Knowledge Base | Understanding Financial Terms

Capiche'

Every circle has its own language; for example, vehicle mechanics talk technical jargon relating to building and maintenance of cars. Money and finance also has its jargon of special language used by bankers, investors, and stock brokers etc. There is even street language for finance, such a mulah, paper, coins, but if you don't know understand the language, then it simply is jurgon, rubbish to you. Hopely this document will share some of the most common terms used in the financial markets.

Asset Allocation simply means investment strategy. In other words, this is your overall financial plan of where you will invest. For instance, the most common areas of investing cash is in stocks, bonds and treasury bills. Of course there are also the normal savings account or a certificate of deposit.

Bonds. When you invest in a bond, you are loaning money to a company or government, by which you cash in at a maturity day with interest.

Stocks. When you buy stock in a company, you're purchasing some ownership in the firm. If the company do well so do you, if not; well you know the rest.

Mutual fund. Lots of money that comes from a plenty investors like you and is then invested in assets like stocks and bonds. This allows the risk to be spread across the fund to everybody invested.

Money hidden in a backpack under the bed or in a closet does not earn interest.

The more you know the better you will be

Financial advisors or like money managers, if they manage your money well you will earn interest income or not. The best money manager of your dollars is you.

Expense ratio. Investors can pay an annual fee for fund managers to run the fund, known as the expense ratio. The expense ration is how fund managers make their income. The expense ratio also covers other expenses, such as administrative fees, record-keeping fees and even print or TV ads promoting the mutual fund.

Target-date fund. 401(k) plans use target-date funds as all-in-one portfolios that are tailored to your expected retirement date.

Index funds. A popular mutual fund because its costs are generally low. Indexes, are collections of stocks that represent a slice of the economy. These index funds also provide income to the investors known as dividends. You can reinvest the dividend, or receive the cash and spend it.

Dow Jones industrial average and Standard & Poor 500 are both well-known indexes that provide very good return on investments.

Speaking of return on investments, also known as ROI. The more ROI you receive the more your cup fills up; ROI provides you with interest on the cash you invest in stocks, bonds, mutal funds, treasury bills, cds, etc. Then there is also ROA, known as return on assets. Assets are products like houses, land, cards, precious metals things you can sell in return for money; usually, for more than you purchase.

Price-to-earnings ratio. RER, is a ratio having a relationship between two numbers. Consider the company's stock price in relation to its earnings. The price-earnings ratio measures whether your investments are overvalued or not. Generally, a low P/E, between 0 and 10, means the company isn't doing too well, or it may be undervalued. If the ratio is high, over 25, it could be a sign that the company has a lot of growth in its future, but it can also be a bubble that's about to burst. A P/E between 10 and 17 is considered average.

Prospectus. This is like the story of an investment overall. Ask your financial advisor for a prospectus, or search online to find one. This legal document provides details about stocks, bonds, mutual funds or whatever you're planning to invest in.

Consider the economy from a national and global perspective. Remember planning is everything. Let's move on to creating a plan.

"Never despise small beginnings; a penny saved is a dollar earned".

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