Unit 9: Glossary of Terms

Stock: Purchase of a piece of ownership in a company sold on the stock market exchange. Some companies pay out part of the corporate earning to shareholders in quarterly dividends. The stockholder can make money if the stock of the price goes up. Conversely, if the price of the stock goes down, the stockholder will lose money. Gains and losses are only realized when selling the stock.

Bond: Bonds are loans someone makes to a company or government, usually in amounts of $1000 per bond. The lender earns a predetermined amount of interest on the bond in return for the loan. Each bond comes with a set term and maturity date, meaning the length of the loan and date the full amount the loan must be repaid. The risk of to the lender is based on how "credit worthy" the company or government agency to be sure of getting repaid.

Certificate of Deposit (CD): A savings certificate entitling the holder to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. The term of a CD generally ranges from one month to five years. The longer the term, the higher the interest rate. Holders can take their money out at any time but usually with a penalty.

Money market account: A money market account (MMA) or money market deposit account (MMDA) pays interest based on current interest rates in the money markets. Money market accounts typically have a relatively high rate of interest and require a higher minimum balance
(anywhere from $1,000 to $10,000 or $25,000) to earn interest or avoid monthly fees.

Mutual fund: A type of professionally managed investment fund that pools money from many investors to purchase securities (stocks and bonds). The composition of the fund is based on the investment strategy of the managers. Each investor/shareholder owns a proportionate share of the fund equal to the money they have invested.

Pension/Defined benefit plan: A traditional employer provided retirement plan that promises employees a certain amount when they retire for life. The benefit is usually based on years of service and salary. Construction Taft Hartley defined benefit plans are usually based on hours worked. Retirement eligibility usually based on age, years of service or a combination of the two.

401K/Defined contribution plan: A designated retirement savings fund. Depending on the plan set up, the employer may or may not contribute a defined amount of money to an employee's retirement account, which is controlled by the employee. The employee may also contribute dollars to his/her own account. Depending on whether it is a traditional 401K or a Roth 401K the contributions are either tax deferred at the front end or tax free upon withdrawal. Employees can begin taking withdrawals from their account after age 59 ½ (Roth). There is a 10% penalty for early withdrawal.

Individual Retirement Account (IRA): An individual retirement plan offered by financial institutions that provides tax advantages for retirement savings. Individuals establish their own accounts and self-direct investments. Accumulated savings can be withdrawn at age 59 ½ without penalty. Tax savings depend on income level as well as whether the individual establishes a traditional IRA or a Roth IRA.

Mutual Funds: An investment product that includes different stocks actively bought and sold by professional managers, sometimes focusing on a particular economic sector or a selection of stocks representing certain size companies.

Electronically-Traded Funds, or ETF: An investment product that includes different stocks but passively managed, meaning it is not professionally managed but simply includes stocks in a certain economic sector or index.