small businesses.

Stock (Equity)– Shares of ownership in an issuing company. Companies issue stock to raise capital to operate and grow the business.

Traditional IRA – A traditional IRA is a tax-advantaged retirement savings account that allows you to contribute pre-tax income, distributions are taxed upon withdrawal.

Trust – A fiduciary arrangement that allows a third party to hold assets on behalf of a beneficiary to protect the trustor's assets.

401k/403B – A 401k/403B is an employer sponsored defined contribution retirement plan. Employees can make pretax contributions out of their monthly salary often with employer match.

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