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## Dictionary of Saving and Investing Terms

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**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.

**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. The longer you promise to keep your money in a CD, the higher the interest rate.

**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.

**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 plans money is taken directly from your paycheck and placed in different investment options that you choose. The funds grow tax-free until the money is withdrawn during retirement.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.

**Liquidity:** Liquidity refers to the ease with which an asset can be turned into cash without losing its value.

**Money Market Accounts:** A money market account is one that usually pays a higher rate of interest than a regular savings account. They usually require a higher minimum balance to earn interest.

**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 investments. By combining your resources with other investors in a mutual fund, you can diversify even a small investment.

**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.

**Risk vs. 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.

**Stocks:** When you buy stocks or shares, you become a part owner of a company. If the company does well, you might receive periodic dividends. Dividends are part of a company's profits it gives back to you as a shareholder. If the company does poorly, you might lose your money.

**U.S. Savings Bonds:** Savings bonds are one type of treasury securities. They are long-term investment options backed by the full faith and credit of the U.S. Government. They are often purchased for a child's future education.

**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 include: Savings bonds, Treasury bills, Treasury notes, and Treasury bonds.