

The Smart Money Game Glossary

Annual Percentage Yield (APY)

APY is the amount of interest you will earn on a yearly basis expressed as a percentage. The APY includes the effect of compounding. When comparing different accounts, you should compare the APYs of the savings products, not the interest rates. The higher the APY, the higher the interest you will receive.

Bonds

When you purchase a bond, you are essentially loaning money to a corporation or to the government for a certain period of time, called a term. The bond certificate promises the corporation or government will repay you on a specific date with a fixed rate of interest.

Certificates of Deposit (CDs)

CDs are accounts where you leave your money for a set period of time, such as six months, one, two, or five years, called a term. You usually earn a higher rate of interest than in a regular savings account. The longer you promise to keep your money in a CD, the higher the interest rate. Be sure to think about your cash needs before opening a CD because you will pay a penalty if you withdraw your money early.

Club Account

A club account is a type of savings account you “join” to save money for a special reason, such as holidays or family vacations. Club accounts usually require you to make regular deposits.

Diversification

Diversification means you spread the risk of loss in a variety of savings and investment options. It is the concept of “don’t put all your eggs in one basket.”

401(k) and 403(b) Retirement Plans

401(k) plans are retirement plans that some private corporations offer their employees. A 403(b) plan is similar to a 401(k), but is offered to employees of some nonprofit organizations.

In both types of plans, you choose to deduct part of your paycheck and place it into the investment strategy you design. The plans allow you to choose different types of investments, depending on how much risk you want to take. The money you place into the account lowers your taxable income. The employer usually matches a portion of your contribution, sometimes up to 50 percent. The funds grow tax-free until the money is withdrawn during retirement.

Equity

When referring to a home, equity is the difference between how much the house is worth and how much you owe on the house.

Investment

A savings option purchased for future income or financial benefit.

Individual Retirement Account (IRA)

An IRA is a retirement account that lets you save and invest money tax-free until you withdraw it when you retire. You can contribute up to \$2,000 a year. There are different types of IRAs including traditional and Roth IRAs.

Liquidity

Liquidity refers to the ease with which an asset (a thing of value) can be turned into cash without losing its value. For example, cash is the most liquid; a certificate of deposit (CD) may be liquidated, but you pay an early withdrawal penalty; a house might be your least liquid asset because it takes time to sell.

Money Market Accounts

A money market account is one that usually pays a higher rate of interest than a regular savings account. Money market accounts usually require a higher minimum balance to earn interest, but they also pay higher rates for higher balances.

Mutual Funds

A mutual fund is a professionally managed collection of money from a group of investors. A mutual fund manager invests your money in some combination of various stocks, bonds, and other products. The fund manager determines the best time to buy and sell the products in the fund. By combining your resources with other investors in a mutual fund, you can diversify even a small investment, which should reduce risk.

Passbook Savings Accounts

Passbook savings are similar to statement savings accounts. The difference is the record keeping. Instead of receiving a quarterly statement, all transactions are recorded in a passbook. You have to take your passbook to the bank when making transactions. The teller will update your account information when you go to the bank.

Risk versus Return

This means that the more risk you take in your investment, the higher the expected return on that investment. However, there is also a higher risk that you might lose the entire amount you invested.

Statement Savings Account

A statement savings account is an account that earns interest. If you have a statement savings account, you will usually receive a quarterly statement that lists all of your transactions (withdrawals, deposits, fees, and interest earned).

Stocks

When you buy stocks (shares), you become part owner of the company. If the company does well, you might receive periodic dividends. Dividends are part of a company's profits it gives back to you when you own stock in the company. If the company does poorly, you might lose your money.

U.S. Savings Bonds

Savings bonds are one type of Treasury securities. They are a long-term investment option backed by the full faith and credit of the U.S. government. Purchasing these bonds is an easy way to save small amounts of money and are often purchased for a child's education; however, they may be used for any purpose. Savings bonds can be purchased at a financial institution for as little as \$25 or through payroll deduction.

U.S. Treasury Securities

U.S. Treasury securities are debt instruments. When you purchase a Treasury security, you are loaning money to the government. Treasury securities are backed by the full faith and credit of the U.S. government, which means the government guarantees interest and principal payments will be paid on time. Treasury securities include:

- Savings bonds, which can earn interest for up to 30 years, but can be cashed after 6 months.
- Treasury bills, which mature in one year or less from their issue date.
- Treasury notes, which mature in more than a year, but not more than 10 years from the issue date.
- Treasury bonds, which mature in more than 10 years from the issue date.

Treasury bills, notes, and bonds are transferable, which means you can buy or sell them in the securities market. You can buy Treasury bills, notes, and bonds for a minimum of \$1,000.