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10 FINANCIAL TERMS EVERY INVESTOR SHOULD KNOW

Investing money can be intimidating. While there's stress that comes with taking risks, understanding the investment jargon alone can cause angst. Financial buzzwords may seem like a language barrier, but like anything, once you become familiar with it, you realize there is no reason to be intimidated. This is an introduction to some of the more common investing terms that you may encounter and a brief definition of each:

Asset allocation: This simply means your investment strategy. Asset allocation is strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance, and investment horizon. The three main asset classes - equities, fixed-income, and cash and equivalents - have different levels of risk and return, so each will behave differently over time.

Bonds: When you invest in a bond, you are essentially loaning money to a company, government or other entity. Typically, the bond issuer promises to repay the entire principal loan amount on a future day, known as the maturity date, and pay interest income in the meantime based upon a coupon rate.

Stocks / Equities: A stock represents ownership in a company. Companies divide their ownership stakes into shares, and the amount of shares you purchase indicates your level of ownership in the company. Generally, the better the company performs, the more your share of stock is worth. If the company doesn't do so well, your stock may be worth less or lose value completely.

Mutual fund: A mutual fund is a pooled portfolio that combines the money from a large group of investors to buy assets like stocks, bonds, and other investments. A mutual fund may hold hundreds of stocks, with the purpose of spreading the risk. In most cases, money managers make buy and sell decisions for mutual funds.

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Expense ratio: It costs money to run mutual funds, so investors can expect to pay an annual fee, expressed as the expense ratio. Generally, a fund's expense ratio is the percentage of money that goes to the managers of the mutual fund you're investing in. The expense ratio also covers other fund expenses, such as administrative fees, marketing expenses, and record-keeping fees.

Index funds: This is a popular type of mutual fund that allows an individual to "invest" in an index, such as the S&P 500. If you really want to understand index funds, you first need to understand indexes, which are essentially collections of stocks that represent a slice of the economy. By tracking the performance of a group of stocks, indexes give investors a sense of how the stock or bond market, or a portion of it, is doing. And by investing in an index fund, you are essentially betting on the success of the basket of companies it contains. As a result, they usually have low expense ratios, making them cost-effective investments.

Target-date funds: Often found in qualified retirement plans, target-date funds are designed to serve as all-in-one portfolios that are tailored to your expected retirement date. So if you have about 30 years until retirement, you might invest in a 2050 target-date fund. In the beginning, your investments will be riskier and more heavily weighted toward stocks, then as you get closer to 2050, the investments will become increasingly more conservative and will shift to include more bonds.

Bull / Bear Market : Bull Market refers to a period of several months or more when most stock prices are rising. Bear Market refers to a period of several months or more when most stock prices are falling.

Price-to-earnings ratio: This measures how much money you pay for each dollar of the company's earnings. In other words, if a company reports a profit of $3 per share, and the stock is selling for $30 per share, the P/E ratio is 10 because you are paying ten-times earnings ($30 per share divided by $3 per share earnings = 10 P/E).

Volatility: Volatility refers to the amount and frequency to which an investment fluctuates in price / value. Market volatility is a term used to describe the daily fluctuations, large and small, of the stock market.

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