

# LLIFE University

## Financial Literacy Investment Terms



Living Learning In Faith Everyday, Inc.

*Building Tomorrow's Leaders and Communities*

## **Investment Terms**

### **Bond**

Any interest-bearing government or corporate security that obligates the issuer to pay the bondholder a specified sum of money, usually at specific intervals, and to repay the principal amount of the loan at maturity.

### **Capital Appreciation**

An increase in the value of your investment. For mutual funds, it is the positive change in the share price for the fund over a given period. For example, if you purchase shares of a mutual fund at \$25 per share, and the price increases to \$35 per share, the capital appreciation is \$10 per share.

### **Certificate of Deposit**

An insured savings instrument issued by a bank that usually pays fixed interest rates. Maturities range from a few weeks to many years.

### **Common Stock**

Units of ownership of a public corporation.

### **Compounding**

Earnings on earnings.

### **Daily Valuation**

The determination of the value of an investment share each business day.

### **Defined Contribution Plan**

A retirement plan implemented by an employer that defines the level of contribution an employee may make to the plan. It often includes a matching contribution by the employer. Benefits from the plan depend on results of investments directed by participants.

## **Diversification**

A method of investing to spread your investments among different securities offered by many different industries or companies. When you diversify, you may or may not reduce your risk of loss because price losses in certain securities have the potential to be offset by increases in others. With most mutual funds, you automatically have a diversified portfolio because each fund invests in many different securities, rather than just one or two.

## **Dividend**

Distribution of earnings to shareholders.

## **Dollar-Cost Averaging**

An investment strategy where you invest the same amount of money in the same security regularly (for example, investing \$100 in a mutual fund each month). By investing regularly, you automatically buy more shares when the price is low and fewer when the price is high. As a result, your average cost per share is typically reduced. Keep in mind that dollar-cost averaging involves continuous investment, so consider your financial ability to purchase shares during periods of low price levels. And remember, no investment strategy can guarantee you'll make a profit or protect you against a loss in a declining market.

## **Dow Jones Industrial Average**

The average of the prices of 30 stocks issued by industrial firms that are actively traded on the New York Stock Exchange (NYSE). The Dow is an often quoted statistic used to show trends in the prices of stocks. It is not an investment product available for purchase.

## **Fixed Income**

A security that pays a fixed rate of return. This usually refers to government, corporate or municipal bonds, which pay a fixed rate of interest until maturity.

## **401(k) Plan**

A retirement savings plan that allows you to contribute a portion of your salary to a retirement plan account. Because your employer deducts your contributions from your paycheck before taxes, you reduce your taxable income and usually pay less in federal income tax right now. Plus, any earnings on your investments are tax deferred until you remove money from your account, usually at retirement.

## **403(b) Plan**

Another type of retirement savings plan that allows any earnings to grow and compound, without being reduced by taxes. 403(b) plans are usually offered to the employees of universities, hospitals and not-for-profit institutions. As with a 401(k) plan, you can invest in a 403(b) plan through payroll deduction. Your contributions are deducted from your taxable income, which may lower the amount of federal income tax you pay.

## **Guaranteed Investment Contract (GIC)**

A contract issued by an insurance company that guarantees a specific rate of return on the invested capital over the life of the contract.

## **Individual Retirement Account (IRA)(Traditional)**

A personal, tax-deferred retirement account. Earnings grow tax-deferred, but are taxed at your ordinary income tax rate upon withdrawal. You can contribute a maximum of 100% of compensation or \$2,000, whichever is less, to all your IRAs for each tax year. Married couples who file jointly can contribute up to \$2,000 to each spouse's IRA for any tax year for a total of \$4,000 annually even if one is a non-working spouse, provided combined contributions do not exceed combined compensation.

## **Individual Retirement Account (IRA)(Roth)**

Similar to a Traditional IRA, you do not pay taxes on any earnings while they remain in a Roth IRA. You also will not owe any federal income taxes or penalties on the assets you withdraw from a Roth IRA as long as: your Roth IRA assets have met certain five year aging requirements, and you're over age 59½ when you withdraw the money or you're using that withdrawal to help pay for a qualified first-time home purchase expenses. Withdrawals due to death or disability are also tax-free and penalty-free after the five-year aging period. You can contribute a maximum of 100% of compensation or \$2,000, whichever is less, to all your IRAs for each tax year (subject to income restrictions). Married couples who file jointly can contribute up to \$2,000 to each spouse's IRA for any tax year for a total of \$4,000 annually even if one is a non-working spouse, provided combined contributions do not exceed combined compensation.

## **Inflation**

Inflation is the loss of buying power of a dollar due to a rise in the cost of goods and services. It is frequently measured by the percentage change of the Consumer Price Index (CPI).

## **Money Market Fund**

A mutual fund that invests in securities such as government securities or commercial paper (that is, short-term promissory notes issued by corporations). Money market funds pay regular income while attempting to maintain a stable value.

## **Mutual Fund (No-Load)**

An investment product offered by an investment company that imposes no sales charge (load) on its shareholders.

## **Prospectus**

A document used by companies that describes the company and offers its shares for sale.

## **Return**

A profit or loss on an investment, usually expressed as an annual percentage rate. For money market funds, it is referred to as yield.

## **Security**

An investment that represents ownership in a corporation (a stock) or a creditor relationship with a corporation or government body (bond).

## **Social Security**

A federal government program designed to protect aged and disabled workers against the expense of illness. Social Security also provides monthly income to retired individuals who have worked long enough to be eligible.

## **Standard & Poor's 500 Stock Index**

An index used to measure changes in the stock market. The S&P 500 is a composite of the prices of 500 widely held stocks. It is often used as a benchmark to measure the performance of stock funds. It is not an investment product available for purchase.

## **Tax-Deferred Investment**

An investment that accumulates earnings free from taxation until the investor takes possession of them.

**Taxable Investment**

An investment in which earnings are taxed in the year in which the earnings are credited to the investment.

**Vesting**

Your right to a portion (or all) of your retirement plan account based on years of service with your employer. Your employer may choose to vest all participants in the plan immediately, giving you the right to all amounts in your account from the start. Or, your employer may establish a "vesting schedule," giving you the right to a portion of your account based on your years of service (for example, 0% for the first year, 20% for the second year, 40% for the third year, etc.). You always are 100% vested in any money you personally contribute to a 401(k) or 403(b) plan.

**Volatility**

Characteristic of a security, commodity or market to rise or fall in price within a period of time.