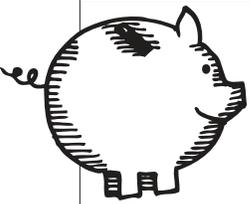
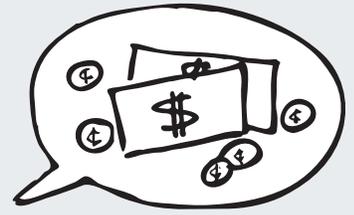


Language of money

Money words help you talk dollars and sense



During this Journey to your Dream Goal, you'll encounter a lot of unfamiliar words.

Learning the "language of money" can help you make smart financial decisions and be able to talk about money with others—like your family and adults.

MONEY WORDS GLOSSARY

An **account** is a place to put your money. You can have an account at a bank, credit union, or other financial institution. A checking account or savings account is your personal account for you to take money out or put more in.

An **allowance** is money given to a person on a regular basis for his or her personal spending. Many kids are given an allowance by their parents for doing chores at home.

An **asset** is anything that has a financial worth. Cash, savings accounts, stocks, bonds, mutual funds, houses, cars, etc., are assets.

Asset allocation is how your money is divided among stocks, bonds, and short-term investments. For instance, you can put some of your money in a savings account and invest some money in stocks, bonds, and mutual funds. If you have a goal that is a long way off, you may want to have most of your money invested in stocks. As the goal gets closer, you may want to hold less in stocks and more in bonds and short-term investments.

A **bond** is an asset issued by the federal government, state governments, or corporations. When you buy bonds, you are lending your money to the organization. Bonds generally pay interest (usually more than a savings account) every six months and you receive the original amount you loaned the organization plus interest earned at the end of a specified time. Unlike a savings account at a bank or credit union, bonds are subject to risk—which means you could lose some or all of the money you invested.

A **budget** is a plan of how much money a person or business has to spend and how it will be spent. For instance, your home budget might

include rent, utilities, food, clothing, health care, car payment, pet care, insurance, etc.

A **credit card** is a small plastic card issued by a bank or business that lets you buy goods or services with the promise that you'll pay at a later date. When you "charge" goods or services on a credit card, you are borrowing someone else's money—and you have to pay it back, usually with interest.

Debt is money you owe when you buy on credit or borrow from someone else. Any money you have to pay back can be considered debt.

A **deposit** is money you put in your account.

Diversification means having lots of different kinds of investments (different types of stocks, different types of bonds, etc.). For example, if you invest in skateboard stock and kids stop buying skateboards, you could lose all the money you have invested. Instead, if you invest money in skateboards, pizza, and computers, and kids stop buying skateboards, you might lose only the money you invested in skateboards—not all of it. Diversification cannot guarantee that your investments will make money or protect against loss if the market goes down.

Inflation is the general increase in the price of goods and services. Money loses value due to inflation, so it will be more expensive to buy products in the future. For example, in 1939, a car cost \$400. A similar car today would cost almost \$30,000 at a 3% rate of inflation.

Interest can be an amount of money an investment earns or an amount of money that is added to money you borrowed. If you have a savings account, your money can earn interest—and you'll have even more money. However, if you borrow money (like using a credit card), you will have to pay interest on top of what you use. That's expensive.

You **invest** by putting money into assets (like stocks, bonds, mutual funds, etc.) to help you reach your financial goals.

An **investment** is anything that you buy in hopes that it will increase in value.

A **loan** is money that's borrowed and is expected to be repaid, usually with added interest.

A **luxury** is something you don't need. It can be a material object or service that you want, but could live without. For example, you need shoes to wear, but you don't need to buy the most expensive pair or a new pair every month.

A **mutual fund** combines the money of many investors who have common financial goals into a professionally managed portfolio. Mutual

funds take the money and buy many different stocks, bonds, and/or short-term investments (depending on what kind of mutual fund it is), giving small investors access to a well-diversified portfolio. Each investor shares in the gain or loss of money in the mutual fund.

Needs are basic things necessary to live or do your job (such as a place to live, food, clothes, transportation to work, etc.). Needs are often confused with wants. For instance, you may need transportation to work and school, but you don't need a \$40,000 sports car. You may **want** a sports car, but you don't **need** it.

A **portfolio** is a group of investments owned by a person, investment company, or financial institution. Your portfolio should include different types of investments.

A **return** is the gain (or loss) of money from an investment in a particular time period.

Risk comes in many different forms. Two risks are the risk of losing money and the risk of not gaining enough to reach your goal. Your asset allocation helps you keep the right balance of these risks for your goal. Another risk you'll face is having most or all of your money in an investment that does worse than your other choices. Diversification helps reduce how much of this risk you have.

A **savings account** is one place to put your money to help achieve your financial goals. When you put your money in a savings account, the bank "borrows" your money and pays you interest.

A **stock** is a share of a company that is sold to the public. Companies sell stocks to raise money to finance business operations. Stock prices can change daily. As an investment, stocks have produced the highest long-term returns over the past several decades. They also have had the biggest swings in performance and are subject to much greater short-term risk of losing money. Of course, just because something happened in the past doesn't mean it will happen again.

The **stock market** is where shares of stock of different companies are bought and sold.

A **stockholder** (or shareholder) is a person who owns stock (shares) in a company.

Time horizon is the number of years until you will spend your money. This determines how your money should be divided between stocks, bonds, and short-term investments.

Wants are things you don't need to live or do your job. For example, you might want to eat out everyday, but you don't need to. A want can also be considered a luxury.