



Investment Terms

401(k)

An employer-sponsored retirement plan. Employee contributions are taken out before withholding taxes are computed, and many employers offer matching contributions.

529 Plan

A state-sponsored college savings plan through which a donor can set up an account for children, grandchildren, or other relatives. The donor retains control of the account and can transfer it to another family member. Earnings are not taxed if they are used for college expenses.

Annuity

An investment product from a life insurance company, providing tax-deferred earnings but often charging substantial fees. The defining characteristic of all annuities is the option for a guaranteed distribution of income for life. Many people choose instead to receive the accumulated principal in a lump-sum payment.

Asset Allocation

The percentage of a given asset class in a diversified portfolio.

Asset Class

A given category of investment, such as U.S. stocks, international stocks, U.S. bonds, international bonds, real estate, commodities, or cash.

Asset Class Diversification

Having a mixture of at least five and preferably eight or nine asset classes in an investment portfolio.

Asset Management

Professional management of both securities (such as stocks, bonds, limited partnerships, and mutual funds) and tangible assets like real estate to meet specified investment goals for the benefit of an investor.

Asset Protection

Strategies that go beyond liability insurance, using a set of legal techniques and statutory laws to protect wealth against liability and frivolous lawsuits. Learn more about asset protection.

Bonds

Investments through which one loans money to a corporation or government.

Capitalization

The size of a company whose stock an investor might own, described as large-cap, mid-cap, and small-cap.

Commission

A percentage of the total invested in a financial product (such as a mutual fund, annuity, or other investment) that is paid to the sales representative who sold the product.

Commodities (or Natural Resources)

Bulk products, such as metals, grains, and foods, that are traded on a commodities exchange. Investments in commodities typically are in contracts which are bought and sold by the

individual, mutual fund, or limited partnership. Investors rarely take physical possession of the assets.

Consumer Price Index

A monthly report that tracks inflation and the cost of living. It measures changes in the cost of a given set of consumer products and services, such as housing, food, utilities, and transportation.

Diversification

A technique to reduce risk by investing in a variety of asset classes; an essential component of wise investing.

Dividends

Shares of a company's profits paid to investors.

DOW (Dow Jones Industrial Average)

An index showing the values of 30 large publicly-traded U.S. companies. Reports that the DOW is up or down refer to the average increases or decreases in stock prices of those companies.

Estate

Everything you own; all of your assets (whether real property or personal property) and liabilities.

Estate Planning

Making decisions about distributing one's assets at death, and the strategies to carry out those decisions.

Exterior Finance

The mechanics or "hard facts" aspects of managing money, such as investment returns, bank statements, and budgets.

Fee-based Financial Planners

Financial planners whose income is a combination of commissions on financial products they sell and fees for financial planning.

Fee-Only Financial Planners

Financial planners who receive no commissions, kickbacks or hidden fees from any source, but whose earnings come from direct fees to clients.

Fiduciary

The legal obligation of a professional adviser, such as an attorney or a CFP®, to act in clients' best interests. A financial product salesperson has no fiduciary obligation to customers.

Financial Adviser

A term with no precise industry definition that can be used by financial planners, investment managers, and sellers of financial products.

Financial Planner

A practicing professional who helps people deal with various personal financial issues through proper planning. This label can be used by many financial advisers and financial product salespeople who may not actually be engaged or trained in the profession of financial planning.

Financial Planning

Comprehensive advice and assistance to a client for the purpose of meeting the client's financial needs and life goals. This includes, but is not limited to, these major areas: cash flow management, education planning, retirement planning, investment planning, risk management and insurance planning, tax planning, estate planning and business succession planning (for business owners).

Futures Contracts

Investment contracts to buy or sell given quantities of a commodity or other asset at a given price on a designated date.

Growth Stock

An investment based on the expectation that a company will grow quickly, rather than on its current profitability.

Hedging

Reducing investment risk by including strategies such as short selling and futures contracts in a diversified portfolio.

Integrated or Integral Financial Planning

An approach to financial planning that helps clients with both the interior and exterior aspects of their relationship with money.

Interior Finance

The emotional aspects of financial decisions: what we believe and how we feel about money.

Investing

Providing for one's future by not merely saving part of one's earnings, but by buying a diversified portfolio of assets that will increase in value over time.

IRA

Individual retirement account, not an investment in itself but a "container" to hold investments. An IRA permits individuals to set aside money each year, with earnings tax-deferred until withdrawals begin at age 59 1/2 or later (or earlier, with a 10% penalty). The exact amount depends on the year and your age. IRAs can be established at a bank, mutual fund, or brokerage. A traditional IRA allows

the amount deposited to be deducted from current income, but any distributions are fully taxable. A ROTH IRA does not allow for a current deduction from income, but all distributions are tax-free.

Legacy Planning

An integral approach to estate planning which also includes the interior aspects.

Life Planning (also Integrated Financial Planning or Integral Financial Planning)

An approach to financial planning that helps clients with both the interior and exterior aspects of their relationship with money.

LLC (Limited Liability Company)

An entity similar to a corporation that may be created for ownership of a business or to hold assets such as real estate properties for asset protection.

Money Scripts

Unconscious beliefs about money, usually formed in childhood, which we may not even realize we hold but which shape our financial decisions and behavior. An example of a money script is, "More money will make everything better."

Mutual Fund

A pool of money, invested by shareholders, which is managed by an investment company.

NASDAQ

A U.S. stock market trading in approximately 3200 companies. Reports that the NASDAQ is up or down refer to the average increases or decreases in all the stocks traded through NASDAQ that day.

Net Worth

The value of all your assets (savings, investments, real estate, personal property, money owed to you, etc.), minus all your liabilities (mortgage, auto loans, education loans, credit card debt, etc.).

Portfolio

All of one's financial assets.

REIT (Real Estate Investment Trust)

An investment company that owns a variety of real estate and sells shares to small investors.

Retirement Planning

Preparing for retirement, both by investing to provide financial security and by planning for activities, career possibilities, and relationships that will provide a fulfilling life during retirement.

Return (or Total Return)

The amount of an investment's yield, plus or minus its appreciation or depreciation. Its real return is the return adjusted for inflation.

Short Selling

The practice of selling securities which are borrowed from a third party (usually an investment bank) with the intention of buying the same securities back at a later date to return to the lender.

Speculation

Putting money into a high-risk investment in the hope of building wealth quickly.

Stock

An investment that is an ownership share of a publicly-traded company.

TIPS (Treasury Inflation Protected Securities)

Inflation-indexed bonds issued by the U.S. Treasury where the principal is adjusted to the Consumer Price Index.

Trusts

A legal arrangement whereby a person gives real or personal property to another person to be managed for the benefit of the giver, another person, or an entity such as a charitable organization. Trusts are often used in estate planning and for asset protection.

Value Stock

An investment chosen based on a company's intrinsic value: cash and assets, high dividends, and low debt.

Volatility

The degree to which the price of an investment fluctuates.

Wisdom

The ability to exercise good judgment in the face of imperfect knowledge.

Yield

The interest or dividend paid to an investor, not the same as the return on an investment.