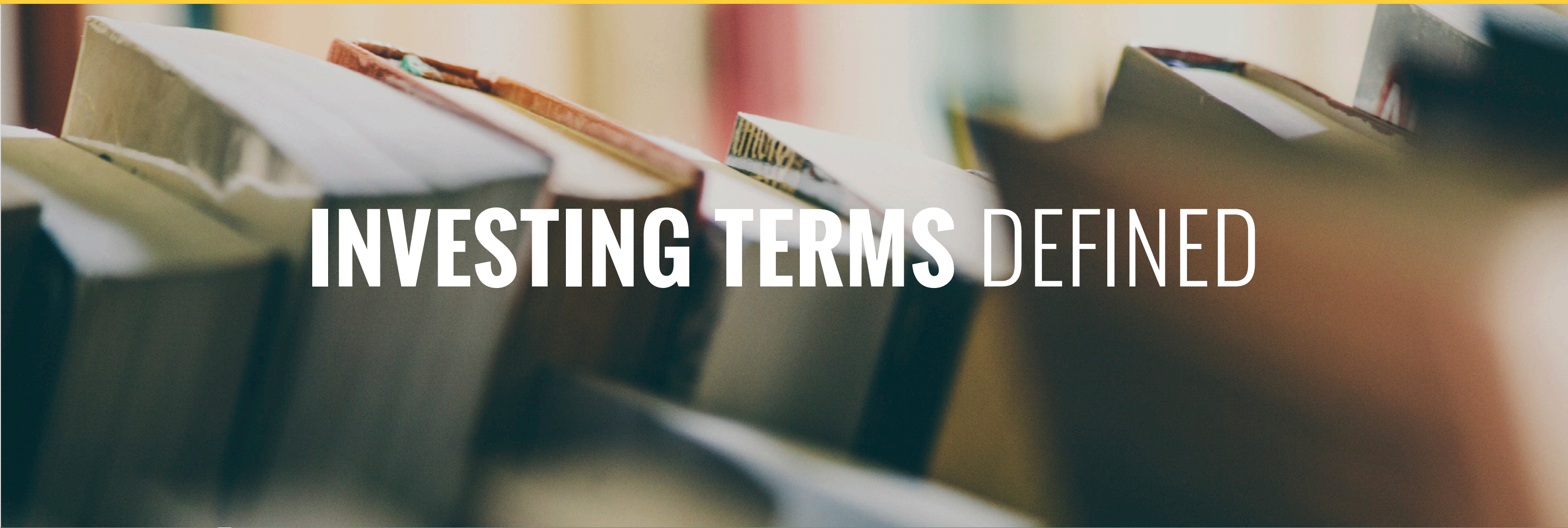

INVESTING TERMS DEFINED

401(k): A retirement plan in which employees set aside money from their paychecks before it's taxed to invest for retirement. In some cases, employers will match a percentage of a person's contributions into a 401(k). The money is taxed when the employee withdraws it from the 401(k) in retirement.

403(b): A retirement plan like a 401(k) plan, offered by organizations (mostly nonprofits) rather than corporations; employees set aside money from their paycheck before it's taxed to invest for retirement. The money is taxed when the employee withdraws it from the 403(b) in retirement.

457 PLAN: A retirement plan like a 401(k) that is offered by state and local governments for tax-exempt government agencies and tax-exempt employers. Employees set aside money from their paychecks before it's taxed to invest for retirement. The money is taxed when the employee withdraws it from the 457 in retirement.

529 PLAN: A college savings plan that allows a person (parent, grandparent, etc.) to save money for future college and graduate school expenses for a child or beneficiary. They're generally sponsored by individual states and are professionally managed investments.

ASSET: Anything a person owns that would result in a profit when sold. It could be stocks, bonds, real estate, or other investments.

ASSET ALLOCATION: The strategy of balancing risk and investment growth by investing in different types of investments, such as stocks, bonds, and mutual funds.

AVERAGE ANNUAL RETURN: The rate of return on investments averaged over a period of time. It is determined by adding together the rates of return for each year and dividing by the number of years in the calculation.

BONDS: A loan a person makes to a company or government agency. For example, a 10-year, $1,000 bond with an 8% interest rate will generate an income of $80 every year for 10 years, or $800. A bond holder can hold their bond until it matures (10 years) or sell it. The value of a bond rises as interest rates fall and falls as interest rates rise.

C.D.: Short for Certificate of Deposit. This is a savings account, usually at a bank, that pays a slightly higher interest rate than a regular savings account because the C.D. holder commits to keep the money in the C.D. for a specific time period (six months, one year, etc.).

COMPOUND INTEREST: Interest paid on interest previously earned. For example, if an investment of $20,000 earns $2,000 in interest in a year, the next year that investment will earn interest on the $2,000 plus the original $20,000.

DIVERSIFICATION: Similar to asset allocation, it is the practice of spreading money across different kinds of investments. The goal of diversification is to lower the risk and volatility that would result in a person having all their money invested in one type of investment.

DIVIDEND: Profits companies pay to stockholders, usually in the form of cash or more stock in the company.

EDUCATION SAVINGS ACCOUNT (ESA): A savings program like a 529 plan. However, funds in an ESA can also pay for K–12 education expenses. Also, an ESA limits the amount a person can contribute per year and limits the program to household incomes of less than $220,000.

EMPLOYER-SPONSORED RETIREMENT SAVINGS PROGRAM: Tax-deferred savings plans offered by employers. They include 401(k) plans for corporate employees, 403(b) plans for employees of schools and nonprofit organizations, and 457 plans for state and local government employees.

FUND FAMILY: A group of mutual funds sponsored by the same investment or mutual fund company.

INDIVIDUAL RETIREMENT ARRANGEMENT (IRA): This is a retirement account that an individual sets up rather than an employer, usually through a broker or investing pro. The money put into a traditional IRA is tax-deductible. However, when that money is withdrawn from the IRA in retirement, a person will pay income tax on it.

INFLATION: The rate at which the prices of goods and services go up from year to year, making it more expensive to buy a car (or house or clothes) in 2016 than in 1996, for example. If the cost of goods and services goes down, deflation occurs.

INVESTING: The process of setting money aside to increase wealth over time for long-term financial goals such as retirement.

INVESTMENT: An asset a person purchases (such as mutual funds, stocks, or real estate) with the goal of selling the asset for profit or having it produce future income. Investments can be short-term or long-term.

INVESTMENT ADVISOR/MANAGER: The person who manages a portfolio of investments specifically for a mutual fund. They're also called a portfolio manager or a money manager.

MONEY MARKET FUND: Mutual fund that earns income by investing in interest-bearing accounts with short-term end dates (usually 90 days or less).

MUTUAL FUND: Pool of money managed by a company and invested in multiple companies, bonds, or money market accounts. A mutual fund can offer investors a variety of investing options depending on the kind of fund.

OPPORTUNITY COST: Refers to the financial opportunity that is given up because a person chooses to do something else with their money. For example, if a person buys a new car, they lose the opportunity to invest that money.

PASSIVE INCOME: Money earned on a regular basis with little or no effort required to keep the income flow. Some things that produce passive income are real estate, intellectual property like books or Internet content, or a business in which the owner is not actively involved.

PORTFOLIO: What a person's investments look like when they are all together—cash, bonds, mutual funds, etc. Think of a pie with unequal slices.

ROLLOVER: Movement of funds from a tax-favored retirement plan to another tax-favored plan. A person isn't taxed to transfer the money, but the IRS requires that the person report the transfer of money. When a person changes employers, they can transfer their money from the former employer's retirement plan to the retirement plan offered by the new employer or to a traditional or Roth IRA.

ROTH 401(k): This is a retirement savings plan offered by an employer, much like a 401(k). However, with a Roth 401(k), a person pays taxes on the money before it goes into the account, but the money grows tax-free and a person isn't taxed on the money when they take it out at retirement.

ROTH IRA: This is a retirement account a person sets up on their own rather than relying on an employer, usually through a broker or investing pro. With a Roth IRA, a person pays taxes on the money before it goes into the account, but the money grows tax-free and a person isn't taxed on the money when they take it out at retirement.

RISK: The chance that an investment's return will be different than expected. The higher the risk, the more money a person could make. However, a higher risk also means a person could lose more money. All investments carry a degree of risk.

SIMPLE IRA: SIMPLE stands for Savings Incentive Match Plan for Employees. It gives companies with fewer than 100 employees the opportunity to sponsor a retirement plan. In a SIMPLE IRA, the employer is required to contribute to an employee's IRA each year.

SIMPLIFIED EMPLOYEE PENSION PLAN (SEPP): A pension plan in which both the employee and the employer contribute to an IRA. It is a traditional IRA and follows the same IRS rules. A SEPP is also available to the self-employed.

STOCKS: A term used to describe ownership in any corporation. When a person buys stock in a company, that person owns a piece, or share, of that specific company.

TAX-FAVORED RETIREMENT ACCOUNTS: Accounts specifically for retirement investing that receive special tax treatment. In a tax-deferred account, the investor does not pay taxes on the money invested in the account or the growth of those investments until money is withdrawn in retirement. In a tax-free account, the investor invests after-tax money in the account. The investments in the account grow tax free and withdrawals in retirement are also tax-free.