UNDERSTANDING THE LANGUAGE OF INVESTING:

A Guide to Key Terms and Concepts

Getting started with investing can feel overwhelming, but it doesn't have to be. This guide introduces key investment terms and concepts to help you build confidence and make informed financial decisions. Then, you can speak with a licensed financial advisor to help define your goals and discuss next steps.

SPEAK WITH AN ADVISOR TODAY

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1 How are "saving" and "investing" different?

Saving and investing are both important for reaching short- and long-term financial goals.

Saving is setting money aside for short-term goals or emergencies.

- Money is kept in low-risk accounts, such as savings or money market accounts.
- Funds are easily accessible.
- Dividends help money grow slowly and predictably.

Investing is growing money over the long-term.

- Involves risk, but also higher reward potential.
- Money is invested in assets like stocks, bonds, and mutual funds and are generally less accessible.
- Best for goals that are 3-5 years or longer in the future.

2 Why do people invest?

Investing supports long term goals and helps your money grow faster than keeping it in cash or savings accounts alone. It can help you:

- Build wealth over time
- Beat inflation
- Create passive income

Understanding Risk and Investing

There is always a chance that you could lose money or not earn what you expect when you invest. One reason for this is that the market where your money is usually invested has "good and bad" days. Some days money is made, and other days money is lost. In the market this is called volatility.

Ways to Manage Risk

You can't avoid risk, but you can manage it by:

- Investing for the long term.
- Reviewing your investments regularly.
- Matching investments to your comfort level (risk tolerance).

3 Compound Return

Compounding is what makes investing a powerful financial tool for building wealth. Compounding means you earn returns on the money you invest, and then those earnings generate even more growth over time. This creates a "snowball effect." The longer your money stays invested, the more powerful compounding becomes.

Three Key Factors of Compounding

- **Rate of return** - How fast your money grows
- **Time** - How long your money stays invested
- **Taxes** - When and how your investment is taxed

4 Common Types of Investments

- **Stocks** - Buying a piece of ownership in a company (higher potential growth, higher risk)
- **Bonds** - Loaning money to a company or government (typically lower risk, more predictable returns)
- **Mutual Funds** - Investment in a mix of stocks and bonds that is professionally managed
- **Exchange-traded funds (ETFs)** - Collection of investments that are traded like stock, but with lower costs

Diversification & Asset Allocation

These are important components to think about when looking at investments.

Diversification is spreading your money across different companies and industries, which helps reduce the impact if one investment performs poorly. Asset allocation is how you split your money among stocks, bonds, and other investments.

5 Common Investment Accounts

- **Retirement Accounts** - 401(k) and 403(b), which often include employer match, and Individual Retirement Account (IRA)
- **Brokerage Accounts** - For general investing.
- **Education Accounts** - 529 Plan, Coverdell Education Savings Account
- **Health Related Investment Accounts** - Health Savings Account (HSA), Flexible Spending Account (FSA)
- **Custodial Accounts** - For the benefit of a minor, managed by an adult.
- **Fees, Taxes, and Why They Matter** - It's important to understand any fees and tax implications as they can make a big difference in your returns over time.
  - Fees (also known as expense ratios, or the annual fees charged to cover management costs)
  - Taxes (when and how your earnings are taxed)

6 Wealth Advisors

A licensed advisor is qualified to meet with you, explain their services, and show how they can help. A fiduciary is an advisor legally required to act in your best interest. Always ask how advisors are paid, check their credentials, and confirm they are fiduciaries.

Fiduciary advisors can help you:

- Clarify goals
- Choose investments
- Create a long-term plan

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