Glossary of financial terms

Annuity
A form of contract sold by life insurance companies that guarantees a fixed or variable payment to the buyer at some future time, usually retirement. A FIXED Annuity pays out in regular (fixed) installments varying only with the payout method elected. A VARIABLE Annuity pays out an amount that varies with the value of the account.

Asset
Anything owned that is convertible into cash. Usually divided into two broad classes:
1) Real assets/property; house, car, computer, etc.,
2) Financial assets/money; cash, bank account, mutual funds, etc..

Bond (debt security)
A negotiable, long-term debt instrument that carries certain obligations (including the payment of interest and repayment of principal) on the part of the issuer. Common issuers are the Federal government (Treasuries), State and Local governments (Municipals) and Businesses (Corporates).

Bond, Discounted
Also called Zero-Coupon bonds, no periodic interest payments. Instead, the bond is sold at some price below (discounted) its face value and returns full face value at maturity. Because of the IRS's treatment, this type bond is best used in tax deferred accounts such as IRA's.

Budget
An estimate of income and expenses for a specified period.

Capital
Wealth, net worth in money and/or property. Any form of wealth employed or capable of being employed in the production of more wealth. A subset of Assets.

Dividend
Distribution of earnings to shareholders, the amount is decided by the company's board of directors and is usually paid quarterly. Dividends must be declared as income in the year they are received.

Dollar Cost Averaging
A method of purchasing assets by investing a fixed amount of dollars at set intervals (such as $100 per month). This method automatically buys more shares when the prices are down and overall is a very good way to invest. Most Mutual Fund companies offer this service, though, they may call it something different.

Earnings
Corporate profit remaining after paying taxes and bondholder interest.

401(k) Plan
An employer sponsored, tax deferred, retirement plan which uses pre-tax contributions from an employees regular compensation to invest for that employee in a number of possible financial instruments. Many companies that offer these plans will MATCH a portion or all of the employee's contributions with cash or securities; this is, in essence, free money fully added to the employees account usually after some set period of time (vesting).

403(b) Plan
A tax deferred retirement plan very much like the 401(k) [above], with the main difference being that the employer is a non-profit organization (school, church, etc.).

Futures
Bonehead Alert - these securities are often speculative. Currently, they're outside the scope of this Web site.

Futures Option
Also known as an Option on a Futures Contract. Bonehead Alert - just like Futures and Options separately, these are taboo for nonexperts.

Gambling
To risk money or property on something involving chance or random outcomes. Basically the riskiest thing you can do with your money, hope you have fun.

Inflation
A sustained rise in the prices of goods and/or services. Two common measures of the Inflation RATE are: the Consumer Price Index and the Producer Price Index.

Investment
The use of capital to create more money. Usually includes the idea that safety of principal is important.

IRA - Individual Retirement Account
A personal, tax deferred, retirement account that an employed person can set up with a deposit limited to $2,000 per year ($4,000 for a couple when both work, or $2,250 for a couple when one works and the other's income is $250 or less). Withdrawals from IRA's prior to age 59 and a half are generally subject to a 10% penalty tax.

Money Market Fund
A type of Mutual Fund that invests in commercial paper, banker's acceptances, repurchase agreements, government securities, certificates of deposit, and other highly liquid and safe securities that pay money market rates of interest. Though these funds are not federally insured, like a bank account, there hasn't been a complete failure to date (there have been two failures, but, the shareholders were reimbursed in the first case and the second is still pending). A Money Market Mutual Fund is not the same as a Money Market Deposit Account (MMDA's) that you get through a bank.

Mutual Fund
A pooled investment vehicle whose securities are managed for a fee (annual management fee) by a professional investment advisor. Mutual Funds exist that invest in most investment alternatives available (Stocks, Bonds, etc.).

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Budget holds the key to living within your means

A budget is a tool that can both reveal problem spending areas and help fine-tune your cash flow. The mere process of gathering information to begin or maintain a budget can help you control your spending and free up cash to save, invest, or pay off debt. All budgets are not created equal, however; some are overly complicated, others require constant monitoring. A budget that is simple enough to appeal to non-accountants and yet able to provide the benefits listed above is described under the heading: Basic Budget Guidelines (below).

Basic Budget Guidelines:
1. A monthly budget is often the most useful; since some expenses and income items are seasonal or irregular, figure their annual amounts and then divide by 12. What we're shooting for is an estimated picture of your future cash flow. Why estimated? Because, you use past figures of income and expenses to estimate your monthly budget for the coming year.

2. Take your time, be thorough, list all of your income and expenses. Don't waste your time, though; if a certain bill (or income item) is always the same, there's no need to tally it over an entire year. It may help to view my Budget Example at this point, not only for a glimpse at a finished budget, but also to see the categories I use and give you ideas for your own.

3. Listed below are average percentages per general expense category. They are meant as guidelines and suggested maximums.

4. As one of your regular expense items you should include payments

Average % of Gross Income

Housing + Utilities	25 to 40%
Taxes (actual percent)	20%
Transportation + Upkeep	15%
Food	10%
Clothing	5%
Savings	10% and up
Entertainment + Vacations	5%
Debt (credit cards, personal loans)	5%
Other Expenses	5% and up

into a savings (or investment) account (otherwise known as paying yourself first). A good minimum savings goal is 10% of your gross income. The importance of this step cannot be stressed enough; given enough time, it can literally bring you financial independence.

5. Some expense (and income) items are not easy to figure; overall food expenditures is usually one of these. So as not to delay your initial budget indefinitely, on these items put down your best estimate; they can always be adjusted later.

6. When you have all income and expense items listed, crunch the numbers (do the math); subtracting expenses from income. You should have a positive amount remaining; this is your bottom line and cushion for unforeseen expenses. A negative bottom line is a sign that you need to work at reducing your expenses. It is often possible to reduce your living expenses without reducing your standard of living (see frugality, below).

Frugality
A closely related subject to budgeting, frugality, is gaining in popularity; it can be considered the conservation of one's finances. There are many good books and newsletters dealing with this subject.

Software Recommendation
To help yourself organize financially I highly suggest obtaining one of the more popular personal finance programs. The two most popular titles are: Quicken by Intuit and Microsoft Money. These programs contain functions such as: check books, credit card accounts, budgeting, financial planning, investment tracking, online banking, online bill paying, tax records, etc.. Each program can usually be bought for under $40 and can often be found on sale for even less. Quicken is, by far, the most popular.