

## The ABC's of Financial Terminology

Have you ever been overwhelmed by terminology while working with an attorney, tax preparer, or financial advisor? Words are powerful and industry jargon can clutter the real meaning in the world of finance, complicating things and sounding foreign even to professionals. The better you grasp the meaning of financial terms, the better you can communicate about financial topics. At Wagner Planning one of our goals is to educate, so we have created a short list of terms to know.

Depending on your life experiences you may be aware of some financial vocabulary, but even if you have heard them before you may not know exactly what some words mean. Often financial terminology is not learned in school so we want to share even the basics as a refresher to help ensure that we are all on the same page. There may even be a few new words on our list that could improve your financial literacy.

We compiled a short list which is intended to be useful and accessible, not comprehensive. It is based on common usage as practiced by financial professionals and is designed to help you break down industry terms so you can better understand your own finances. For those who do not deal with finances on a regular basis the significant verbiage can make people feel overwhelmed.

Our desire is that clients feel comfortable asking questions and understand how they are invested. As your CERTIFIED FINANCIAL PLANNER™ professional, we are here to help answer any inquiries regarding your financial situation and how this financial terminology relates to you. We always enjoy hearing from our clients and their family and friends.

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## 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.

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**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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