A Glossary of Basic Investment Terms

My Comments: Financial literacy has to start somewhere.

If you are planning for an eventual retirement and want to grow your money between now and then, a degree of financial literacy is mandatory. Start here…

by Emma Johnson \ June 1, 2018

If you've ever scanned the business headlines, you're probably familiar with terms like the S&P 500, ETFs and bull markets. But do you actually know what they mean, or how they compare to related investing lingo like the Dow, mutual funds and bear markets?

If you said no, you've got plenty of company. In one recent Bankrate survey, nearly half of those 25 and younger said a lack of knowledge about investing kept them from putting money in the market. And in a recent Harris Poll, 69% of adults 35 and younger said they found investing, and the accompanying jargon, complex and confusing.

So, we've rounded up 19 common investing terms you've probably heard, but may not really understand, and given you the lowdown on all of them.
Bear vs. bull market

A bull market is when everything is just wonderful: Markets are on the rise and investors are confident that strong results will continue. Though the market can have "bullish" days, technically, a bull market is when the market increases in value at least 20%. Hint: Bull market means "up" because real-life bulls attack by driving their horns up in the air.

A bear market is the inverse: The market—and investor confidence—is declining. The job and housing markets may also be down. The upside, however, is that bear markets are a bonanza for savvy investors, as prices have recovered historically (and then some) after every bear market. You can remember that it means "down" because bears attack their victims by swiping their paws downward.

Stock vs. bond
Stocks, or shares of a publicly traded company, are a fundamental element of most investment portfolios. The value goes up and down with the company's

financial well-being—and with shareholders' perception of that company's well-being. They're risky, but potentially rewarding.

Bonds are essentially loans that you give to the issuer, which can be a corporation, municipality or the federal government. When you buy, you do so with the expectation of getting paid back, with interest, in a certain amount of time—criteria that render bonds a low-risk, if boring investment.

ETFs vs. mutual funds
An ETF is a stock, bond or commodity fund that usually tracks an index. Because they're more passively run, they tend to charge lower fees. They're also traded like common stocks at varying prices throughout the day.
A mutual fund—which pools your money with other investors to purchase stocks, bonds and other assets—is professionally managed and therefore tends to come with higher fees. Shares are priced once based on their net asset value (NAV) at the end of the trading day.

Money market vs. savings account
A money market account (MMA) is a bank account that typically pays a higher interest rate than checking and many savings accounts (for which the average interest rate is currently less than .50%). MMAs have check-writing abilities, as well as ATM or debit cards; and, like savings accounts, federal regulations restrict you to no more than six withdrawals a month. There's usually a higher minimum balance requirement for MMAs compared with savings accounts.

Passive vs. active funds
Calling an investment fund "passive" or "active" refers to how it's managed. Passive funds are run with a hands-off approach, and therefore generally come with lower fees. Index funds, for example, are set up to move in tandem with associated indexes, like the S&P 500, and mirror their returns. Active funds, on the other hand, are handled by investment managers, who attempt to beat their benchmarks by making a wider variety of investments. You'll pay more in fees in exchange for their expertise.

Growth vs. value stocks
Growth or value? Both, if you want a balanced investment portfolio.
Growth stocks have a recent history of above-average performance. While all signs suggest these investments (think: newer companies, especially ones in the tech sector) will continue growing, they're risky because you're solely relying on the company's success for your investment to appreciate.
Value stocks are investments that trade at a lower price than their fundamentals, like high dividend payments and company earnings, might

indicate. That effectively puts these stocks in the bargain bin, and savvy investors may be able to capitalize.

Investing vs. trading

Both investing and trading are means to the same goal: making money from the financial markets. Yet they represent different functions.

Investing typically refers to "buy and hold," meaning investors create a balanced portfolio of stocks and bonds and hold on to them for the long-term—gaining from the power of compound interest and weathering the natural up-and-down market cycles.

Trading, by contrast, is a much more active effort to profit, requiring a trader to frequently buy and sell investments with the aim of beating out buy-and-hold investors. It also comes with more risks.

401(k) vs. IRA

A 401(k) is an employer-sponsored retirement savings account, where you can contribute a maximum of $18,000 pretax ($24,000 if you're over 50) in 2016. As an incentive to save, many employers match a portion of your contributions. (Free money!)

An IRA, which stands for individual retirement account, is accessible to anyone. This year, you can contribute up to $5,500 pretax (plus another $1,000 if you're 50 or older) in a traditional IRA.

With a few notable exceptions, you'll pay a 10% penalty for withdrawing funds from either of these retirement accounts before age 59½.

Roth IRAs are a bit different. Provided you don't earn more than the income limits, you can contribute up to $5,500 ($1,000 more if you're 50 or older) post tax dollars, but it grows tax-free. You're allowed to withdraw funds you contribute—but not any gains—anytime without penalty.

S&P 500 vs. Dow vs. Nasdaq

The Dow Jones Industrial Average, DJIA, -0.43% a.k.a "the Dow," is an index that tracks 30 large, established, U.S.-based companies across all sectors. Today, these include companies like 3M, MMM, +0.31% Coca-Cola, COKE, +0.76% Apple, AAPL, -6.63% Nike NKE, -0.27% and Walmart. WMT, +0.76% As such, the state of the Dow often serves as a general pulse of the economy in the minds of the media, investors and general public.

When people refer to “The Nasdaq,” NDAQ, +0.00%   they’re typically talking about the Nasdaq Composite—a price-weighted index of more than 3,000 companies listed on the exchange of the same name. Because it’s so much bigger than the Dow, a glance at the day’s Nasdaq can give a broader view of the economy, though it’s skewed toward the tech sector.

The S&P 500 refers to the Standard & Poor’s 500 index, which includes, yes, 500 primarily large-cap stocks selected by a team of analysts and economists at Standard & Poor’s. It’s often used as a benchmark for the stock market because it includes a significant portion of the market’s total value.

https://www.marketwatch.com/story/confused-about-these-investing-terms-youre-not-alone-2018-05-10