Syracuse Smart Money

INVESTING TERMS 101

Investing is committing your current resources, to increase your future resources.

Never lose money. Only invest money you have, borrowing to invest is dangerous, and investing money you need to live day to day is never a good idea.

A few basic investing terms to know...

Inflation: Inflation is one of the main reasons people choose investing over a savings account. Investment returns [historically 8%] outpace inflation [historically 3%]. $20 forty years ago is not worth $20 today because of inflation.

Risk: This is the possibility that you will lose money. All investments carry some form of risk. However, certain types are seen as more or less risky.

Diversification: Diversification is having multiple types of investments. Combining asset classes such as stocks and bonds would give you a "diversified portfolio".

Return: This refers to how much money you make from an investment. This is also called "capital gains." Return is usually presented as a percentage of the value of your investment. (For example, if you invest $10 in a company and your return is $1, then you've got a rate of return of 10 percent)

Where can I put my money?

Roth IRA: a special individual retirement account (IRA) where you pay taxes on money going into your account, and then all future withdrawals are tax-free. Your yearly contributions are made after tax

Traditional IRA: Different from the Roth IRA, money is not taxed when it is first put into the traditional account. It is taxed after retirement when the withdrawal is taken out. Your yearly contributions are tax-deductible.

401k: This is an employer-sponsored investment account just like an IRA but most of the time your employer will match your yearly contributions. You can roll it from one employer to another if you switch jobs.

Bond: By investing in a bond, you are lending money to a company or government at a guaranteed interest rate for a defined period of time.

Stocks: Stocks are a portion of a company that are sold to investors. If you buy a share in a company's stock, you become a partial owner of that company with voting rights and dividends. Investing in stocks can allow people to increase the value of their money
by buying shares and then selling it when it is more valuable. These are typically riskier than bonds.

Mutual Funds: this allows you to pool money with other investors to diversify more affordably. Mutual funds invest in a changing list of securities picked by an investment manager.

Index Fund: You are purchasing a portion of stock in each company that is a part of that index. Invests in a specific list of securities and you are able to quickly diversify your portfolio because you are purchasing a portion of stock in each company that is a part of that index.