"This book is equally valuable to the experienced and the novice reader." - Martin Steiner

# FINANCIAL TERMS DICTIONARY

## 100 MOST POPULAR TERMS EXPLAINED

THOMAS HEROLD

Best selling author of "Building Wealth with Silver"

# FINANCIAL TERMS DICTIONARY

## STANDARD EDITION

The 100 Most Popular Financial Terms Explained

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Financial Terms Dictionary

## About this Edition

This standard edition represents a compilation of the most popular 100 financial terms. I have studied hundreds of financial websites and articles and compiled a list of all terms. After deleting the duplicates around 100 terms were left over. Then I put them in alphabetical order and used the description of these terms from the online Financial Terms Dictionary to publish this book.

If a description contains another financial key phrase and it is part of this book, then it's automatically linked to it. Otherwise it links to the online description.

This collection may not contain terms that you would consider popular. If you want them to be included please write me a short message and I will consider it for the next version. If you find any errors, misspellings, wrong or outdated information please let me know.

I hope you enjoy this standard edition of the Financial Terms Dictionary, and the quality of your financial decision will improve upon better understanding of these terms.

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## About the Author

Thomas Herold is a successful entrepreneur and personal development coach. After a career with one of the largest electronic companies in the world, he realised that a regular job would never fully satisfy his need for connection on a deep level. The only way to live his full potential was to start building his own business and find new ways to be in service to others.

For over 25 years he has helped many people – including himself – build their dream businesses. Toward that goal, he focuses on education – simplified and enhanced by modern technology. He is the author of 18 books (click here for a list of books at amazon) with over 200,000 copies distributed worldwide.

Other than his passion for creating businesses, Thomas has spent over 20 years in the self-development field. Placing emphasis on the exploration of consciousness and building practical applications that allow people to express their purpose and passion in life, Thomas's work in this area has provided ample and happy proof that this approach works.

He believes that every person has at least one gift and that, when this gift is developed and nourished, it will serve as a fountainhead of personal happiness and help contribute to a better, more sustainable world.

For the past twelve years Thomas has studied the monetary system and has experienced some profound insights on how money and wealth are related.

He has recently committed to sharing this financial knowledge in a new venture – the Financial Terms Dictionary, a hub of financial term descriptions designed to help people get started on their own money makeover and get a financial education in the process.

Thomas's ultimate vision for the Financial Terms Dictionary is to empower people to adopt a wealthy mindset and to create abundance for themselves and others. His ability to explain complex information in simple terms makes him an outstanding teacher and coach.

For more information please visit: financial-dictionary.info

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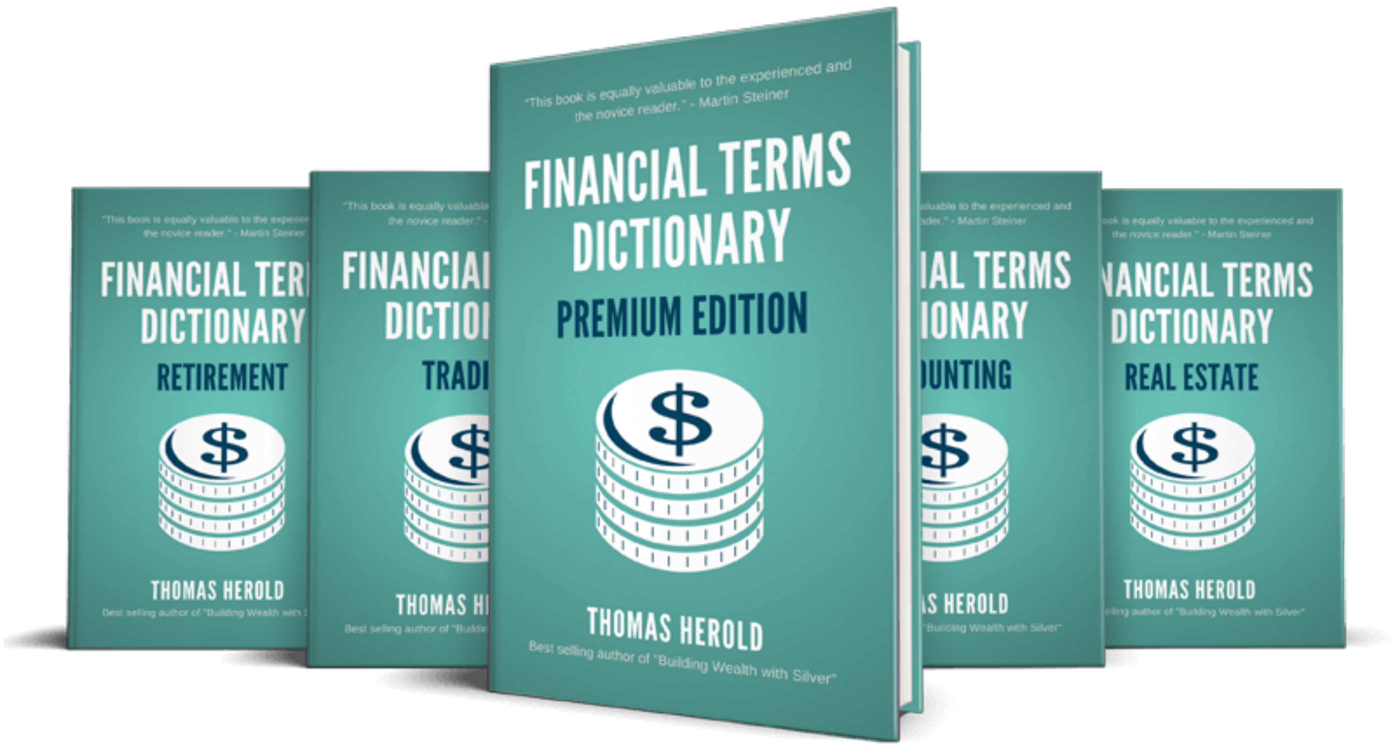


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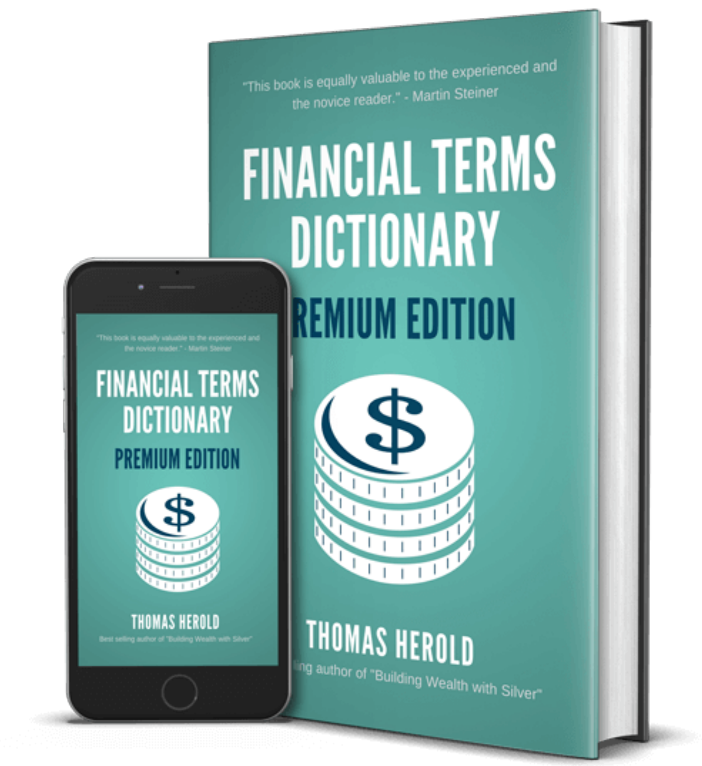


**Included Financial Categories**

Accounting, Banking, Corporate Finance, Economics, Investments, Laws & Regulations, Real Estate, Retirement, Trading, Acronyms & Abbreviations.

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## What is a 1035 Exchange?

A 1035 Exchange is an exchange process that permits individuals to replace their existing life insurance policy or annuity contract with a similar new contract or policy. Thanks to a provision in the tax code, this can be affected without suffering any negative tax repercussions as part of the trade off exchange. The Internal Revenue Service permits those who hold these kinds of contracts to update their old policies and annuities with those more modern ones that include better benefits, superior investment choices, and lower fees.

The 1035 Exchange is also called a Section 1035 Exchange after the tax code section for which it is named. It literally permits policyholders to transfer their funds out of an endowment, life insurance policy, or annuity into a newer similar vehicle. The way it works is to allow holders to defer their gains. When all of the received proceeds of the original contract become transferred to the newer contract (as there are simultaneously not any loans outstanding on the prior policy), no tax becomes due at point of exchange. Should these proceeds be received and not exchanged according to the 1035 Exchange rules, then all gains obtained out of the first contract become taxable like ordinary income, and not as capital gains.

Gains do not refer to all money received. Instead they are the result of subtracting the gross cash value from the premium tax basis. This basis refers to the original dollar amount put into the contract itself minus the premiums paid for extra benefits or any distributions which qualify as tax free.

In order for this 1035 Exchange to make sense, it has to benefit the policy holder either economically or personally. It is also important for holders to never terminate their in place insurance policies until the newer policy has been fully issued and becomes effective. The holders need to contemplate any health changes since the original policy started. It might cost extra premiums in order for the newer policy to cover them. They might even receive a denial of coverage if the changes in health are too drastic. Similarly, if the holder is well advanced in age, the premium rate may increase.

Some policies also have surrender charges that must be considered. There may be different guarantees, provisions, and interest crediting in the newer policy as well. Most importantly, benefits of the newer policy have to be carefully reviewed. These may change negatively in some cases.

There are rare cases where simply surrendering an existing insurance policy or annuity is more advantageous than engaging in a 1035 Exchange. These primarily occur when the existing contract offers no gain. Sometimes outstanding loans on the initial policy also decrease the benefits of an exchange. In other cases, the original policy may have a "market rate adjustment" type of provision. This would cause the exchange proceeds to be less than those offered in a surrender.

It is usually the case that such a 1035 Exchange will be slower and more involved than simply surrendering the holder's original policy. It can even require a few months much of the time. This is why the conditions that affect the practicality of the exchange include financial conditions of the initial policy carrier, the country's economic climate at the time, and the intentions of the policy holder.

The IRS only deems certain exchanges to be considered "like kind" and allowable. These include life insurance for life insurance, life insurance for non-qualified annuity, life insurance for endowment, endowment for non-qualified annuity, endowment for endowment, and non-qualified annuity for non-qualified annuity. They also will allow multiple numbers of existing contracts to be changed into a single newer contract. It does not work in reverse. A single existing contract can not be exchanged in for multiple newer contracts, per the IRS rules and regulations.

## What is a 401(k) Plan?

401k retirement plans are specific kinds of accounts that the government established to help individuals to plan and save for retirement. Individuals fund these accounts using pre-taxed dollars from payrolls.

People invest money in these accounts into several different types of investments. These include stocks, mutual funds, and bonds. Gains earned in the account include dividends, capital gains, and interest. These gains do not get taxed until the owners withdraw the funds.

The name of the 401k comes from the portion of Internal Revenue Service Code which pertains to it. This vehicle for saving for retirement began in 1981 when an act of Congress created it.

There are a number of benefits to 401k accounts that recommend them to individuals. Five of these include tax benefits, flexibility of investments, employer matching programs, loan abilities, and portability.

The advantageous tax benefits are one of the main reasons that 401k plans are so popular. Money contributed does not become taxable until individuals withdraw it. Similarly gains accrued in the account are also tax-deferred. Over several decades, this makes a significant difference in the amount of money that people can save.

Investments that the IRS allows in these 401k retirement plans provide some flexibility. Those who do not want to take on much risk can choose to put more of their funds into shorter term bonds which are lower risk. Others who are more concerned with developing wealth over the long term can put a larger percentage of the money into equities like stocks and mutual funds. Company stock can also be acquired at a discount with many employers.

A tremendous edge that these 401k retirement plans provide their owners is the employer match feature. A great number of employers match their employees' contributions as a company benefit. This is done on a percentage basis. Newer employees may receive a 25% of contributions match, while employees who have been at a company longer may receive 50% or even 100% matches. Matches are only made on a certain maximum percentage of income that an employee contributes. This is the closest thing to free money a person can obtain at work.

Loan abilities from 401k retirements are a helpful feature for individuals in times of need. When people find themselves needing money with no other place to turn, the government permits them to obtain 401k loans from the plan. The plan administrator has to approve it as well. Loans from 401k plans are not taxed or penalized so long as they are repaid according to the repayment schedule and terms.

There are no restrictions on the uses of such loans. Some employers have minimum amounts that can be borrowed of $1,000 and a maximum number of loans an employee can take at a time. Sometimes employees will have to get their spouse's written consent before the company will issue the loan.

There are limits on the amount of a balance that can be borrowed. This is typically as much as 50% of the vested balance to no more than $50,000. When an employer will not allow an employee to take out a loan against the plan, hardship withdrawals can be requested. These are taxed and also penalized at a 10% rate.

Portability means the 401k retirement plan can go with the employees as they change jobs. Investors have four different choices for their 401k plan when they move to another company. They can choose to leave the plan with the old employer and pay any administration fees for the account staying there. They might instead do a rollover of their account to the new employer's 401k retirement plan.

A third option is to convert the 401k retirement plan into an Individual Retirement Account. Finally they might decide to close the 401k and receive the proceeds in cash. This would mean all money would be subject to taxes and the 10% penalty fee.

## What is a 403(b) Plan?

403(b) plans were created for employees of schools, churches, and tax exempt organizations. Individuals who are eligible may establish and maintain their own 403(b) accounts. Their employers can and often do make contributions to the employees' accounts. Individuals are able to open one of three different types of 403(b)s.

The first is an annuity plan that an insurance company establishes. These types of plans are sometimes called TDAs tax deferred annuities or TSAs tax sheltered annuities. A second plan type is an account which a retirement custodian offers and manages. With these 403(b)s, the account holders may only choose from mutual funds and regulated investment companies that the custodian allows. The final type is a retirement income account. These accounts accept a combination of mutual funds or annuities for the investment choices.

Employers have some control over these accounts. They are able to decide which financial institution will hold the employees' 403(b) accounts. This determines the kind of plan that the employees are able to set up and fund. Employers receive several advantages from choosing to offer a 403(b).

The benefits which they get to offer their employees are worthwhile. This helps to ensure valuable employees stay with the organization. They also enjoy sharing the funding costs between themselves and their employees. Employers may also choose for the 403(b) to only accept employee contributions if they do not wish to participate financially in the account.

Employees also experience several benefits from these types of retirement vehicles. They may contribute tax deferred dollars from their income. They may also contribute taxed dollars to the accounts. In these Roth 403(b)s, all of their earnings accrue tax free for the entire life of the account. Deferred tax payments until retirement typically allow for the employees to pay fewer taxes as they are often in a more advantageous tax bracket at retirement point. Employees may also obtain loans from their 403(b) accounts as they need them.

A variety of non profit organizations may choose to establish such a 403(b) plan for their employees. This includes any 501(c)(3) tax exempt organization, co-op hospital service organizations, public school systems, ministers at churches, Native American public school systems, and (USUHS) Uniformed Services for the University of the Health Sciences.

Such 403(b) plans can obtain a variety of contribution types. Employees may have elective deferral contributions taken out of each paycheck. These are taken out in a pretax dollars arrangement. Employees also have the ability to contribute taxed dollars to the accounts. They have these deducted from their payrolls as well.

Employers may also choose to make contributions which are either discretionary or fixed amounts as they desire. Employees and employers may make contributions to Roth 403(b) accounts. These 403(b) accounts may also receive any combination of the previously mentioned contribution types, which demonstrates their flexibility.

Employees have generous annual contribution limits with these plans. In 2016, they may contribute up to $18,000 (or $24,000 if they are over 50 years old and catching up on contributions for retirement). For 2016, employers may also deposit as much as $53,000 (up to 100% of the employee compensation) as an annual contribution.

Regarding distributions, the rules are comparable to the other types of retirement savings vehicles. Distributions of deferred taxed dollars become taxable like regular income when the employee receives them. If these are taken before the employee turns 59 ½, then the withdrawn dollars are assessed the standard 10% penalty for early withdrawals. There are some exceptions to this penalty for which an employee may qualify. One of these exceptions is if the employee terminates the job even before reaching the age of retirement.

## What is a 457(b) Plan?

A 457(b) plan is a retirement savings vehicle. It derives its name from the Internal Revenue Service code that regulates the plans in its section 457(b). Many times this retirement account name is simply shortened to 457 Plan.

There are many similarities between these 457 Plans and tax deferred, employer provided retirement vehicles including 403(b) and 401(k) plans. All of these retirement vehicles are defined contribution plans. People who participate in these 457 Plans set up payroll deductions so that a portion of their income is put into this investment account that is tax free.

The government established these 457 Plans in 1978. They were set up to be another defined contribution account that would help two particular kinds of employers. They are intended for both government employers and non government employers which are tax exempt as with hospitals and charities.

Despite this fact, a few different rules apply for the government plans as opposed to the non government plans. The principle difference revolves around funding. Government 457 Plans have to be funded by the employer in question. The non government 457 Plans are practically all funded by employees. The vast majority of 457(b) plans that private not for profit companies use they only offer to well paid employees usually in upper level management.

With 457 Plans, there must be both a plan administrator and a plan provider. Each plan provides its own limited choices for investment options which are particular to the plan.

Rollover rules are different for these 457 Plans as well. The non government versions can not be transferred over to qualified retirement plans which include IRA and 401(k)s. Instead they can only be rolled over to other tax exempt 457 Plans. The rules are different with government sponsored employer plans. These may be transferred into another employer's 401(k), 403(b), or 457(b) plan as well as to an IRA account. The new plan must permit account holders to make such transfers.

Withdrawals are easier for government sponsored plans as well. Individuals may do early withdrawals before they reach the 59 ½ year old age of retirement and not have to suffer the 10% early withdrawal penalty. The full withdrawn amount would be taxed as regular income. Employees who are switching jobs may also keep the money where it is assuming the plan permits this.

Rollover rules on 457(b) plans are pretty standard. If funds are dispersed to the account owner, he or she has a maximum of 60 days to finish the rollover process. Beyond this time, the IRS considers this money to have been distributed and to be taxable. Owners are also restricted to doing a single rollover in a calendar year with these retirement vehicles.

The date on which the owners receive their 457 Plan distribution is when the one year rule commences. While the money is in the 60 day process of being rolled over, it may not be invested. Direct rollovers avoid the dangers of the 60 day rule. An account holder never obtains a distribution check (as with indirect rollovers) in this type of transfer. Instead, the plan provider will directly transfer all money to the new IRA or retirement plan.

Investment choices in 457 Plans are more limited than with Self Directed IRAs or Solo 401(k) plans. The plan provider will restrict choices to ones that fit their plan. If they permit them, owners may invest their funds in individual bonds and stocks, fixed or indexed annuities, exchange traded funds, and mutual funds.

Gold bullion can not be purchased by these plans. Paper gold investments such as stocks of gold mining firms, mutual funds containing gold mining companies, or gold ETFs like GLD and mining ETFs may be purchased instead.

## What is Amortization?

The word amortization is one that is commonly utilized by financial officers of corporations and accountants. They utilize it when they are working with time concepts and how they relate to financial statements of accounts. You typically hear this word employed when you are figuring up loan calculations, or when you are determining interest payments.

The concept of amortization possesses a lengthy history and it is currently employed in numerous different segments of finance. The word itself descends from Middle English. Here amortisen meant to "alienate" or "kill" something. This derivation itself comes from the Latin admortire that signified "plus death." It is loosely related to the derivation of the word mortgage, as well.

This accounting principle is much like depreciation that diminishes a liability or asset's value over a given period of time through payments. It covers the practical life span of a tangible asset. With liabilities, it includes a pre-set amount of time over which money is paid back. Like this, a certain amount of money is set aside for the loan repayment over its lifetime.

Even though depreciation is similar to amortization, they are not the same concepts. The main difference between them lies in what they cover. While depreciation is most commonly employed to describe physical assets like property, vehicles, or buildings, amortization instead covers intangibles such as product development, copyrights, or patents. Where liabilities are concerned, it relates to income in the future that will be paid out over a given amount of time. Depreciation is instead a lost income over a time period.

Several different kinds of amortization are presently in use. This varies with the accounting method that is practiced. Business amortization deals with borrowed funds and loans and the paying of particular amounts in different time frames. When used as amortization analysis, this is the means of cost execution analysis for a given group of operations. Where tax law is concerned, amortization pertains to the interest amount that is paid over a given span of time relevant to payments and tax rates.

Amortization can also be employed with regards to zoning rules and regulations, since it conveys a property owner's time for relocating as a result of zoning guidelines and pre-existing use. Another variation is used as negative amortization. This pertains specifically to increasing loan amounts that result from total interest due not being paid up at the appropriate time.

Amortization can also be employed over a widely ranging time frame. It could cover only a year or extend to as many as forty years. This depends on the kind of loan or asset utilized. Some examples include building loans that span over as many as forty years and car loans that commonly span over merely four to five years. Asset examples would be patent right expenses that commonly are spread out over seventeen years.

## What is Annuity?

An annuity is an investment contract that an insurance company sells to individuals. This agreement promises that it will make a regular series and dollar amount of payments to the buyer. This can be either for the rest of his or her life or for a set amount of time. The payments out are typically made after the individual retires.

Annuities have a long past that began in the Roman Empire. Roman citizens could purchase annual contracts from the Roman Emperor. The empire would then make annual payments to the citizens for the remainder of their lives. European governments revived the sale of annuities in the 1600s. They sold lump sum contracts to investors to help pay for expensive wars.

These investors also received a number of prearranged payments back from the governments that sold them. Annuities in America started as a way to support church ministries. 1912 saw the first annuity contract that was offered to the general American public by a Pennsylvania life insurance firm. These contracts continued to evolve and grow throughout the 1950s until they became commonplace in the 1980s.

Annuities offer certain tax advantages to their owners. Annuity holders only pay taxes on their contributions when they begin to take withdrawals or distributions from the funds. Every annuity contract is tax deferred. This signifies that investment earnings in such annuity accounts continue to grow tax deferred until the owners withdraw them. This also means that annuity earnings may not be taken out without paying a penalty until the owner reaches the set age of 59 1/2.

There are two general types of annuities contracts. Fixed annuities pledge to provide a guaranteed payment amount. Variable annuities do not make this guarantee. They do offer the possibility of earning higher returns in the variable annuity. Experts consider either type of annuity to be a safe but low yielding investment vehicle.

Annuities have a specific purpose. Companies developed them in order to insure the owner against the possibility of living longer than his or her retirement income. This is known as superannuation. The idea behind annuities is to help offset this risk of outliving retirement funds.

Annuities are popular with conservative investors because they continue to make payments until the holder dies. Even when the payments surpass the amount that remains in the annuity, the payments continue to be made. They are always counted as retirement savings vehicles.

The two phases of annuities are the accumulation and the distribution periods. During the accumulation phase, owners do one of two things. They can make a large lump sum payment into the annuity. They may also make regular payments into the contract. If the owner dies in this accumulation period, the heirs are given the amount of money that the owner paid into the annuity contract. Taxes owed would include estate taxes and regular income taxes.

When the owner reaches the retirement age, annuitization happens and distribution begins. At this point, the accumulated amounts convert into annuity units. The owner is changing the lump sum amount in the contract for the guaranteed series of payments. At this point he or she no longer has access to the large single amount in the account. The guaranteed income for life begins in this distribution phase.

Owners can receive their benefits as one of several options. Straight Life contracts pay calculated sums that are only based on the owner's life expectancy. These payments stop when the owner dies even if a lesser amount than the contract value is distributed. Life with Period Certain option makes payments for a minimum amount of time up to the death of the owner. Joint Life option pays benefits until both owners have died. Joint Life with Period Certain option gives payments for a guaranteed minimum amount of time until both owners have died.

## What is the Annual Percentage Rate (APR)?

The annual percentage rate, or APR, is the actual interest rate that a loan charges each year. This single percentage number is truthfully used to represent the literal annual expense of using money over the life span of a given loan. Annual percentage rate not only covers interest charged, but can also be comprised of extra costs or fees that are attached to a given loan transaction.

Credit cards and loans commonly offer differing explanations for transaction fees, the structure of their interest rates, and any late fees that are assessed. The annual percentage rate provides an easy to understand formula for expressing to borrowers the real and actual percentage number of fees and interest so that they can measure these up against the rates that other possible lenders will charge them.

Annual percentage rate can include many different elements besides interest. With a nominal APR, it simply involves the rate of a given payment period multiplied out to the exact numbers of payment periods existing in a year. The effective APR is often referred to as the mathematically true rate of interest for a given year. Effective APR's are commonly the fees charged plus the rate of compound interest.

On a home mortgage, effective annual percentage rates could factor in Private Mortgage Insurance, discount points, and even processing costs. Some hidden fees do not make their ways into an effective APR number. Because of this, you should always read the fine print surrounding an APR and the costs associated with a mortgage or loan. As an example of how an effective APR can be deceptive with mortgages, the one time fees that are charged in the front of a mortgage are commonly assumed to be divided over a loan's long repayment period. If you only utilize the loan for a short time frame, then the APR number will be thrown off by this. An effective APR on a mortgage might look lower than it actually is when the loan will be paid off significantly earlier than the term of the loan.

The government created the concept of annual percentage rate to stop loan companies and credit cards issuers from deceiving consumers with fancy expressions of interest charges and fees. The law requires that all loan issuers and credit card companies have to demonstrate this annual percentage rate to all customers. This is so the consumers will obtain a fair comprehension of the true rates that are associated with their particular transactions. While credit card companies are in fact permitted to promote their monthly basis of interest rates, they still have to clearly show the actual annual percentage rate to their customers in advance of a contract or agreement being signed by the consumer.

Annual percentage rate is sometimes confused with annual percentage yield. This can be vastly different from the APR. Annual percentage yield includes calculations of compounded interest in its numbers.

## What is the Annual Percentage Yield (APY)?

APY describes the amount of compound interest which individuals or businesses will earn in a given year (or longer time period). Investments in money market accounts, savings accounts, and CD Certificates of Deposit all pay out such interest. It is the annual percentage yield that demonstrates precisely the amount in interest individuals will receive. This is helpful for people or businesses trying to ascertain which investments and banks offer superior returns by comparing and contrasting their real yields. In general, higher Annual Percentage Yields are better to have (unless one is comparing interest on credit card debts).

This APY is practical to understand and measure simply because it considers compound interest and the miracle of compounding within any account. Simple interest rates do not do this. Compounding is simply earning interest on interest that has already accrued and been paid. It signifies that individuals are gaining a greater amount in interest than the corresponding interest rate literally indicates.

It is always a good idea to consider a real world example for clarification purposes. If Fred deposits $10,000 into a particular savings account that provides a two percent yearly interest rate, then at the end of that first year Fred will have $10,200. This assumes that the interest is paid one time per year. If the bank were to figure up and pay out the interest on a daily basis, it would increase the amount to $10,202. The extra $2 may seem small, but given a longer time frame of from 10 to 30 years, this amount can add up, particularly if larger deposits are involved.

APY should never be confused with APR. They have some similarities, but APR does not consider compounding. It is once again a simpler means of computing interest. Credit card loans are an area where it is important to understand the differences between annual percentage rate and annual percentage yield. When people carry a balance, they will be paying higher APY's then the APR the firm actually quotes. This is because interest is assessed monthly, which means that interest on the interest will be computed on each following month.

The key to obtaining a better APY on investments and savings accounts lies in getting as frequent a compounding period as possible. Quarterly compounding is better than annually, yet daily is the most superior form of compounding possible. This means that as individuals are looking to increase their APY's personally, it is important to have the money compounding as frequently as they can practically achieve.

When two CD Certificates of Deposit pay out the same rate, it is best to select that one which actually pays out both more frequently and also boasts the greater APY. With CD's, the interest payments become automatically reinvested. More frequent reinvestment is always better.

This will help any individual or business to earn a greater amount of interest on the interest payments already earned and paid out.

Calculating the annual percentage yield is not an easy task. Business calculators as well as computer algorithms mostly do it for people nowadays. The simplest way to find the APY for a given account is to plug in the information including the initial deposit, compounding frequency period, interest rate, and amount of overall time for the period considered. These smart calculators will then tell you both the effective annual percentage yield as well as the ending balance on the hypothetical account at the end of the given time period.

## What is an Adjustable Rate Mortgage (ARM)?

Adjustable Rate Mortgages, also known by their acronym ARM's, are those mortgages whose interest rates change from time to time. These changes commonly occur based on an index. As a result of changing interest rates, payments will rise and fall along with them.

Adjustable Rate Mortgages involve a number of different elements. These include margins, indexes, discounts, negative amortization, caps on payments and rates, recalculating of your loan, and payment options. When considering an adjustable rate mortgage, you should always understand both the most that your monthly payments might go up, as well as your ability to make these higher payments in the future.

Initial payments and rates are important to understand with these ARM's. They stay in effect for only certain time frames that run from merely a month to as long as five years or longer. With some of these ARM's, these initial payments and rates will vary tremendously from those that are in effect later in the life of the loan. Your payments and rates can change significantly even when interest rates remain level. A way to determine how much this will vary on a particular ARM loan is to compare the annual percentage rate and the initial rate. Should this APR prove to be much greater than the initial rate, then likely the payments and rates will similarly turn out to be significantly greater when the loan adjusts.

It is important to understand that the majority of Adjustable Rate Mortgages' monthly payments and interest rates will vary by the month, the quarter, the year, the three year period, and the five year time frame. The time between these changes in rate is referred to as the adjustment period. Loans that feature one year periods are called one year ARM's, as an example.

These Adjustable Rate Mortgages' interest rates are comprised of two portions of index and margin. The index actually follows interest rates themselves. Your payments are impacted by limits on how far the rate can rise or fall. As the index rises, so will your interest rates and payments generally. As the index declines, your monthly payments could similarly fall, assuming that your ARM is one that adjusts down. ARM rates can be based on a number of different indexes, including LIBOR the London Interbank Offered rate, COFI the Cost of Funds Index, and a CMT one year constant maturity Treasury security. Other lenders use their own proprietary model.

Margin proves to be the premium to the rate that a lender itself adds. This is commonly a couple of percentage points that are added directly to the index rate amount. These amounts vary from one lender to the next, and are commonly fixed during the loan term. The fully indexed rate is comprised of index plus margin. When the loan's initial rate turns out to be lower than the fully indexed rate, this is referred to as a discounted index rate. So an index that sat at five percent and had a three percent margin tacked on would be a fully indexed rate of eight percent.

## What are Assets?

Assets are any thing that can be owned by a company or an individual person. These are able to be sold for cash. Commonly, assets produce income or give value to the owner.

In the world of financial accounting, assets prove to be economic resources. They can be physical objects or intangible concepts that can be utilized and owned to create value. Assets are deemed to have real and positive value for their owners. Assets must also be convertible into cash, which itself is furthermore considered to be an asset.

There are several different types of assets as measured by accountants and accounting processes. These might be current assets, longer term assets, intangible assets, or deferred assets. Current assets include cash and other items that are readily and easily able to be sold to raise cash. Longer term assets are those that are held and useful for great periods of time, including such physical items as factory plants, real estate, and equipment. Intangible assets are non physical rights or concepts, like patents, trademarks, goodwill, and copyrights. Finally, deferred assets are those that involve monies spent now for the costs in the future of things like rent, insurance, or interest.

Though tangible, physical assets are not hard to conceptualize, intangible assets are often confusing for people to understand. Even though these are not physical items that may be touched, they still have value that can be controlled and sold to raise cash. Intangible assets include rights and resources which provide a company with a form of marketplace advantage. These can cover many different elements beyond those listed above, such as computer programs, stocks, bonds, and even accounts receivable.

On balance sheets, tangible assets are commonly divided into further categories. These include fixed assets and current assets. Fixed assets are objects that are immobile or not easily transported, such as buildings, office locations, and equipment. Current assets are comprised of inventory that a business holds. Balance sheets of companies keep track of a firm's assets and their value as expressed in monetary terms. These assets are both the cash and other items that the business or person owns.

Assets should never be confused with liabilities. Assets create positive cash flow that represents value or money coming into a business, organization, or individual's accounts. Liabilities are obligations that have to be paid and that create negative cash flow, or take money out of a business, individual, or organization's accounts. As an example of the difference between the two, assets would be houses that are rented out that bring in more rent every month than the expenses, interest, and upkeep of the houses. Liabilities would be homes that have payments that must be paid every month and do not provide any income stream to effectively offset this.

## What is Asset Allocation?

Asset allocation involves diversifying an investor portfolio into a variety of different assets based on the appropriate level of risk. This procedure has investors divide up their investments between varying types of assets. Among these might be stocks, real estate, bonds, and cash.

The goal is to maximize the reward and risk balance using the investors' own goals and scenarios. This has become one of the critical ideas behind money management and financial planning today. There are several different types of asset allocation to consider. These are strategic, tactical, and dynamic.

In strategic asset allocation, the investor sets out target allocations for the desired different classes of assets. When the percentage balance deviates from the original set levels, it will involve the investor rebalancing the overall portfolio. The allocations will be reset to the original ones as they change significantly because of different returns that each class earns.

Strategic asset allocation sets these initial allocations up using a number of different considerations. Among these are the investor objectives, the intended time frame of investing, and the risk tolerance. These allocations can be changed in time as the different variables alter.

A good comparison to this form of allocating is a traditional buy and hold investment strategy. This form of strategic allocating of assets and the tactical allocation approach are both derived from modern portfolio theory. They seek diversification so that they can lower risk and boost the returns on portfolios.

Tactical asset allocating is more active than strategic forms of the discipline. Investors who follow tactical allocating will re-balance the asset percentages in different categories on a more regular basis. They will do this in an effort to benefit from market sectors that are stronger or poised for gains. They might also re-balance in an effort to capture anomalies in market pricing.

Tactical allocating is well suited to professional portfolio managers. They study the markets and look to find extra returns from scenarios that develop. This is still only considered to be a strategy that is moderately active. When the short term gains are attained, these managers go back to the original strategic asset balance of the portfolio.

Investors or managers who look for tactical asset allocators often choose ETF exchange traded funds or index funds for this purpose. The goal of these vehicles concentrates on asset classes rather than individual investments. This reduces the costs of rebalancing. The transaction costs of buying and selling index funds is far less than with many individual stocks or even several mutual funds.

For an individual investor, they allow them to pick a stock index fund, bond index fund, and money market fund. It is also possible to focus on sub-sectors within the bigger funds. There are foreign stocks, large cap stocks, individual sectors, and small cap stock funds or ETFs from which to choose.

When tactical allocating in sectors, investors can pick out those which they believe will perform strongly for either the near term or intermediate time frames. Those that believe health and technology will do well in upcoming months or even a few years might rebalance some of the portfolio into ETFs in those industry segments.

With dynamic asset allocation, investors are focused on re-balancing the portfolio to keep it near its long term goals of asset mix. This means that positions in assets classes that are outperforming have to be reduced. Those that are under-performing must then be increased with the proceeds from the outperforming assets. This restores the portfolio mix to the desired allocation. The reason investors would do this is to keep the original asset mix so that they can capture appropriate returns that meet or beat the target benchmark.

## What is Asset Protection?

Asset Protection and planning refers to strategies and practices for protecting personal wealth. It happens through deliberate and involved planning processes that safeguard individuals' assets from the potential claims of any creditors. Both businesses and individuals alike can employ these specific techniques to reduce the ability of creditors to seize personal or business property within the legal boundaries of creditor debtor law.

What makes Asset Protection so powerful is that it is able to insulate a variety of assets and all legally. It does not require any of the shady or illegal activities inherent in concealing assets, illegal money transferring, bankruptcy fraud, or tax evasion. The asset experts will warn their clients that efficient protection of assets starts in advance of a liability, incident, or claim occurring. The reason is that it is generally over late to begin arranging such protection afterward. There are a wide variety of normal means for protecting such personal or business assets. Among the most popular are family limited partnerships, accounts receivable financing, and asset protection trusts.

In the heavily litigious society of the United States, Asset Protection involves protecting property from those who might win a judgment in court. There are a variety of lawsuits that could threaten a person's or business' assets. Among these are car accident claims, unintentional negligent acts, and even foreclosure on property lawsuits where the mortgage is no longer paid. The ultimate goal in Asset Protection is to take any nonexempt from creditors assets and move them to a position where they become exempt assets beyond the reach of any claims of the various creditors.

Asset Protection which an individual or business does when a lawsuit is already underway or even imminent to be filed will likely be reversed by the courts. This way they can seize the hidden assets that were deliberately transferred to protect them from an imminent court case judgment. This is the ultimate reason why effective protection of assets has to start well in advance of the first hints of litigious activity or creditor claims.

Two principal goals must be combined in order to effectively construct an efficient and ironclad Asset Protection plan. These include achieving both long term and short term goals and reaching estate planning goals. The financial goals component involves clearly understanding present and future income sources, the amount of resources needed for retirement, and any resources which will remain to leave to any heirs via estate planning. This helps people to come up with highly detailed financial plans.

After this has been done, individuals will want to examine carefully any present assets to decide if they are effectively exempted from any and all sundry creditors. The ones that are not should be clearly repositioned so that they are exempt. This also involves planning to position future assets so that they are similarly effectively protected.

The next step is to come up with a complete and all inclusive estate plan. It should encompass all forms of asset protection and relevant planning via advanced techniques of estate planning. Among these are irrevocable trusts for the individuals, their children, spouses, and beneficiaries as well as family limited liability companies.

The most common mistake that people or businesses make with this Asset Protection planning is waiting until it is too late to safeguard the assets. The other mistake is assuming that such planning can be done rapidly or as a short term fix for a longer term problem. Protecting assets is ultimately longer term planning that must be done carefully and ahead of potential creditor claims on assets or pending lawsuits.

## What is Bad Debt?

Bad debts are those accounts receivable that simply can not be collected. Once businesses make the determination that they are not likely to be able to collect on such sums, then they actually write these off as complete losses for the company. A debt is not typically deemed to be un-collectable until every effort within reason has been made to collect on the debt that is owed. This status is not typically reached on a debt until the person or firm owing the debt has filed for bankruptcy. Another reason for a debt to be declared a bad debt would be when the costs of continuing to collect on the debt are greater than is the amount of the debt in question.

Such bad debts commonly show up on a company income statement as an expense. This actually reduces the company's net income. At this point, bad debts have been completely written off via crediting the account of the debtor. This cancels out any remaining balance on the debtor's account. Such bad debts prove to be money that has been totally lost by a firm. Because of this, these kinds of bad debts are referred to as expenses for a business.

Companies attempt to estimate their expenses in the form of bad debts using records from similar past time frames. They look to figure out how many bad debts will show up in the current time frame based on what happened before so that they can attempt to estimate their actual earnings. The majority of corporations come up with an allowance for bad debts, as they understand that a percentage of their debtors will never repay them completely. Banks and credit card companies are especially concerned with bad debt allowances, since much of their entire business model revolves around the issuing of credit and repayment of debts from businesses and individuals.

The real difficulty with bad debts lies in determining if and when they are actually dead. When a debtor disappears, the collateral is destroyed, a lawsuit statute of limitations expires, bankruptcy is discharged, or significant pattern of a debtor abandoning debts is present, then a debt is finally determined to be bad debt. These can be subjective measurements in some cases.

Income tax laws contain a different definition for bad debts. These debts can be deducted against regular income on a 1040 C Form. These personal debts are also able to be deducted against short term types of capital gains. Debts that are owed for services which have been rendered to a person or business are not considered taxing purpose bad debts. This is because no income is present for such unpaid services that can be taxed.

Where individuals are concerned, bad debt can refer to credit card debt or any other form of high interest debt. These kinds of debts take away money from the individual in interest payments every month, creating a negative cash flow. Good debt for an individual would be debt that is used to properly leverage investments. Such leveraged investments that create positive cash flow prove to be the most desirable forms of debt.

## What is a Balance Sheet?

Balance Sheet refers to a corporate financial statement. The purpose of it is to thoroughly summarize the liabilities, assets, and shareholders' equity in the firm at a fixed moment in time. The statement provides a revealing glimpse into the things the corporation owns and the money it owes, along with the total amount which shareholders have invested in the going concern. Where these financial statements are concerned, the formula for assets is liabilities plus shareholders' equity.

Balance sheets ultimately derive their names from the equation which pits the assets on one side while the shareholders' equity and liabilities remain on the opposite site. They have to balance out, which provides the concept behind the name. It makes perfect sense that corporations have only two choices when paying for their assets. They might either borrow the money through assuming liabilities or obtain it off of investors, which happens when they issue shareholder equity.

Consider an example to better understand what is involved with this concept. If a corporation obtains a $40,000 bank loan to be repaid in five years, then its assets (cash account section) will rise by the $40,000. At the same time, the total liabilities (long term debt section) will also rise by the $40,000 amount. This restores balance to the equation. Should the firm then receive $80,000 from investors, the assets will also increase by that same amount. On the other side of the equation, the shareholder equity rises by the same $80,000. When the company earns revenues which are greater than the liabilities, these go into the so called shareholder equity account. It is that category that stands for all net assets the owners of the corporation hold. The offsetting revenues balance out on the assets side in the form of inventory, investments, or cash categories.

The three main categories of the balance sheet equation— assets, liabilities, and shareholder equity each break down further into a few of their own sub accounts. These sub accounts actually reveal the particulars of the corporate finances. Every industry will have its own range of sub accounts. Many of the sub account terms will mean different things from one type of business to another. In general, there are always several sub account categories that different industries have in common.

As an example, under the assets category, such sub accounts are broken out from top down to bottom according to which is most liquid. This simply means the ease of selling them for cash. The divisions for all sub accounts will be by current assets and long term assets. The current ones may be changed to cash in under a year. Longer term ones obviously may not be converted so quickly. Current assets generally list top to bottom according to the following precedence: cash or cash equivalents, marketable securities, accounts receivable, inventory, and prepaid expenses. Longer term assets have the following general top down order: long term investments, fixed assets, and intangible assets such as goodwill, trademarks, and intellectual property.

Under the liabilities category will be the total amount firms owe to other entities. These include building rent, salaries, utilities, supplier invoices, and interest on loans or bonds. The current liabilities will be due in under a year, while the longer term ones are due after a year. Some sub accounts for current liabilities include: currently due part of longer term debt, interest payable, bank debts, wages payable, rents/utilities/taxes, dividend payments, and customer prepayments. Under longer term liabilities there are pension fund liabilities, long term debts, and deferred tax liabilities. There can also be off-balance sheet liabilities, like operating leases.

Shareholders' equity includes money from the owners of the business, the stake holding shareholders. This includes the net assets like treasury stock, retained earnings, preferred stock, and additionally paid in capital.

## What is Bankruptcy?

Bankruptcy is a term that refers to the elimination or restructuring of a person or company's debt. Three principal different types of bankruptcy filing are available. These are the personal bankruptcy options of Chapter 7 and Chapter 13 filings, and the business bankruptcy restructuring option of Chapter 11.

Individuals avail themselves of Chapter 7 or Chapter 13 bankruptcy filings when their financial situations warrant significant help. With a Chapter 7 filing, all of an individual's debt is erased through discharge. This provides a new start for the debtor. Due to changes in laws made back in October 2005, not every person is able to obtain this type of total debt relief any longer. As a result of this new bankruptcy law, a means test came into being that prospective bankruptcy filers must successfully pass if they are to prove eligibility for this kind of bankruptcy relief.

The net effect of this new test is that consumers find it much more difficult to qualify for total debt elimination under Chapter 7. Besides the means test, the cost of bankruptcy attorneys has now risen dramatically by upwards of a hundred percent as a result of the new laws. Before these laws went into effect, Chapter 7 filings represented around seventy percent of all personal filings for bankruptcy. Chapter 7 offered the individual the advantage of simply walking away from debts that they might be capable of paying back with sufficient time and some interest rate help.

Chapter 13 Bankruptcy filings prove to be much like debt restructuring procedures. In these proceedings, a person's creditors are made to agree to the repayment of principal and zero interest on debts over a longer span of time. The individual gets to keep all of her or his assets in this form of filing. The most common motivation for Chapter 13 proves to be a desire to stop a foreclosure on a home. Individuals are able to achieve this by halting foreclosure proceedings and catch up on back mortgage payments. Once a court examines the debtor's budget, it will sign off on the plan for repayment proposed by the person. Depending on the level of an individual's income, he or she may have no choice but to file a Chapter 13 filling, as a result to the 2005 law changes.

Companies and corporations that are in financial distress may avail themselves of bankruptcy protection as well. Chapter 11 allows for such businesses to have protection from their creditors while they restructure their debt. Some individuals who have a higher income level will take advantage of this form of filing as well, since it does not place income restrictions on the entity filing. It has been instrumental in saving many large and well known companies over the years, including K-Mart, that actually emerged strong enough from the Chapter 11 bankruptcy to buy out higher end rival Sears afterward.

## What is a Bear Market?

Bear markets are periods in which stock markets drop for an extended amount of time. These pullbacks typically run to twenty percent or even greater amounts of the underlying stock values. Bear markets are the direct opposites of bull markets, when prices rise for extended amounts of time.

Bear markets and their accompanying drastic drops in stock share prices are commonly caused by declining corporate profits. They can also result from the correction of a too highly valued stock market, where stock prices prove to be overextended and decline to more historically fair values. Bear markets commonly begin when investors become frightened by lower earnings or too high values for their stocks and begin selling them. When many investors sell their holdings at a single time, the prices drop, sometimes substantially. Declining prices lead still other investors to fear that their money that they have invested in the stock market will be lost too. This motivates them to sell out through fear. In this way, the vicious cycle down progresses.

There have been many instances of bear markets in the United States since the country began over two hundred years ago. Perhaps the greatest example of an extended bear market is that found in the 1970's. During these years, stocks traded down and then sideways for more than a full decade. These kinds of encounters keep potential buyers out of the markets. This only fuels the fire of the bear market and keeps it going, since only a few buyers are purchasing stocks. In this way, the selling continues, as sellers consistently outnumber buyers in the stock exchanges.

For long term investors, bear markets present terrific opportunities. A person who is buying stocks with the plan to keep them for tens of years will find in a bear market the optimal sale price point and time to purchase stocks. Though many individual investors become frenzied and sell their stocks continuously during a bear market, this is exactly the wrong time to sell them.

Bear markets provide savvy investors with the chance to seek out solid companies and fundamentals that should still be strong ten to twenty years in the future. Good companies will still do well in the coming years, even if their share prices fall twenty or forty percent with the overall market. A company like Gillette that makes razors will still have a viable and dependable market going years down the road, even if the stock is unfairly punished by a bear market. Making money in a bear market requires investors to understand that a company's underlying core business has to be distinguished from its short term share price. In the near term, a company's fundamentals and stock prices do not always have much in common.

This means that a discounted price on a good company in a bear market is much like a periodic clearance sale at a person's favorite store. The time to buy the products heavily is while they are greatly discounted. The stock market is much the same. History has demonstrated on a number of different occasions that the stock prices of good companies will rebound to more realistic and fair valuations given some time.

## What is Bitcoin Currency?

Bitcoin is the name of a new electronic currency. An unknown individual who called himself Satoshi Nakamoto created this currency in 2009. This world's first widespread virtual currency appeals to many individuals because there are no banks or governments involved in issuing, trading, spending, or processing the transactions. There are also no transaction fees involved. Owners do not have to provide their actual identity to use them.

Bitcoin users like that they are able to purchase goods and services completely anonymously. They also enjoy the inexpensive and simple to use international payment system. This exists because this currency is not heavily regulated nor tied to any single bank or nation. Small businesses tend to like Bitcoin since they do not have to pay any credit card usage fees.

Many speculators have purchased Bitcoins for investment. Booms and busts in this currency are all too common. Those who bought in to the crypto currency early made spectacular returns as the value skyrocketed with growing demand. Others lost fortunes as the price of the Bitcoins subsequently crashed in value.

There are several ways to obtain these Bitcoins. Users buy them on open marketplaces known as Bitcoin exchanges. Those who wish to have them can buy and sell it with a variety of different currencies. Mt. Gox was the largest Bitcoin marketplace until it spectacularly collapsed and went bankrupt. Many clients who held their Bitcoins at Mt. Gox lost most of their money there at the time.

Individuals also buy and sell Bitcoins by transferring them to each other and by paying with them. They can do this with their computers or mobile apps. This is much like sending cash with a digital service like PayPal.

A last way to obtain Bitcoins is by mining them. Mining is the way that individuals create new Bitcoins. They do this by utilizing computers to solve complicated math problems or puzzles. When such a puzzle is solved, 25 Bitcoins are awarded to the group which solves them.

Owners keep their Bitcoins in a digital wallet. This can be stored on a personal computer or in the cloud. A virtual wallet is much like an electronic bank account which permits owners to receive or send Bitcoins, to save their money, or to pay for their goods and services. These wallets do not receive the protection of FDIC insurance as do traditional bank accounts.

To users, Bitcoins are simply computer programs or mobile apps which give the owners the Bitcoin wallet. The payment system is easier to utilize than is a credit card or debit card purchase. An individual does not require a merchant account in order to receive the currency. All an individual has to do to make a payment is to put the payment amount and address of the recipient then click send.

An important fact about Bitcoin is that no one owns the actual network. Bitcoin users control the Bitcoin currency. Various developers work on the software to improve it. Users are able to decide which version or software they use it on, which prohibits developers from forcefully changing the operation. For the software to work properly, all Bitcoin users have to work with programs that abide by the same rules.

As with most new currencies Bitcoin is not without problems. When digital wallets are left in the cloud, some servers have been hacked and coins stolen. Bitcoin exchanges like Mt. Gox have failed. Other companies have disappeared with their clients' Bitcoins. When the wallets stay on a person's computer, they can be destroyed by viruses or accidentally deleted.

Increasing government regulation appears to be in the future of Bitcoin and other crypto currencies. Because of the anonymous nature of the currency, they have evolved into the preferred payment method for illegal activities such as drugs and smuggling. Governments are concerned about being able to trace these types of activities back to the users. They are also worried about not being able to tax transactions made in Bitcoin currency.

## What are Bonds?

Bonds are also known as debt instruments, fixed income securities, and credit securities. A bond is actually an IOU contract where the terms of the bond, interest rate, and date of re-payment are all particularly defined in a legal document. If you buy a bond at original issue, then you are literally loaning the issuer money that will be repaid to you at a certain time, along with periodic interest payments.

Bonds are all classified under one of three categories in the United States. The first of these are the highest rated, safest category of Federal Government debt and its associated agencies. Treasury bills and treasury bonds fall under this first category. The second types of bonds are bonds deemed to be safe that are issued by companies, states, and cities. These first two categories of bonds are referred to as investment grade. The third category of bonds involves riskier types of bonds that are offered by companies, states, and cities. Such below investment grade bonds are commonly referred to as simply junk bonds.

Bonds' values rise and fall in directly opposite correlation to the movement of interest rates. As interest rates fall, bonds rise. When interest rates are rising, bonds prices fall. These swings up and down in interest rates and bond prices are not important to you if you buy a bond and hold it until the pay back, or maturity, date. If you choose to sell a bond before maturity, the price that it realizes will be mostly dependent on what the interest rates prove to be like at the time.

Bonds' investment statuses are rated by the credit rating agencies. These are Standard & Poor's, Moody's, and Fitch Ratings. All bond debt issues are awarded easy to understand grades, such as A+ or B. In the last few years of the financial crisis, these credit rating agencies were reprimanded for having awarded some companies bonds' too high grades considering the risks that the companies undertook. This was especially the case with the bonds of banks, investment companies, and some insurance outfits.

Understanding the bond markets is a function of comprehending the yield curves. Yield curves turn out to be pictorial representations of a bond's interest rate and the date that it reaches maturity, rendered on a graph. Learning to understand and read these curves, and to figure out the spread between such curves, will allow you to make educated comparisons between various issues of bonds.

Some bonds are tax free. These are those bonds that are offered by states and cities. Such municipal bonds, also known as munis, help to raise funds that are utilized to pay for roads, schools, dams, and various other projects. Interest payments made on these municipal bonds are not subject to Federal taxes. This makes them attractive to some investors.

## What is a Bull Market?

A bull market is one in which an entire financial market or a select grouping of securities sees rising prices over an extended period of time. It is also used to describe a scenario in which prices are expected to rise. While the phrase bull market is most frequently utilized to address the stock markets, it can similarly reference any items that trade, such as sustained rising prices in commodities, currencies, or bonds. The opposite of a bull market is a bear market.

The simplest definition of a bull market is one that is rising. Bull markets are those that witness an increase in prices of market shares that is sustained for a period of time. In bull markets, investors show great confidence that this rising trend will only continue to exist over a longer term. When bull markets are in effect, a nation's economy remains strong and employment levels prove to be higher.

Bull markets show the characteristics of high investor confidence, general enthusiasm about the future, and anticipation that strong and successful results will continue to occur. Forecasting with any certainty when such bull market trends will wane is challenging. Much of the problem lies in attempting to decipher speculation's role and the psychological impacts of investors that can often have a major influence on the markets in general.

Bull markets in stocks commonly develop as an economic slow down is waning. They begin in advance of an economy demonstrating a convincing recovery. As investors' confidence levels grow, they show this by their buying and investing in a belief that stock prices will gain in the future. Bull markets generally turn out to be positive and winning scenarios for most investors.

The phrase bull market is derived from the animal world, as is its opposite concept of bear markets. Bulls attack their prey by using their horns in an upward thrust, as when markets are moving up. Bears on the other hand swipe their victims down with their paws, as when markets are falling down. When the trend is rising, the market is a bull market. When it is falling instead, it is called a bear market.

Examples of bull markets abound in both the United States and developing countries. Throughout most of the 1980's and 1990's, the U.S. stock markets rose in a long running bull market. Prices rose by nearly ten fold in that time period. The Dot Com bubble put an end to this bull market at the turn of the century.

Around the world, there have also been numerous bull markets in foreign stock exchanges. In India, the Bombay Stock Exchange, known as SENSEX, experienced a dramatic bull market for five years from mid 2003 to the first of 2008. In this time frame, the index ran from 2,900 points on up to 21,000 points.

## What are Capital Gains?

Capital gains refer to profits that arise when you sell a capital asset like real estate, stocks, and bonds. These proceeds must be above the purchase price to qualify as capital gains. A capital gain is also the resulting difference between a low buying price and a high selling price that leads to a financial gain for investors. The opposite of capital gains are capital losses, which result from selling such a capital asset at a price lower than for what you purchased it. Capital gains can pertain to investment income that is associated with tangible assets like financial investments of bonds and stocks and real estate. They may also result from the sale of intangible assets that include goodwill.

Capital gains are also one of the two principal types of investor income. The other is passive income. With capital gains' forms of income, large, one time amounts are realized on an asset or investment. There is no chance for the income to be continuous or periodic, as with passive income. In order to realize another capital gain, another asset must be purchased and acquired. As its value rises, it can also be sold to lock in another capital gain. Capital gain investments are generally larger amounts, though they only pay one time.

Capital gains have to be reported to the Internal Revenue Service, whether they belong to a business or an individual. These capital gains have to be designated as either short term gains or long term gains. This is decided by how long you hold the asset before choosing to sell it. When an asset with a gain is held longer than a year, the capital gain is long term. If it is held for a year or less time frame, such a capital gain proves to be short term.

When an individual or business' long term capital gains are greater than long term capital losses, net capital gains exist. This is true to the point that these gains are greater than net short term capital losses. Tax rates on these capital gains are lower than on other forms of income. Up to 2010's conclusion, the highest capital gains tax rates for the majority of investors proves to be fifteen percent. Those whose incomes are lower are taxed at a zero percent rate on their net capital gains.

When capital gains are negative, or are actually capital losses, the losses may be deducted form your tax return. This reduces other forms of income by as much as the yearly limit of $3,000. Additional capital losses can be carried over to future years when they exceed $3,000 in any given year, reducing income for tax purposes in the future. These capital gains and losses should be reported on the IRS' Schedule D for capital gains and losses.

## What is Capital Loss?

Capital Loss refers to a type of loss that companies or individuals experience as one of their capital assets decreases by value. This includes a real estate or investment asset. The loss only becomes realized when the asset itself sells for less than the price for which it was originally purchased. Another way of looking at these capital losses is that they represent the difference from the asset's purchase price and the asset's selling price. In other words, for it to be a loss the selling price must be less than the original price. As an example, when investors purchase a home for $300,000 and then sell the same home six years later for only $260,000, they have taken a capital loss amounting to $40,000.

Where income taxes are concerned, capital losses often offset capital gains. Capital losses in fact reduce the personal or business income in a like dollar for dollar amount. When net losses are higher than $3,000, then the overage amount can not be applied. Instead, this amount higher than net $3,000 simply carries over against any other gains or taxable income to the following year when they will similarly offset capital gains and income. When losses are multiple thousands, they continue to carry forward as many years as it takes for them to be fully exhausted.

Both capital losses and capital gains will be reported using a Form 8949. This form helps taxpayers to determine if the sale dates allow for the transactions to be counted as long term or short term losses or gains. When such transactions are deemed to be short term gains, they become taxable by the individual's ordinary income tax rates. These ranged from only 10 percent to 39.6 percent as of 2015. This is why the shorter term losses when paired off against shorter term gains give significant tax advantages to higher income earning individuals. It benefits them when they have earned profits by selling off any asset or assets in under a year from original purchase point.

With longer term capital gains, investors become taxed by rates of zero percent, 15 percent, or 20 percent. This occurs when they take a gain which results from a position they possessed for over a year. Such capital gains also can only be offset by capital losses which they realize after holding the investments for over a year. It is also on form 8949 that these assets become reportable. Here investors list out both the gross proceeds from the sales and assets' cost basis. The two figures are compared to determine if the total sales equate to a loss, gain, or wash. Such losses become reported on Schedule D. Here the taxpayer is able to ascertain the amount that may be utilized to lower overall taxable income.

These wash sale rules can be confusing to individuals without an example. Consider an investor who dumps his IBM stock on the last day of November in order to realize a loss. The taxing authority of the Internal Revenue Service will disallow such a capital loss if the exact stock was bought again on the day of December 30th or before this. This is because investors have to wait at least 31 days before such a security can be repurchased then sold off once more in order to realize another loss.

Yet the regulation does not affect sales and re-buys of different mutual funds that possess similar positions and holdings. As an example, $10,000 worth of Vanguard Energy Fund shares may be entirely reinvested in the Fidelity Select Energy Portfolio at any point. This would not forfeit the investors' ability to recognize another loss even as they continue to own an equity portfolio (through the mutual fund) that is similar to their earlier mutual fund holdings.

## What is Cash Flow?

Cash Flow is either an incoming revenue or outgoing expense stream that affects the value of any cash account over time. Inflows of cash, or positive cash flows, typically result from one of three possible activities, including operations, investing, or financing for businesses or individuals. Individuals are also able to realize positive cash flows from gifts or donations.

Negative cash flow is also called cash outflows. Outflows of cash happen because of either expenses or investments made. This is the case for both individuals' finances, as well as for those of businesses.

Where both individual finances and business corporate finances are concerned, positive cash flows are required to maintain solvency. Cash flows could be demonstrated because of a past transaction like selling a business product or a personal item or investment. They might also be projected into a future time for some consideration that a company or individual anticipates receiving and then possibly spending. No person or corporation can survive for long without cash flow.

Positive cash flow is essential for a variety of needs. Sufficient cash flow allows for money for you to pay your personal bills and creditors. It also allows a business to cover the costs of employee payroll, suppliers' bills, and creditors' payments in a timely fashion. When individuals and businesses lack sufficient cash on hand to maintain their budget or operations, then they are named insolvent. Lasting insolvency generally leads to personal or corporate bankruptcy.

For businesses, statements of cash flows are created by accountants. These demonstrate the quantity of cash that is created and utilized by a corporation in a certain time frame. Cash flows in this definition are calculated by totaling net income following taxes with non cash charges like depreciation. Cash flow is able to be assigned to either a business' entire operations or to one particular segment or project of the company. Cash flow is often considered to be an effective measurement of a business' ongoing financial strength.

Cash flows are also used by business and individuals to ascertain the value or return of a project or investment. The numbers of cash flows in to and out of such projects and investments are often utilized as inputs for indicators of performance like net present value and internal rate of return. A problem with a business' liquidity can also be determined by measuring the entire entity's cash flow.

Many individuals prefer investments that yield periodic positive cash flow over ones that pay only one time capital gains. High yielding dividend stocks, energy trusts, and real estate investment trusts are all examples of positive cash flow investments. Real estate properties can also be positive cash flow yielding investments when they provide greater amounts of rental income than their combined monthly mortgage payments, maintenance expenses, and property management upkeep costs and outflows total.

## What is a Certificate of Deposit (CD)?

A Certificate of Deposit refers to a kind of savings vehicle which generally provides greater returns for money invested than the typical savings accounts do. There is very little risk in such an account. They also come without monthly fees. Besides this, these CDs prove to be significantly different from the age old savings accounts for several reasons.

Such a Certificate of Deposit stands for a time deposit. While an individual who has a savings account is freely able to make additional deposits or withdraw available funds relatively at will, this is not the case with CDs. Holders of CDs consent to tying up their money for a minimum length of time. Banks calls this the term length. Such term lengths might be only a few days. They could also extend up to ten years out. Standard CD's run from typically three months to five years.

In general, the longer the term length proves to be, the better the rate of interest the Certificate of Deposit will pay. The longer the term length is, the greater amount of time an individual ties up the money in the account at the bank too. It makes sense that the bank rewards customers for committing to a longer amount of time with a larger CD rate than they pay on comparable savings accounts.

Banks generally quote these CD rates using the APY annual percentage yield. This rate takes into account the compounding periods on how often the CD pays interest which can then earn still more interest on it. The banks have the choice of compounding periods based on annually, quarterly, monthly, and daily compounding. The closer a CD compounds to a daily rate, the higher the APY will actually prove to be.

There are penalties involved with drawing the money out of the certificate of deposit before its final maturity date. While every bank is different, most banks will levy a penalty of from three to six months in accrued interest for breaking the time deposit early. This is why financial professionals will counsel against taking money out of a CD early unless it is desperately important to access the funds.

The U.S. FDIC Federal Deposit Insurance Corporation backs the CDs at the overwhelming majority of commercial banks in the country. These Certificates of Deposit are government guaranteed in amounts of up to $250,000. With the credit union CDs, these certificates become insured by the NCUA National Credit Union Administration for the same maximum amounts. Credit unions which are state-chartered will often utilize private insurance for their CDs. Not any of these forms of insurance cover the penalties for taking out the funds ahead of maturity. Such coverage comes automatically and does not have to be applied for in order for the time deposit to be insured.

There are several different varieties of Certificates of Deposit available. Variable rate CDs are those whose interest rate is connected to the prime interest rate, market indices, Treasury bills rates, or another underlying benchmark. They help depositors to gain from any future point interest rate increases. Callable CDs often include a better rate of interest than a traditional CD. The bank can unilaterally reduce the maturity term period on demand though.

No or low penalty CDs pay lower interest rates but allow investors to more easily obtain their money back from the time deposit without expensive penalties. They often require holders to keep a certain minimum balance in the CD. IRA CDs are traditional certificates of deposit which are contained within an IRA Individual Retirement Account. There are tax advantages and deferrals on taxes of interest payments with these. Finally, Jumbo CDs pay greater rates of interest in exchange for extremely high minimum balances of typically $100,000 and higher.

## What is a Certificate of Title?

A certificate of title represents a document which states who the owners or owner of real estate or personal property actually are. It is issued by a municipal or state government. This certificate gives evidence of any ownership rights.

In general a title insurance company will issue a certificate of title opinion on a house or piece of property. This is their statement of opinion regarding the status of a title. They draft this opinion after carefully looking through public records pertaining to the property.

Such a certificate of title opinion will not necessarily assure the buyer of a clean title. It will list out any encumbrance on the property. Encumbrances are often items that keep the property from being freely sold. These could include easements or liens. The title companies will issue such certificates to financial institutions which are making the loan. Many of these lenders must have such documents in hand before they will approve a mortgage loan for a house or piece of property.

Certificates of title are extremely important with real estate. This is why a title company will issue their opinion that the person selling the property actually owns it. Personal property is easier to give to another person than is land. Where land is concerned, a person might be living on a given property and yet not own it. This makes the certificate opinion from the title company critical. It promises that the company has performed the complete background check regarding who owns the land and so has the right to sell it.

This certificate of title is a statement of fact when a state or municipal government actually issues it. These documents contain a good deal of useful information on them. All of them will have the name and address of the owner of the property. They also have information that identifies the property itself in some specific way.

If the certificate pertains to a real estate property, then it will have the location of or address for the land in question. If it is instead for a car or other vehicle, it will have the license plate number and possibly the vehicle identification number. These certificates will also state what the encumbrance is on the property if there is any. If there is a lien on a vehicle or mortgage on the house or land, this will be noted.

State agencies will also issue certificates of title on a variety of vehicles. This covers such things as buses, trucks, motorcycles, trailers, motor homes, boats and watercraft, and airplanes. When a lender makes a loan on such a vehicle, it is able to keep the title in its possession until the debt has been paid in full. They then release the lien at this point and send back the title certificate to the actual owner.

Certificates of title should not be confused with deeds though they share certain common characteristics. Each of these two documents offers a proof of ownership for the property in question. The certificate of title has sufficient information to specifically identify the property itself and any relevant encumbrances. Deeds have additional information on the real property. This includes any conditions for the ownership as well as more detailed information on and about the property. Deeds are critical elements in any transfer of real estate.

## What is Chapter 11 Bankruptcy?

Chapter 11 Bankruptcy proves to be a specific type of bankruptcy. This kind has to do with the business assets, debts, and affairs being reorganized. The business reorganization filing was named for the Section 11 of the United States' Bankruptcy Code. Corporations commonly file it that need some time to rearrange the terms of their debts and their business operations. It gives them a fresh start on repaying their debt obligations. Naturally the indebted company will have to stick to the terms of the reorganization plan. This proves to be the most highly complex type of bankruptcy filing possible. Companies have been advised to only entertain it once they have contemplated their other options and analyzed the repercussions of such a filing.

This Chapter 11 bankruptcy rarely makes the news unless it is a nationally known or famous corporation which is filing. Among the major corporations that have filed such a Chapter 11 bankruptcy are United Airlines, General Motors, K-Mart, and Lehman Brothers. The first three successfully emerged from it and became as great or stronger than they were before falling into hard times financially. In reality, the vast majority of these cases are unknown to the general public. As an example, in the year 2010, nearly 14,000 separate corporations filed for Chapter 11.

The point of this Chapter 11 Bankruptcy is to assist a corporation in restructuring both obligations and debts. The goal is not to close down the business. In fact it rarely leads to the corporation closing. Instead, corporations like K-mart, General Motors, and tens of thousands of others were able to survive and once again thrive thanks to the useful process of protection from creditors and reorganization of business debts.

It is typically LLCs Limited Liability Companies, partnerships, and corporations that make application for Chapter 11 Bankruptcy. There are cases where individuals who are positively saddled with debt and who are not able to be approved for a Chapter 13 or Chapter 7 filing can be qualified for Chapter 11 instead. The time table for successfully completing Chapter 11 bankruptcy ranges from several months to as long as two years.

Businesses that are in the middle of their Chapter 11 cases are encouraged to keep operating. The debtor in possession will typically run the business normally. Where there are cases that have gross incompetence, dishonest dealings, or even fraud involved, typically trustees come in to take over the business and its daily operations while the bankruptcy proceedings are ongoing.

Corporations in the midst of these filings will not be permitted to engage in specific decisions without first having to consult with the courts to proceed. They may not terminate or sign rental agreements, sell any assets beyond regular inventory, or expand existing business operations or alternatively cease them. The bankruptcy court retains full control regarding any hiring and paying of lawyers as well as signing contracts with either unions or vendors. Lastly, such indebted organizations and entities may not sign for a loan that will pay once the bankruptcy process finishes.

After the business or person files their chapter 11 bankruptcy, it gains the right to offer a first reorganization plan. Such plans often include renegotiating owed debts and reducing the company size in order to slash expenses. There are some scenarios where the plan will require every asset to be liquidated in order to pay off the creditors, as with Lehman Brothers.

When plans are fair and workable, courts will approve them. This moves the reorganization process ahead. For plans to be accepted, they also have to maintain the creditors' best interests for the future repayment of debts owed to them. When the debtor can not or will not put forward a plan of their own for reorganization, then the creditors are invited to offer one in the indebted company or person's place.

## What is Chapter 7 Bankruptcy?

Chapter 7 bankruptcy is a form of protection from creditors. Unlike Chapter 13 bankruptcy, it does not have any repayment plan. In the Chapter 7 a bankruptcy trustee determines what eligible assets the debtor individual or company has. The trustee then collects these available assets, sells them, and distributes proceeds to the creditors against their debts. This is all done under the rules of the Bankruptcy Code.

Debtors are permitted to keep specific property that is exempt, such as their house. Other property that the debtor holds will be mortgaged or have liens put against it to pledge it to the various creditors until it is liquidated. Debtors who file chapter 7 will likely forfeit property in partial payment of debts.

Chapter 7 bankruptcy is available to corporations, partnerships, and individuals who pass a means test. The relief can be granted whether or not the debtor is ruled to be insolvent.

Chapter 7 bankruptcy cases start when debtors file their petitions with their particular area's bankruptcy court. For businesses, they use the address where the main office is located. Debtors are required to give the court information that includes schedules of current expenditures and income and liabilities and assets.

They are also required to furnish a financial affairs statement and a schedule of contracts and leases which are not expired. The debtors will also have to deliver the trustee tax return copies from the most current tax year along with any tax returns which they file while the case is ongoing.

Debtors who are individuals also have to furnish their court with other documents. They are required to file a credit counseling certificate and any repayment plan created there. They must also file proof of income from employers 60 days before their original filing, a monthly income statement along with expected increases in either, and notice of interest they have in tuition or state education accounts. Husbands and wives are allowed to file individually or jointly. They must abide by the requirements for individual debtors either way.

The courts are required to charge debtors who file $335 in filing, administrative, and trustee fees. Debtors typically pay these when they file to the clerk of court. The court can give permission for individuals to pay by installments instead. When the income of debtor's proves to be less than 150% of the amount of the poverty level, the court can choose to drop the fee requirements.

Debtors will have to provide a great amount of information in order to complete their Chapter 7 filing and receive a discharge of debts. They have to list out each of their creditors along with the amounts they owe then and the type of claim. Debtors have to furnish a list of all property the own. They must also give the information on the amount, source, and frequency of income they have to the court.

Finally, they will be required to provide an in depth list of all monthly living expenses that includes housing, utilities, food, transportation, clothing, medicine, and taxes. This helps the court to determine if the debtor is able to set up a repayment plan instead of discharging the debts.

From 21 to 40 days after the debtor files the petition with the courts, the trustee hosts a creditors' meeting. The debtor will have to cooperate with the trustee on any requests for additional financial documents or records. At this meeting, the trustee will ask questions to make sure the debtor is fully aware of the consequences of debt discharge by the bankruptcy court. Sometimes trustees will deliver this in written form to the debtor before or at the meeting. Assuming the trustee makes the recommendation for discharge, the Federal bankruptcy court judge will discharge the debts when the process is completed.

## What are Commodity Markets?

Commodity Markets refer to exchanges where individuals and businesses can trade, buy, or sell primary inputs and raw materials either in person or virtually (over the Internet or phones). These days there exist around 50 important commodities markets around the globe. Each of these works in some way to make trade and investment possible in around 100 different main commodities.

Commodities can be subdivided into two principal types. These are soft and hard commodities which entities trade on the commodities markets. Soft commodities refer to livestock and agricultural produce. This includes wheat, corn, sugar, coffee, cattle, pork bellies, and soybeans. Hard commodities are generally the kinds of natural resources which have to be extracted or mined. This includes such famous commodities as silver, gold, oil, and rubber.

A wide range of means exist for investing in such commodities. Investors have the ability to buy stocks in companies whose enterprises are based upon commodities prices. They might also buy them indirectly through ETF exchange traded funds, index funds, or mutual funds which specialize in them. There is a much more direct way to invest in these commodities though. This is through purchasing futures contracts on the commodities themselves from the commodity markets on one of the various commodities exchanges. Such a contract will contractually obligate the owner of the instrument to sell or buy the commodity for a preset price level on a future delivery date.

There are two cities in the United States which host the most important commodities markets and exchanges domestically. These are New York City and Chicago. A few less important exchanges are based in other cities of America. The biggest of them by far is the CME Chicago Mercantile Exchange which became so wealthy and powerful (as the CME Group) that it bought out a host of other rival exchanges. On the CME, investors and traders can buy, sell, and trade such well-known commodities as pork bellies and lean hogs, lumber, cattle, feeder cattle, butter, and milk.

Another exchange is the CBOT Chicago Board of Trade, which dates back to 1848 in Chicago. On this exchange, contracts include gold, ethanol, rice, oats, wheat, corn and soybeans.

On the NYBOT New York Board of Trade, there are a wide range of commodities. Chief among these are the standards of the commodities world orange juice, sugar, cocoa, ethanol, and coffee. On the NYMEX New York Mercantile Exchange investors can trade such commodities as gold, oil, copper, silver, platinum, palladium, aluminum, propane, heating oil, and even electricity.

There are also a few regional American commodity markets. These include the MGE Minneapolis Grain Exchange and the KCBT Kansas City Board of Trade. Both mostly concentrate their commodities offerings on agriculture. Among the biggest and most important international commodity markets are the LME London Metals Exchange and the Tokyo Commodity Exchange.

Nowadays, these commodity markets mostly trade on cutting-edged and state of the art electronic systems. There are a few of the United States' exchanges which still utilize the in-person, open outcry method. Commodities' trading which takes place outside the operating hours and locations of the exchanges is called the OTC over the counter market.

Commodity markets are highly regulated in the United States. It is the responsibility of the CFTC Commodity Futures Trading Commission to regulate the options and futures on commodities markets. Their primary goal is to ensure efficient, competitive, and transparent marketplaces which assist consumers by protecting the clients from manipulation, fraud, and unethical practices.

Once upon a time, the regular investors could not invest at all in commodity markets. This was because it took major amounts of money, time, and know-how to do it successfully. Thanks to the various numerous routes to the different commodities markets today, even those traders who are not professionals can take part in the excitement and opportunity that are the commodity markets.

## What is Compound Interest?

Compound interest represents interest which calculates on both the original principal amount as well as the interest that was accumulated previously during the loan or investment. Economists have called this miraculous phenomenon an interest on interest. It causes loans or invested deposits to increase at a significantly faster pace than only simple interest, the opposite of compound interest. Simple interest proves to be interest that calculates on just the principal amount of money.

Compound interest accrues at an interest rate which determines how often the compounding occurs. The higher the compound interest rate turns out to be, the faster the principal will compound and the more compounding periods will occur. Consider an example of how effective compounding truly is. $100 that is compounded at a rate of 10% per year will turn out to be less than $100 which is compounded at only 5% but semi annually during the same length of time.

Compound interest is important to individuals as it is able to take a few dollars worth of savings now and transform them into significant money throughout lifetimes. Investors do not need an MBA or a Wall Street background in order to benefit from this principle. Practically all investments earn compounding interest if the owners leave these earnings in the investment account over the long term.

This form of interest cuts both ways on the receiving and paying sides. When individuals are saving and investing money, it helps them grow the amount faster. When they are borrowing and paying the same interest on the debt, it grows against them faster. Individuals who are saving wish their money to compound as often as they can. Individuals who are borrowing wish it to compound as infrequently as possible. Savers are better off if they are able to compound quarterly instead of annually while just the opposite is true for borrowers.

For people who are compounding their investments, time works on their side. Money that grows at a rate of 6% each year doubles every 12 years. This means that it increases to four times as much as the original amount in only 24 years.  For individuals paying compound interest, time is similarly working against them. Credit card companies utilize this principle to keep their card owners in debt forever by encouraging them to only make minimum monthly payments on the bills.

Thanks to compounding, a smaller amount of money that a person adds to an account upfront is more valuable than a larger sum of money he or she adds decades later. This cuts both ways. By paying down principal on a credit card with an extra $5 per month, the amount of compound interest individuals pay on a 14% interest rate credit card decreases by $1,315 over ten years. This is true even though they have paid only $600 in extra payments over this amount of time.

Anyone can make the miracle of compounding work for them. The idea works the same whether individuals are investing $100 or $100 million instead. Millionaires have greater ranges of investment choices. Even relatively poor people can compound their interest to increase their original amount and double their money as often as possible.

Compounding interest means that participants have to give up using some dollars today in order to obtain a greater benefit from them in the future. The little money may be missed now, but the rewards for the more significant amounts in the future will more than make up for the little sacrifice the individual makes now. Financial planners have claimed that the difference between poverty and financial comfort in the future amounts to even a few dollars in savings each week invested now rather than later.

## What is Consumer Price Index (CPI)?

The Consumer Price Index, also known by its acronym of CPI, actually measures changes that take place over time in the level of the pricing of various consumer goods and services that American households buy. The Bureau of Labor Statistics in the U.S. says that the Consumer Price Index is a measurement of the over time change in the prices that urban consumers actually pay for a certain grouping of consumer goods and services.

This consumer price index is not literal in the sense of what inflation really turns out to be. Instead, it is a statistical estimate that is built utilizing the costs of a basket of sample items that are supposed to be representative for the entire economy. These goods and services' prices are ascertained from time to time. In actual practice, both sub indices such as clothing, and even sub-sub indices, such as men's dress shirts, are calculated for varying sub-categories of services and goods. These are then taken and added together to create the total index. The different goods are assigned varying weights as shares of the total amount of the expenditures of consumers that the index covers.

Two essential pieces of information are necessary to build the consumer price index. These are the weighting data and the pricing data. Weighting data comes from estimates of differing kinds of expenditure shares as a percentage of the entire expenditure that the index covers. Sample household expenditure surveys are sourced to figure what the weightings should be. Otherwise, the National Income and Product Accounts estimates of expenditures on consumption are utilized. Pricing data is gathered from a sampling of goods and services taken from a sample range of sales outlets in varying locations and at a sampling of times.

The consumer price index is figured up monthly in the United States. Some other countries determine their CPI's on a quarterly basis. The different components of the consumer price index include food, clothing, and housing, all of which are weighted averages of the sub-sub indices. The CPI index literally compares the prices of one month with the prices in the reference month.

Consumer Price Index is only one of a few different pricing indices that the majority of national statistical agencies calculate. Inflation is figured up using the yearly percentage changes in the underlying consume price index. Uses of this CPI can include adjusting real values of pensions, salaries, and wages for inflation's effects, as well as for monitoring costs, and showing alterations in actual values through deflating the monetary magnitudes. The CPI and US National Income and Product Accounts prove to be among the most carefully followed of economic indicators.

Cost of living index is another measurement that is generated based on the consumer price index. It demonstrates how much consumer expenditures need to adjust to compensate for changes in prices. This details how much consumers need to keep up a constant standard of living.

## What is a Convertible Bond?

A convertible bond is like a hybrid between a stock and a bond. Corporations issue these bonds which the bondholders may choose to convert into shares of the underlying company stock whenever they decide. Such a bond usually pays better yields than do shares of common stocks. Their yields are also typically less than regular corporate bonds pay.

Convertible bonds provide income to their investors just as traditional corporate bonds do. These convertibles also possess the unique ability to gain in price if the stock of the issuing company does well. The reasoning behind this is straightforward. Because the bond has the ability to be directly converted into stock shares, the security's value will only gain as the stock shares themselves actually rise on the market.

When the stock performs poorly, the investors do not have the ability to convert the convertible bond into shares. They only gain the yield as a return on the investment in this case. The advantage these bonds have over the company stock in these deteriorating conditions is significant.

The value of the convertible instrument will only drop to its par value as long as the company that issues it does not go bankrupt. This is because on the specified maturity date, investors will obtain back their original principal. It is quite correct to say that these types of bonds typically have far less downside potential than do shares of common stocks.

There are disadvantages as well as advantages to these convertible bonds. Should the issuer of the bond file for bankruptcy, investors in these kinds of bonds possess a lower priority claim on the assets of the corporation than do those who invested in debt which was not convertible. Should the issuer default or not make an interest or principal payment according to schedule, the convertibles will likely suffer more than a regular corporate bond would. This is the flip side to the higher potential to appreciate which convertibles famously possess. It is a good reason that individuals who choose to invest in single convertible securities should engage in significant and extended research on the issuer's credit.

It is also important to note that the majority of these convertible bonds can be called. This gives the issuer the right to call away the bonds at a set share price. It limits the maximum gain an investor can realize even if the stock significantly outperforms. This means that a convertible security will rarely offer the identical unlimited gain possibilities which common stocks can.

If investors are determined to do the necessary research on an individual company, they can purchase a convertible bond from a broker. For better convertible diversification, there are numerous mutual funds which invest in only convertible securities. These funds are provided by a variety of major mutual fund companies.

Some of the biggest are Franklin Convertible Securities, Vanguard Convertible Securities, Fidelity Convertible Securities, and Calamos Convertible A. Several ETF exchange traded funds provide a similar convertible diversification with lower service charges. Among these are the SPDR Barclays Capital Convertible Bond ETF and the PowerShares Convertible Securities Portfolio.

It is important to know that the bigger convertible securities portfolios such as the ETFs track have a tendency to match the performance of the stock market quite closely in time. This makes them similar to a high dividend equity fund. Such investments do offer possible upside and diversification when measured against typical holdings of bonds. They do not really offer much in the way of diversification for individuals who already keep most of their investment dollars in stocks.

## What are Corporate Bonds?

Corporate bonds are debt securities that a company issues and sells to investors. Such corporate bonds are generally backed by the company's ability to repay the loan. This money is anticipated to result from successful operations in the future time periods. With some corporate bonds, the physical assets of a company can be offered as bond collateral to ease investors' minds and any concerns about repayment.

Corporate bonds are also known as debt financing. These bonds provide a significant capital source for a great number of businesses. Other sources of capital for the companies include lines of credit, bank loans, and equity issues like stock shares. For a business to be capable of achieving coupon rates that are favorable to them by issuing their debt to members of the public, a corporation will have to provide a series of consistent earnings reports and to show considerable earnings potential. As a general rule, the better a corporation's quality of credit is believed to be, the simpler it is for them to offer debt at lower rates and float greater amounts of such debt.

Such corporate bonds are always issued in $1,000 face value blocks. Practically all of them come with a standardized structure for coupon payments. Some corporate bonds include what is known as a call provision. These provisions permit the corporation that issues them to recall the bonds early if interest rates change significantly. Every call provision will be specific to the given bond.

These types of corporate bonds are deemed to be of greater risk than are government issued bonds. Because of this perceived additional risk, the interest rates almost always turn out to be higher with corporate bonds. This is true for companies whose credit is rated as among the best.

Regarding tax issues of corporate bonds, these are pretty straight forward. The majority of corporate bonds prove to be taxable, assuming that their terms are for longer than a single year. To avoid taxes until the end, some bonds come with zero coupons and redemption values that are high, meaning that taxes are deferred as capital gains until the end of the bond term. Such corporate debts that come due in under a year are generally referred to as commercial paper.

Corporate bonds are commonly listed on the major exchanges and ECN's like MarketAxess and Bonds.com. Even though these bonds are carried on the major exchanges, their trading does not mostly take place on them. Instead, the overwhelming majority of such bonds trading occurs in over the counter and dealer based markets.

Among the various types of corporate bonds are secured debt, unsecured debt, senior debt, and subordinated debt. Secured debts have assets underlying them. Senior debts provide the strongest claims on the corporation's assets if the venture defaults on its debt obligations. The higher up an investor's bond is in the firm's capital structure, the greater their claim will ultimately be in such an unfortunate scenario as default or bankruptcy.

## What are Credit Bureaus?

Credit bureaus are agencies that collect financial information. They go by different names in various countries around the world. In the United Kingdom they are known as credit reference agencies. In Australia, the bureaus are called credit reporting bodies. India knows their credit agencies as credit information companies.

Within the United States, these organizations are called consumer reporting agencies. Whatever name they go by, they all serve the same function. The bureaus gather information from banks and other financial sources to deliver consumer credit information about individual consumers.

The U.S. consumer reporting agencies are governed by the Fair Credit Reporting Act. Other laws that regulate the activities of the bureaus are the Fair and Accurate Credit Transactions Act, the Fair Credit Billing Act, the Fair Credit Reporting Act, and Regulation B. These acts attempt to safeguard consumers against unfair practices and mistakes made by the data providers and the credit reporting agencies themselves.

The U.S. has two separate government organizations who oversee the credit bureaus and their data suppliers. These are the FTC and the OCC. Primary oversight of the credit reporting agencies as they deal with consumers belongs to the Federal Trade Commission. The banks are monitored for all of the information that they provide the reporting agencies by the Office of the Controller of the Currency. This government agency supervises, regulates, and charters all of the national banks and any information they turn over to the consumer credit reporting agencies.

Three main credit reporting bureaus dominate nearly all credit reporting in the U.S. These are Experian, Equifax, and TransUnion. None of these three agencies are owned by government entities. All of them exist as companies seeking to make a profit and are traded publically. They are carefully monitored for fairness by the government provided oversight organizations.

The consumer reporting agencies operate through a vast network with the credit card issuing companies, banks, and other financial entities with which individuals have accounts. All of these ties ensure that credit account information and histories show up on the credit reports of one, two, or even all of the bureaus.

The credit bureaus compile all of this information into a consumer credit report. They each then utilize proprietary trade secret formulas to determine every individual’s FICO credit score. Each of the three bureaus formulates its own score that is different from that of its competitors. They also come up with educational credit score numbers which are often vastly different from the official scores.

Consumers do not have to settle for educational credit scores. They have the rights to see what is on their credit reports. Each and every year, individuals are able to obtain an official credit report from each of the three credit bureaus. This can be done by going to the government mandated website AnnualCreditReport.com.

Besides this, consumers are allowed to go to the websites of the three main consumer reporting agencies and order credit reports and scores from them directly. The only way to get the official credit score is to pay for and order it from the credit bureaus themselves. These are not provided in the annual free reports. Experian and Equifax offer all three credit reports in a single convenient to view document.

Sometimes the credit bureaus will make mistakes with individuals' credit reports. When this happens, it is important to get in touch with the credit bureau itself in order to dispute any information that is inaccurate. These organizations also should be contacted directly if there is concern about fraud so that they can place a security alert or fraud alert on the person's credit report.

## What are Credit Default Swaps?

A credit default swap, or CDS, is a contract exchange that transfers between two parties the exposure of credit to fixed income products. Two parties are involved in this exchange. The purchaser of a credit default swap obtains protection for credit. The seller of this credit default swap actually guarantees the product's credit worthiness. In this process, the default risk moves from the owner of the fixed income security over to the party that sells the swap.

In these CDS transfers, the purchaser of the protection gives a series of fees or payments to the seller. This is also known as the spread of the Credit Default Swap. The party selling the protection gets paid off in exchange for this, assuming that a loan or bond type of credit instrument suffers from a negative credit event.

In the most basic forms, Credit Default Swaps prove to be two party contracts arranged between sellers and buyers of credit protection. These Credit Default Swaps will address a reference obligor or reference entity. These are typically governments or companies. The party being referenced is not involved in the contract as a party or even necessarily aware of its existence. The purchaser of such protection then pays pre defined quarterly premiums, or the spread, to the party who is selling the protection.

Should the entity that is referenced then default, the seller of the protection pays the face value of the instrument to the buyer of the protection against a physical transfer of the bond. Such settlements can also be accomplished by auction or in cash. Defaults in Credit Default Swaps are called credit events. These defaults might include a bankruptcy, restructuring of the referenced entity, or a failure to make payment.

Credit Default Swaps are much like insurance on credit. The difference between them and such insurance lies in the fact that a CDS is not regulated like life insurance or casualty insurance is. Besides this, investors are capable of purchasing or selling this type of protection without having any such debt of the entity that is referenced. Resulting naked credit default swaps permit investors to engage in speculation on issues of debt and credit worthiness of entities that are referenced. These naked Credit Default Swaps actually make up the majority of the CDS market.

The majority of Credit Default Swaps prove to be in the ten to twenty million dollar range. They typically have maturities ranging from one to ten years. The Credit Default Swap market is mostly unregulated and turns out to be the largest financial market on earth.

These CDS products were actually created in the early part of the 1990's. The market for them grew dramatically beginning in 2003. By the conclusion of 2007, the total amount of them in existence proved to be an astonishing $62.2 trillion dollars. This amount declined to

$38.6 trillion in the wake of the financial crisis at the conclusion of 2008. Since then, it has been growing alarmingly again. Critics of Credit Default Swaps have consistently referred to them as financial weapons of mass destruction, capable of blowing up the financial system and world economies in the process.

## What is a Credit Report?

A credit report is an individual or business' credit history. This includes their record of borrowing and repaying money in the past. It similarly covers data pertaining to any late payments made or bankruptcies that have been declared. In some countries, credit reports are also referred to as credit reputations.

When an American like you completes a credit application for a bank, a credit card company, or a retail store, this information is directly sent on to one of the three main credit bureaus. These are Experian, Trans Union, and Equifax. These credit bureaus then match up your name, identification, address, and phone number on the application for such credit with the data that they keep in their bureau's files. Because of this match up process, it is essential that lenders, creditors, and other parties always provide exactly correct information to the credit bureaus.

Such information in these files at the three major credit bureaus is then utilized by lenders like credit card companies in order to decide if you are deserving of having credit issued to you by the creditor. Another way of putting this is that they decide how likely that you will be to pay back these debts. Such willingness to pay back a debt is usually indicated by the timeliness of prior payments to other lenders. Such lenders will prefer to see the debt obligations of individual consumers, such as yourself, paid on time every month.

The second element considered in a lender offering loans or credit to individuals like you is based on your actual income. Higher incomes generally lead to greater amounts of credit being accessible. Still, lenders look at both willingness, as shown in the credit report and prior payment history, along with ability, as shown by income, in deciding whether or not to extend you credit.

Credit reports have become even more significant in light of risk based pricing. Practically all lenders of the financial services industry rely on credit reports to determine what the annual percentage rate and grace period of repayment of a loan or offer of credit will be. Other obligations of the contract are similarly based on this credit report.

In the past, a great deal of discussion has gone on considering the information contained in the credit reports. Scientific studies done on the issue have determined that for the most part, this credit report information is extremely accurate. Such credit bureaus also have their own authorized studies of fifty-two million credit reports that show that the information contained therein is right a vast majority of the time.

Congress has heard testimony from the Consumer Data Industry Association that in fewer than two percent of credit report issue cases have there been data which had to be erased because it was wrong. In the few cases where these did exist, more than seventy percent of such disputes are handled in fourteen days or less. More than ninety-five percent of consumers with disputes report being satisfied with the resolution.

## What is a Credit Score?

Credit Score refers to a number generated by the credit bureaus to represent the creditworthiness of an individual. The credit bureaus possess literally from hundreds to thousands of distinct lines worth of information on each person with a credit profile. This makes it extremely difficult for lending institutions to go through it all. Since they lack the man hours to carefully peruse each applicant's credit reports personally, the majority of financial institutions which lend money employ these credit scores rather than tediously read through credit reports on applicants.

These Credit Scores are actually numbers that a computer program generates after crawling through an individual's credit report. Such programs seek out certain fundamentals, patterns, and so-called warning flags in any credit report and history. They then generate a credit score based on what they find. Lenders love these scores since they can be basically interpreted by a consistent set of comparative rules.

Consider the following examples. Lending institutions might automatically approve any application that comes with an associated 720 credit score or higher. Those profiles with 650 to 720 would likely be approved but with a greater interest rate. Applications with credit scores below 650 might simply be rejected. The computer is consistent and fair using these standards, so no one is treated in a discriminatory way relative to any other applicant.

Federal laws require that each individual be granted a free credit report annually from every one of the big three credit bureaus Experian, Trans Union, and Equifax. This does not mean that anyone is required to hand out free credit scores. In fact there is no such thing as a truly free credit score offer. There are scores provided in exchange for signing up for trial membership services in things like credit monitoring services. In general though, individuals pay for their credit scores from each of the major credit bureaus.

The particulars of a Credit Score are interesting. It is always a three digit formatted number that ranges from 300 to 850. These become created using one of a variety of mathematical algorithms that work off of both the individuals' credit profiles and their credit report's particular information. This score is crafted with the intention of predicting risk to the lenders, not to benefit the person it covers. It is particularly concerned with the chances of an individual going delinquent on any credit obligations within the next 24 months after the score has been issued.

It is a common misnomer among many individuals that there is only one credit scoring model in the country. There are countless models that exist. It is only the FICO credit score that matters in nearly all cases though. This is because fully 90 percent of financial institutions within the United States rely on FICO credit scores in making their decisions on to whom they will extend credit and at what interest rate.

The higher the FICO score these algorithms generate, the lower the risk is to the various lenders. What makes matters more confusing is that there is not only one FICO credit score in existence for every adult American. Each of the three major bureaus generates its own particular score. Since 2009, consumers are only able to view two of their credit scores, those from both Trans Union and Equifax. This is because Experian chose to terminate its myFICO.com arrangements in 2009. Experian does not share their proprietary credit scores with consumers any longer.

Five different significant categories make up the FICO Credit Score. These are payment history (35 percent of the total component), Amounts owed (30 percent), length of credit history (15 percent), types of credit used (10 percent), and new credit inquiries and accounts opened (10 percent).

## What is a Creditor?

Creditors are those financial institutions or individuals who extend credit to a business or other individual. They carry this out by providing financing which they expect will be paid back at a set time in the future. There is another type of creditor as well. This is a company which delivers services or supplies to a person or other business yet does not insist on immediate payment. Since the customer actually does owe the company money for the goods or services provided in advance of payment, that company becomes their creditor de facto.

Within the universe of a creditor there are real and personal categories of them. Finance companies and banks represent real creditor situations. This is because they possess official and legally binding contracts which they sign with the borrower. In this action, they bind assets of the borrower as collateral against the loan in many cases. Typical collateral would be the underlying asset for which the borrower is obtaining credit in the first place. This is often a car, a house, or some other piece of Real Estate. A personal creditor is a family member of friend choosing to loan out money to their loved one or friend.

Real creditors do not loan out money out of the goodness of their hearts. Instead, they intend to earn profits by charging the borrowers interest for these loans. Looking at an example helps to clarify the concept. A creditor might loan out $10,000 to a borrower at a six percent rate of interest. The lending institution will realize earnings in the form of loan interest.

For this accommodation, the creditor is taking on some amount of risk that the borrowing business or individual might potentially default on the loan. This is why the majority of those extending credit will price the interest rate which they charge the borrower based on the business or persons' prior credit history and creditworthiness. It becomes important to borrowers of especially large amounts of money to have high credit quality so that they are able to obtain a more advantageous interest rate and save money on the interest payments.

The rates of interest on mortgages depend heavily on a host of different variables. Some of these are the nature of the lender, the credit history of the borrower, and the amount of the upfront down payment. Still, it is usually the creditworthiness that overwhelmingly determines the final interest rate which becomes applied to a loan such as a mortgage. This is because those borrowers who boast fantastic credit histories and scores come across as low risk for the creditor in question. It is why they enjoy the lowest of interest rates. As lower credit score-carrying borrowers prove to be considerably riskier for the creditors, they manage their risk by requiring a greater rate of interest in compensation.

There are cases where a creditor will not obtain repayment. In such cases, they do have several options. Banks and official real credit issuing entities are allowed to repossess the underlying collateral. This would mean they have the ability to seize either the car or home which secured the loan. Where unsecured debts are concerned, it is more difficult to collect. They might sue the borrower for the unpaid debts in these cases. Courts could choose to issue orders attempting to force the borrower to pay them back. They might do this by seizing assets in their bank accounts or by garnishing their wages with their employers.

Sometimes the borrowers will choose to file for bankruptcy. In these cases, the courts will be the ones to alert the creditor to the situation. There are cases where any non- necessary assets can be liquidated so that debts can be paid back. The order of priority will make unsecured creditors last in the receiving line.

## What is a Custodial Account?

A Custodial Account refers to a particular type of savings account. These can be accessed via a mutual fund company, financial institution, or brokerage firm. With these accounts, an adult controls and manages the funds or assets on behalf of a minor who is less than 18 years old. State laws govern the rules that affect these special accounts. Minors may not perform transactions in such an account without first obtaining mandatory approval of the custodian. Such an account might also be one of the retirement accounts which a custodian handles for any and all employees in a firm who are eligible to have one of these.

With a Custodial Account, it is typically the guardian or parent of the minor in question who has oversight on the account. Such investments contained in these forms of accounts are limited to mutual funds or similar products that regulated investment companies offer their clients. Every company that administers such a Custodial Account will have its own particular rules on the interest rate levels and account balance minimums they maintain.

What is interesting is that any person is allowed to contribute into a Custodial Account. The minors will not have access to any choices made by the account or money in it without their guardian’s consent until they attain the legal age of adult hood. At this point, the ownership of the account transfers over from the custodian(s) and on to the minor. The minor would then gain full decision-making powers over how and when to utilize this money.

Two different kinds of Custodial Accounts exist in the United States. These are the UGMA Uniform Gift to Minors Act administered accounts and the UTMA Uniform Transfers to Minors Act ones. With the UGMA, parents and other are able to provide assets to their minor children in the forms of cash, savings bonds, life insurance, annuities, or stocks. The UTMA permit parents to postpone any distributions from the account. Each state has its own age limits which can be established by the parents or guardians.

There are a number of advantages to these two types of Custodial Accounts. Withdrawal penalties, contribution limits, and income restrictions do not apply to either of them. When a single contribution in excess of $14,000 goes into the account, this does become treated as a “gift,” and the IRS will naturally then levy a gift tax on the total. Custodians also have the ability to transfer the account balance over to a 529 plan. In order to do this, the custodian first will be required to close out any investments inside the account which are not cash.

There are a few disadvantages for the minors to having one of these accounts. The government and university/college systems recognize such accounts as assets. This means that they will often decrease the ability of the minor to obtain financial aid in the college or university admissions process. This is why financial planners will often suggest that such an account should not be opened for any minor who might hope to qualify to receive financial aid packages.

Taxes will also apply to withdrawals from these accounts. Every state has its own ruling on the matter regarding whether they will be taxed at the rate of the minor or the parents' income tax bracket. Some of the unearned income becomes tax free. The rest will become fully taxable at either the child's or guardian's federal tax rate. There will also be capital gains taxes assessed on any earnings from liquidated assets in these Custodial Accounts.

Any gifts presented to such an account can not be rescinded later. The beneficiary of the account also can not be changed subsequently. The parents are required by law to file the child's tax returns when they have such an account until the minor becomes old enough to transfer over the ownership of the account. Once the minor attains the age of 18, then all dividends and earnings within the account will become subject to the minor's applicable tax rate.

## What is a Deferred Annuity?

A Deferred Annuity refers to a specific kind of annuity contract. These types of annuities delay income payments (in the form of either a lump sum or installments) to the point where the investor chooses to obtain them. There are two principal stages in these kinds of annuities. These are the savings phase and the income phase. In the savings phase, individuals put money into the contract. The income phase is the one after the annuity becomes converted so that the payments are distributed as arranged. With deferred annuities there are several sub-types. These include fixed, variable, equity-indexed, and longevity.

A Fixed Deferred Annuity operates similarly to a CD Certificate of Deposit. The main difference lies in how the interest income must be claimed. With these annuities, it becomes long-term deferred until the owners take disbursements from the contract. These fixed contracts come with a guaranteed rate of interest that all funds earn. The insurance company stands behind the guarantee. These are attractive choices for those investors who are averse to risk and who do not require any interest income until after they turn 59 and ½ or older.

A variable Deferred Annuity is something like an assortment of mutual funds. With annuities, they refer to these as sub-accounts. Each owner has personal control over the investment risk he or she engages in through selecting particular sub-accounts which may cover both stocks and bonds. The returns on these investments will influence how well the annuity performs. For most investors, it benefits them more to purchase shares in several index mutual funds. This is because deferring taxes to retirement could mean that the owners will possibly pay higher taxes when they are retired than when they are working. The fees can also be as high as greater than three percent each year with many variable annuities.

Equity indexed annuities work much like the fixed annuities but also have variable annuity-like features. They possess two features. The first proves to be a guaranteed minimum return. The second is the ability to obtain a higher return than this by gaining from a formula which is based on one of the popular indices of the stock market like the S&P 500 or the Dow Jones Industrial Average. The downside to this type is that it typically comes with expensive surrender charges that can last over a ten to fifteen consecutive year long period.

Buying one of these last categories, the longevity annuity, is akin to obtaining insurance for a long life expectancy. It is helpful to consider a real life example to better understand how this works out in practice. An investor who is 60 might decide to pay in $150,000 to one of these longevity annuities. In exchange for this consideration, the insurance company which backs it will promise to pay out a set dollar amount of income for the rest of the holder's life beginning 25 years later at age 85. The advantage to this type of arrangement is that the retirees can then spend their other retirement assets because they feel comfortable that there will be a steady income stream that will support them guaranteed the rest of their lives. All income and taxes would be deferred to the distribution age when the money begins being disbursed.

It is important to realize with these annuities that any early withdrawals realized before the owners reach their legal retirement age will come with a full 10 percent penalty tax on top of the regular income taxes which the IRS will assess. The income tax rate would be based on the tax bracket of the individual when they receive the distribution.

These deferred annuities have many interesting (but often expensive) options and features which the buyers can obtain. Some of these include future income guarantees and death benefits.

## What is a Defined Benefit Plan?

A defined benefit plan is a pension plan that serves as a vehicle for retirement. These plans give owners who are retiring benefits that are already pre-determined when they are established. These plans turn out to be a win-win situation for all parties.

Employees like the set benefit towards retirement that this provides. Employers also appreciate particular features of the plan. An employer is able to make larger contributions with this type of plan than with a defined contribution plan. Businesses can deduct the amounts they contribute from their tax liabilities. These types of plans are more complicated than the defined contribution plans. This is what sets the two types of plans apart. Defined benefit plans are more expensive to set up and to maintain than are alternative employee benefit plans.

What makes these plans more helpful to employees is the contributor. Employers usually contribute the most to them. Cases exist where employees can make voluntary contributions of their own. Occasionally the plan requires employees to make contributions. Whoever contributes, the benefits delivered by the plan are limited. The IRS sets and changes these limits every few years.

There are numerous distinctive features to these types of plans. An advantage to defined benefit plans is that plan participants can be allowed to take a loan against the value of the plan. Distributions before the participant reaches 62 are usually not allowed while the employee is still working for the company. The employees with the defined benefit plans are allowed to participate in other retirement plans.

Businesses have certain requirements with these plans as well. Companies of all sizes can participate in one. They are able to offer other types of retirement plans as well. Participating companies need to have an actuary who is enrolled in the plan decide how much the funding levels should be. Businesses also may not decrease the plan benefits after they have set them.

There are many advantages to defined benefit plans. Companies can confer significant retirement benefits on employees in a small amount of time. Employees can earn these benefits in a similarly short time frame. Even early retirement does not eliminate the ability to access these benefits. Employers appreciate that they can put more into these plans than with alternatives plans Employees love the predictable dollar benefits that the plans deliver. They also are happy to have a retirement account whose benefits do not depend on investment returns.

The schedule for becoming vested in the money of this benefit account varies. It can be set up for immediate full vesting. Schedules for vesting can stretch to as long as seven years with defined benefit plans as well. Some employers use the flexibility with these accounts to provide an early retirement package. Offering special benefit packages for early retirement is achievable with defined benefit plans.

There are also several downsides to these types of plans. They are the most complicated plan to administer and run. Defined benefit plans are also the most expensive kind of retirement benefit plan that a company can offer.

The IRS penalizes companies that do not make their minimum contribution requirement for a year. They do this using an excise tax when the minimums are not met. Some companies may wish to make larger contributions to the plan than they need to do. They might be motivated by the larger tax breaks. If a company over contributes, than an excise tax also applies.

## What is Delinquency?

Delinquency refers to primarily an individual (but also conceivably an entity or business) failing to make good on what was expected of them according to their duty or the law. It often pertains to failing to affect the minimum due payment or carry out a fiduciary responsibility. An individual who practices Delinquency is called a delinquent. These persons have contractually undertaken obligations to turn in payments on loan accounts according to a pre-arranged routine deadline.

This might include minimum monthly amounts of money owed on a car payment, a credit card payment, or a mortgage payment. As the individuals do not make these payments on time, they become delinquent. When mortgage holders become delinquent, the financial institutions holding the loans are able to start working through foreclosure processes. They will do this when the mortgage account stays unpaid for a specific length of time.

There are many different types of accounts on which people fall into Delinquency. This could be retail account payments, income taxes, mortgages, lines of credit, and more. Individuals who become delinquent suffer the consequences for these financial actions. Such impacts vary with the kind of Delinquency, cause, and length of time it has continued in this unfortunate state. As individuals become late on credit card bills, they can be charged late fees. Those who do not make their required tax payments can have their wages garnered or even their bank account levied by the Internal Revenue Service.

Besides these financial Delinquencies, there are responsibilities which when they are not carried out can be labeled delinquent. By not carrying out one's fiduciary duties, professional responsibilities, or other contractual obligations as set forth by custom or the law, individuals can be called delinquents as well. Police officers who do not professionally carry out their responsibilities to protect ordinary citizens in the line of duty can be found to be delinquent.

It is important not to confuse Delinquency with default. Individuals are officially delinquent at the point when they miss making a required payment of some sort in a timely fashion. By contrast, loan defaults happen as borrowers do not pay back a loan according to the terms on which they agreed to in their original contract. Loans can stay in the delinquent stage without being treated as in default for an unspecified amount of time. The amount of time this remains delinquent rather than in default varies considerably from one creditor and financial institution to another. For example, with student loans, the United States' Federal Government permits these to be fully delinquent for as long as 270 consecutive days before they become considered to be in default.

The U.S. keeps track of its various national Delinquency rates. Per the year 2016 in the fourth quarter, such Delinquencies amounted to 4.15 percent for real estate loans on residential loans, 2.15 percent on loans for consumer credit cards, and .85 percent for real estate loans on commercial loans. The government also maintains official statistics for these rates by year of loan issued. For 2016, this amounted to 2.04 percent, which was near the historically typical average.

The devastating global financial crisis and U.S. mortgage crisis which erupted in 2007 caused the rates to spike to a high in the Great Recession years which reached fully 7.4 percent in the year 2010 in its first quarter. For residential real estate, the rate topped out at 11.26 percent for these specific types of loans. Up to the year 2008 in its second quarter these Delinquencies had not been higher than three percent all the way back to the year 1994 in its first quarter.

## What is Depreciation?

Depreciation is the means of spreading out the price of a usable physical asset during the period of its practical life. Businesses engage in this process of depreciating assets for accounting and taxing purposes. Depreciation can also be the reduction of the value of an asset that poor market conditions create.

Where accounting and taxing purposes are concerned, the process of depreciation demonstrates the portion of the value of the asset in question that has been utilized. Where taxes are concerned, the rules are stricter. The IRS sets out the regulations for taking depreciation of tangible assets.

Businesses are permitted to deduct the expenses of the asset they buy as a business expense. They simply must abide by the IRS' rules as far as when and how much of the deduction they are permitted to log. This all comes down to which category the asset falls in and the amount of time for which it is expected to last.

In accounting, businesses attempt to correlate the cost of a particular asset with the amount of income that it practically earns the company. With regards to an item of equipment that costs them $1 million, it may have a practical life expectancy of 10 years. They would depreciate this asset over the course of ten years. The company would then expense out $100,000 of the asset value each accounting year. They would match up the income that the equipment generated the company every year as well.

Accountants can use depreciation tricks to impact the company's financial bottom line. This is because with enough depreciation, the income statement, cash flow statement, balance sheet, and statement of the owners' equity will all be impacted significantly. It is true that certain depreciation assumptions can have significant impacts on both the long term asset values and the results of short term earnings.

Other assets can see their value depreciated by unfortunate circumstances or poor conditions in the market. Two standout examples of this type include real estate and currencies. In the housing crisis of 2008, many home owners living in the most severely impacted markets like Las Vegas watched helplessly as their home values depreciated by even 50% of the value. The post Brexit vote results day saw the British pound plunge by over 10% in a single day.

Generally accepted accounting principles affect depreciation figures. This is because a company might pay for a long life asset in cash, as with a tractor trailer that delivers its goods to customers. According to GAAP principles though, this expense would not be shown as a cost against income then and there. Rather than this, the expense is listed as an asset on the company balance sheet. The value of the asset is consistently and continuously reduced out during the in-service life of the asset in question. As the expense is reduced, this is a form of depreciating the asset.

This is done because GAAP principles insist that all expenses must be recorded along with the accounting time-frame as are the revenues which they generate. In the example of the tractor trailer that costs $100,000 and lasts for approximately ten years, GAAP would look to see what the salvage value would be at the end of that time. Assuming it expected the trailer to be worth $10,000 at the end of the depreciating period, than the expense would be depreciated at a rate of $9,000 for each of the ten years (using the formula of cost – salvage value/ number of years depreciating).

With long term assets, the depreciating typically involves two lines. There would commonly be one that displayed the price of the assets and another that demonstrated the amount of depreciating that had been charged off against the assets’ value.

## What is a Depression?

Depressions in economics are loosely defined as major declines in a country's GDP, or gross domestic product. The gross domestic product is made up of four major components. These include money that consumers spend, government spending for goods and labor, investment affected by government agencies and individual companies, and the net sum of the country's exported products.

All of these elements are combined to come up with the country's annual gross domestic product. Another simpler way of stating the GDP is in the counting of everything spent on services, goods, research, investments, and labor in the nation.

Depressions are then commonly said to happen as the country's GDP drops by minimally ten percent in only a year. There is not any consensus on the precise amount of decline in terms of percentage that must occur. Following the notorious stock market crash in 1929, the Great Depression that happened in the United States and throughout Europe demonstrated a sharp decline in GDP not only the first year but also over the following years.

In the months that came after this market crash, the U.S. GDP fell by in excess of thirty percent. After that it rose for a while, though not nearly to the pre-crash levels seen earlier in the U.S. This demonstrates the difficulty in simply defining depressions simply by looking at GDP declines and increases.

The Great Depression is mostly held to have continued until the very end of the 1930's decade. Real recovery nationally then did not begin until the outbreak of World War II in 1939. The reason that this is the case is that additional factors besides simply GDP declines have to be considered in evaluating what is and is not truly a depression.

The Great Depression had many negative characteristics besides simply falling GDP's. With plummeting industrial output, major numbers of jobs disappeared. As significantly smaller amounts of money came into workers hands, a great deal less could be spent on consumer goods or business investments. Without this money circulating back to businesses, firms were unable to hire workers back. The numbers of people dependent on help from the public assistance funds were greater. Job recovery did not materialize as hoped.

From time to time the Gross Domestic Product did rise in the 1930's. It never returned to the normalcy seen before the beginning of the Great Depression until the United States became fully involved in the Second World War. Demands for military equipment and weapons for the war did many things to help the American economy. Young men found employment in the army, industry suddenly had rising demand for military products, and job openings were more than the able bodied people available to fill them. At this point, women began entering jobs in industry in the place of men for the first time.

Nowadays, some respected economists worry that a depression like one not seen since the thirties could again be gripping the nation. This is because unemployment from the Great Recession remains stubbornly high, goods and services' prices are rising at a faster pace than payrolls in the majority of industries, and requirements for public assistance are higher than they have been since the end of the Second World War. The biggest fear today is that many of the jobs that are disappearing, such as technology and manufacturing, will never return, as they are migrating overseas to countries where workers are paid significantly less.

## What is a Digital Currency?

A digital currency refers to an asset which possesses numerous interesting and groundbreaking characteristics. On the one hand, they are much like traditional forms of money that people spend and keep, such as cash and coins. On the other hand, such currencies are not physical. This means that they do not have literal physical representations or the associated physical limitations. This currency is kept in a digital wallet, which can have physical characteristics if it is a cold storage type of digital wallet.

Digital currency in particular and electronic money in general is gradually becoming more significant as the world continuously evolves into a society that is more and more cashless. The amount of money supply which is expressed in digital format is constantly growing. Thanks to the rising popularity of such crypto-currencies as especially Bitcoin, there now exists the distinct possibility of migrating entirely away from traditional paper bills and coins at some point in the future.

Such digital currency only can exist and function when secure transactions are guaranteed online. This makes these currencies both an occupant and hostage of digital environments. They are generally represented and depicted in the form of information. Bitcoin has become so popular that numerous companies currently accept this form of digital currency. PayPal even allows for the utilization of Bitcoin now.

It is interesting to note that Bitcoin is not the only digital currency option available to individuals and businesses for transactions. A range of such currencies exist which can be used to pay for transactions. The next five most important after Bitcoin are Litecoin, Darkcoin, Peercoin, Dogecoin, and Primecoin. They have many advantages over traditional money.

The first of these is the instant transfer ability. Individuals are no longer required to wait on a central clearinghouse somewhere to handle the transaction. The days of from one to five business days waits for transfers are long gone thanks to these digital currencies. Crypto-currencies are so popular precisely because the effect of such a transfer is instantaneous.

The majority of these digital currencies also come with no fees. Whatever something costs in Bitcoin or another such digital currency, people simply pay with it at transaction cost and no hidden fees are applied. This is a stark difference from many credit card or even PayPal transactions.

Individuals and businesses especially love the fact that these digital currencies come completely without borders. This means that a seller or buyer does not have to be concerned with exchange rates or foreign transaction fees (which are often exorbitant). Cross border transactions are simple and effective to put through, though people must still watch the exchange rate at which they are offered in the local currency into which they are paying.

For the majority of applications and scenarios, these crypto-currencies also prove to be extremely secure. It is the digital wallet where the danger lies. The money is not being stored in a bank vault or even on a bank computer. The wallet must be backed up on a daily basis to prevent it from being lost. In order to ensure that it is secure, the only way to guarantee this is by utilizing cold storage.

Cold storage takes the digital wallet completely offline and off network. It means that the "pin code" like authorization element will be stored on a small device that resembles a USB miniature drive device. The nature of these devices is that they do not accept software. This means that Trojan Horses and viruses which steal information can not be imprinted on them. They also are never online long enough to be hacked, as users only connect them to a computer long enough to digitally sign the transaction.

These digital currencies have convincingly changed the rules of the financial transaction game. Their limits are two fold. The first is that a business must be willing to accept Bitcoin or rival currencies in order for a consumer to pay with it. The second is that digital currency regulation is inevitable. Central banks are jealous animals. They are already suspicious of their monopolized currency-printing functions being assumed in a non-regulated and more difficult to track environment by a non-centralized form of money.

## What is Diversifying?

Diversifying refers to the means of effectively lowering your investing risk by putting your money into a wide range of various assets. A truly well diversified portfolio offers the benefits of lower amounts of risk than those that are simply invested into one or two asset classes or kinds of investments.

Everyone should engage in some amount of diversification, even if the individual proves to be one who is tolerant of risk. Those individuals who really fear the present day economic uncertainties and very real amounts of risk in the market place will perform better forms of diversification into more asset groups.

Mainstream diversification is always recommended by financial experts because of the common example of not placing all of your investment eggs into just a single basket. If you do have all eggs in the one basket and then drop the basket along the way, then they can all break. The idea is that by placing each egg into its own individual basket, the odds of breaking all of the eggs declines significantly, even if one or several of them do get broken themselves.

Portfolios that have not engaged in diversifying might have only one or two corporations' stocks in them. This proves to be a dangerous investment strategy, since no matter how good a company looks on paper, its stock could decline to as low as zero literally over night. The past few years of the financial collapse have taught many investors the extremely painful lesson that even once blue chip financial companies' stock can decline to practically nothing as they spectacularly collapse.

Any financial expert will confidently state that portfolios made up of a dozen or two dozen varying stocks will have far less chance of plummeting. This becomes even more the case when you pick out stocks from a variety of types, industries, and market capitalization sizes of corporations. Better diversifying in stocks would include some companies that are based in other countries. Diversifying does not simply stop with stocks. It steers investors into bonds, mutual funds, and money market funds as well. Though all of these different investments diversify you, they still leave you mostly exposed to the one currency of the U.S. dollar.

More thorough diversifying will put at least a portion of your investments into assets whose values are not solely expressed in terms of only the American currency. This would include commodities, such as gold, silver, oil, and platinum in particular. Foreign currencies, such as the Euro, Pound, or Swiss Franc are another fantastic means of diversifying, and they can be acquired on the world FOREX exchange in currency accounts.

Real estate, including commercial properties, residential properties, vacation homes, or even real estate investment funds, offers another way to diversify away from U.S. dollar based financial investments such as stocks, bonds, mutual funds, and money market accounts. The strongest diversifying advice is to have at least three to seven completely different investment class vehicles, preferably one or more of which is not denominated in only U.S. dollars.

## What is a Dividend?

Dividends represent portions of a company's earnings that are returned to the investors in the company's stock. These are typically paid out in cash that is either deposited into the investors' brokerage accounts or can be reinvested directly into the company's stock. As an example of a dividend, every share of Phillip Morris pays around 4.5% dividends on the stock price each year.

Investing in dividend paying stocks is a particular passive income investment strategy that is also a cash flow investment. This passive, or cash flow, income means that you collect income just from holding these stock investments. This kind of strategy entails building up a group of blue chip company stocks that pay large dividend yields which add money to your account usually four times per year, on a quarterly basis. Investors in dividends tremendously enjoy watching these routine deposits in cash arrive in either their bank account, brokerage account, or the mail.

Dividend investors who understand this type of investment are looking for a number of different elements in the stocks that they buy. Such dividend stocks should include a high dividend yield. To qualify as high yields, most value investors prefer to see ones that pay more than do the interest rate yields on U.S. Treasuries. Dividend yields can be easily determined. All that you have to do is to take the amount of the dividend and divide it by the price of the stock. So a stock that offers a $2 dividend and costs $40 is paying a five percent dividend yield.

Dividend paying stocks should also feature high dividend coverage. This coverage simply refers to the safety of a dividend, or how likely it is to be reduced or even eliminated. Companies that earn their profits from a large array of businesses are more likely to be able to continue paying their dividends than are companies that make all of their money off of a single business that could be threatened.

A more tangible way of expressing the coverage lies in how many times the dividend total dollar amount is covered by the corporation's total earnings. A company with fifty million dollars in profits that pays twenty million in dividends has its dividend covered by two and a half times. Should their profits drop by ten percent or more, they will have no trouble still paying the same dividend amount to shareholders. The dividend payout ratio is another way of measuring this. On the above example it would be forty percent. Dividend investors prefer to see no more than sixty percent of profits given out as dividends, as this could signify that the company lacks future opportunities for growth and expansion.

Qualified dividends are a third element that dividend investors are looking for in their dividend paying stocks. This simply means that stocks that are kept for less than a year do not benefit from lower tax rates on dividends. Since the government is attempting to convince you to become a longer term investor, you should take advantage of these lower tax rates by only buying stocks with qualified dividends that you have held for a full year and more.

## What are Dividend Stocks?

Dividend Stocks refer to stocks that pay especially generous and predictable shares of the corporate earnings out to their share holders. They are especially important for those investors who require dependable continuous streams of income off of their investment portfolios, such as retirees. This is why the optimal stock portfolio for those who are officially retired includes a strong and diverse mixture of industry-leading corporations which provide consistent, generous dividend yields.

These Dividend Stocks are famous for paying out significant stock dividends as a distribution on their earnings. They may pay this in the form of additional shares or as cash, depending on the wishes of the share holder in question. Sometimes the company will declare a stock dividend instead of a cash dividend, removing the ability of the shareholder to choose the form in which the dividend actually pays. When dividends become payable strictly as more stock, they are also known as stock splits.

For the companies that declare regular cash dividends of these Dividend Stocks, with each share stake holders have, they receive a set portion of the earnings from the corporation. This is literally being paid for simply owning the stock shares.

Consider a real world example to better understand how these Dividend Stocks work out in practice. Gillette, the world famous market leader in the shaving razors industry, may pay a dividend of $4 on an annual basis. Typically these dividends will be paid practically on a quarterly basis. This means four times each year Gillette would provide a $1 payout for each share of stock which the stake holders possess. If an investor owned 100 shares, he or she would receive four checks per year of $100 each check at approximately the conclusion of each quarter.

Most dividends from these Dividend Stocks come out in cash. Investors have the option to have them reinvested into additional company stock shares. Sometimes the corporation will provide a more advantageous reinvestment price than the current market prices to encourage such reinvesting of dividends in the company stock. These plans are called DRIPS (Dividend Re Investment Plans).

There are also occasional special dividends offered on an only one-time basis. They could be provided if the company wins a large and lucrative lawsuit, liquidates its share of an investment and receives a windfall payout, or sells part of the business to another firm for cash. These dividends can be made in cash, property, or stock share dividends.

There are several important dates with which Dividend Stocks' investors need to be familiar. These are declaration date, date of record, ex-dividend date, and payment date. Declaration date is the calendar day when the company's Board of Directors announces a dividend pay-out. This is the point where the firm adds a liability for the dividend payout to its company books. This means that it owes money (or shares) to the stake holders. This date will be the one when they announce both the date of record as well as the dividend payment date.

The date of record is the one where the corporation will review the appropriate records to determine who is holding the shares and is thus eligible for the dividends. Only holders of record will receive the dividend payment. The ex-dividend date is the day after which any investors who wish to receive dividends must own the shares. Only stake holders who possess shares on the day before the ex-dividend date get paid. Finally dividends are literally doled out on the payment date.

While most stock companies will pay out dividends on either a quarterly or half yearly basis, real estate investment trusts are structured differently. They pay out their dividends on an every-month basis as they receive monthly income from their various commercial, industrial, and/or residential properties.

## What are Emerging Markets?

Emerging markets prove to be those countries of the world that possess business and development activities that stand in the midst of fast paced industrialization and growth. Today, twenty-eight different emerging markets are considered to exist around the globe. By far and away the largest of these are China and India. The largest regional emerging market today is the ASEAN-China Free Trade Area that began operating on the first of January in 2010.

The concept of emerging markets dates back to the 1970's, when the term used to refer to these particular markets was LEDC's, or less economically developed countries. The comparison alluded to their levels of economic development as compared to the U.S., Western Europe, and Japan. Such emerging markets were supposed to offer higher risk levels for investors as well as the opportunity to make greater profits.

As this term had a slightly negative connotation, the phrase emerging markets replaced it. Some have claimed that this newer term is deceptive, since no one can be assured that a given country will actually migrate from less developed to a more substantially developed one. This has generally proven to be the case, but there are exceptions. Argentina has occasionally digressed from more to less developed.

Numerous examples of these types of emerging market economies exist, since twenty-eight different ones are labeled. These include countries that are grouped in more advanced emerging economies, such as Brazil, Mexico, Taiwan, South Africa, Poland, and Hungary. The secondary emerging economies are as follows: China, India, Chile, Colombia, Egypt, the Czech Republic, Indonesia, Morocco, Malaysia, Peru, Pakistan, Russia, the Philippines, Turkey, Thailand, and the United Arab Emirates. This list is compiled and occasionally updated by the FTSE group based in London, Great Britain.

In the last few years, several competing terms have arisen to challenge the emerging markets phrase. One of these is that of rapidly developing economies that refers to emerging markets like Chile, Malaysia, and the United Arab Emirates. All of these nations are experiencing torrid paces of growth.

The biggest of the emerging markets have earned their own acronyms in the past several years as well. Chief among these are BRIC, signifying Brazil, Russia, India, and China. BRICS includes the above four nations along with South Africa. BRICM is the original four BRIC nations and Mexico. BRICET signifies the first four BRIC members plus Turkey and Eastern Europe. BRICK includes the original four nations of the BRICK along with South Korea. Finally, CIVETS is comprised of Columbia, Indonesia, Vietnam, Egypt, Turkey, and also South Africa. Although none of these countries are particularly aligned by policy or ideology, they are currently gaining a more important role within the overall world economy, as well as in international politics.

For an investor who wishes to invest in these economies, there are several different investment vehicles available to them. Among these are both Exchange Traded Funds and Mutual Funds. One of these is the iShares sponsored MSCI Emerging Markets Index ETF with a symbol of EEM. Another is the iShares run MSCI EAFE Index ETF that has a symbol of EFA. Though these funds' prices can be up spectacularly in good years, they can also experience precipitous declines in periods of instability, such as during the worldwide financial crisis of 2007-2010.

## What is Escrow?

Escrow is a concept that relates to a sum of money that is kept by an uninvolved third party for the two parties involved in a given transaction. In the U.S., this escrow is most commonly involved where real estate mortgages are concerned. Here is it utilized for the payment of insurance and property tax during the mortgage's life.

When you place your money into such an escrow account, an escrow agent who is a neutral third party holds it. This agent works on behalf of both the borrower and home lender. The escrow agent's job in the transaction is to act as the principal parties instruct him or her. As all transaction terms are fulfilled, the money is then released. These escrow accounts may be a part of transactions ranging from small purchases affected on online auction sites to building projects that total in the multiple millions of dollars.

Escrow is utilized in these property transactions when it is time for your mortgage to close. At this point, the borrower's lender will commonly insist that you establish an escrow account for paying for both home owner's insurance and property taxes. You are required to make a first deposit to the account. After this, you make payments into the account each month. Typically, these are simply a part of your monthly mortgage payments. When it is time for your insurance premiums and taxes to be paid, your escrow agent then releases the funds.

The concept behind this escrow is to give your lender peace of mind and protection that your insurance and taxes are both paid in a timely manner. Should you not pay your property taxes, the city might place a lien on this house, making it hard for the bank to sell it if they needed to. Similarly, if a fire burned down the house and the insurance premiums had not been paid, the bank would not have any underlying collateral for the mortgage anymore.

You the borrower also benefit from this escrow account. It allows you to stretch out your taxes and insurance costs over the course of the entire year's twelve payments. As an example, your annual property taxes might prove to be $3,000, with a yearly insurance cost of $600. This would mean that when spread out over twelve even payments, the escrow costs would amount to only $300 each month.

The nice thing about escrow accounts and payments is that they come with an included safeguard built in. Should you miss a single payment, then the responsible lender is still capable of paying the accounts in a timely manner. The U.S. Federal law actually stops these lenders from storing up in excess of two months' worth of payments in escrow. As insurance and tax amounts will vary a little from one year to the next, the lender will have to examine and make adjustments to your annual escrow payments.

## What means ESOP?

An ESOP stands for the Employee Stock Ownership Plan. These are not exactly retirement savings accounts in the traditional sense. They are critical investment vehicles with tax advantages. With these types of accounts, employers establish a trust fund for the employee. The employer is then able to transfer shares of its own stock to this fund.

They might alternatively allocate cash with which the employees' account can purchase already existing shares of stock. These ESOPs prove to be the most typical means for employees gaining part ownership in their company within the United States.

Every company has its own unique formulas for allocating shares to its participating employees. The shares come out of the company trust account and transfer over to the appropriate individual employee accounts. As with other benefits for employees that are employer sponsored, vesting rules apply.

Gaining full vesting in stock option accounts requires the employee to reach a minimum number of years at the company. Once this seniority level and vesting is obtained, the employee fully owns the shares and may sell them at will. When employees part with the company, the vested shares of stock have to be purchased from them at the full market price.

There are also tax benefits to these stock option plans. Companies that issue them accrue the advantages of tax deductions for the stock value. Employees do not have to pay any taxes on employer offered contributions. They are also able to transfer the distributions to IRAs or other qualified retirement vehicles. This will help them to avoid realizing capital gains or income taxes.

These stock option plans do have limitations and rules pertaining to rollovers and withdrawals. Distribution rules can be different from one employer to the next. In general the distributions are allowed to be rolled over to other retirement plans which are qualified. Any person with an ESOP will find the distribution rules detailed in the Summary Plan Description section.

As with 401(k)s and other types of retirement vehicles, penalties for early withdrawals do apply. An employee must be 59 ½ to begin receiving non penalized distributions. These distributions become mandatory on the April 1st that follows the year the employee reaches 70 ½. Companies have the choices of making these account distributions with cash, stocks, or a combination of the two.

Regardless of the way they give them out, employees are always allowed to sell back vested stock shares. The proceeds from these sold shares can be transferred into self directed or traditional IRAs to defer taxes. They may also roll or transfer their distributions to a different company's qualified retirement savings vehicle. The money will only become taxable at ordinary income tax rates once it is withdrawn later.

Participants in these stock option plans are not able to purchase any types of gold investments with the distributions. The only exceptions are when an employee has obtained diversification rights from his or her employer. Normally only employees of gold mining companies would be able to acquire either paper or physical gold in such a retirement savings account.

Because of these limitations, rolling over distributions from a stock option account to a self directed IRA makes sense. Once the funds are in a self directed account, the holders will be able to choose where they invest these funds. They will then have a variety of tax free alternative investments such as gold and other precious metals.

There are a few downsides to the employer established and funded profits sharing plans. Investment choices are as limited as can be imagined. The account owner also has to complete the company's vesting schedule. This means that the employees can only access their funds once the vesting period of years has elapsed. ESOP's also carry risks specific to the employee's company. Should the employer go bankrupt, the plan may become closed. An employee might no longer be allowed to contribute to the plan or account at this point.

## What are Exchange Traded Funds (ETF)?

These ETF's prove to be stock market exchange traded investment funds that work very much like stocks. Exchange Traded Funds contain instruments like commodities, stocks, and bonds. They trade for around the identical net asset value as the assets that they contain throughout the course of a day. The majority of ETF's actually follow the value of an index like the Dow Jones Industrial or the S&P 500. Since their creation in 1993, ETF's have evolved into the most beloved kind of exchange traded instruments.

The first Exchange Traded Fund particular to countries proved to be a joint venture of MSCI, Funds Distributor, and BGI. This first product finally turned into the iShares name that is accepted and recognized all over earth today. In the first fifteen years, such ETF's were index funds that simply followed indexes. The United States Securities and Exchange Commission began allowing firms to establish actively managed ETF's back in 2008.

Exchange Traded Funds provide a number of terrific advantages for smaller investors. Among these are elements like simple and effective diversification, index funds tax practicality, and expense ratios that remain very low. While doing all of this, they also offer the appeal of familiarity for you who trade stocks. This includes such comfortable and helpful options as limit orders, options, and short selling the ETF's. Since it is so inexpensive to purchase, hold, and sell these ETF's, many investors in ETF shares choose to keep them over a longer time frame for purposes of diversification and asset allocation. Still other investors trade in and out of these instruments regularly in order to participate in their strategies for market timing investing.

Exchange Traded Funds boast of many advantages. On the one hand, they provide great flexibility in buying and selling. It is easy for you to sell and buy them at the actual market price any time during a trading day, in contrast to mutual funds that you can only acquire at a trading day's conclusion. Since they are companies that trade like stocks, you can buy them in margin accounts and sell them short, meaning that they can be used for hedging purposes too. ETF's also allow limit orders and stop loss orders, which are helpful for assuring entry prices and protecting profits or safeguarding from losses.

ETF's also provide lower costs for traders. This results from the majority of ETF's not being actively managed. Also, ETF's do not spend large amounts of money on distribution, marketing, and accounting costs. The majority of them do not have the fees associated with most mutual funds either.

ETF's are among the greatest vehicles for diversifying portfolios quickly and easily. As an example, with only one set of shares, you can "own" the entire S&P 500 index. ETF's will give you exposure to country specific indexes, international markets, commodities, and even bond indexes.

ETF’s have two other advantages. They are both transparent and tax efficient. Transparent in this regard means that they are clear in their portfolio holdings and are priced all day long. They are tax efficient as they do not create many capital gains, since they are not in the business of buying and selling their underlying indexes. They also are not required to sell their holding in order to meet redemptions of investors.

## What is Expense Ratio?

Expense ratio relates to the costs that a mutual fund incurs as it trades and does normal business. Typical mutual fund expense ratios include a number of different costs. Among these are management fees, transaction costs, custody costs, marketing fees, legal expenses, and transfer agent fees.

Management fees comprise those charges that the fund pays to the company which handles the portfolio management. They invest the fund's money as per the direction of the mutual fund board of directors. Management costs are typically the largest single portion of the mutual fund's expenses.

These fees commonly range from as little as .5% to as much as 2%. Lower fees are usually more advantageous for investors. This is because every dollar that goes to the management of the fund is not increasing the share holders' wealth. Some mutual fund types charge a higher amount in fees. International or global mutual funds will usually cost more than simple domestic market mutual funds. They justify these greater charges by the difficulty of managing an international portfolio.

Transaction costs include the fees that the fund pays to stock brokers. These are negotiated to extremely low rates such as a penny per share or even lower thanks to the enormous volumes that mutual funds trade. Those funds that are constantly purchasing and selling investments create significantly greater transacting costs for themselves and their investors. Higher turnover rates like this also can lead to larger capital gains taxes and other costs.

The investment holdings of a mutual fund must be kept by a custodian bank. This creates custody costs where these banks register the bonds, stocks, and other investments for the fund. Some of the banks do this electronically and others keep actual stock certificates in their vault storage.

Custodian banks also collect interest and dividend payments, maintain accounting for the various positions so gain/loss info is readily available to management, and handle stock splits and other transaction issues. These custodian costs prove to be a less significant percentage of expense ratios for the mutual funds.

Marketing fees for mutual funds come out of the money that the investors pool. This money is utilized to advertise the fund so they can raise additional investment dollars. More money in the fund means more management fees for the portfolio managers. These 12b-1 marketing fees are money that does not benefit an investor after the fund exceeds $100 million in net assets. A very small number of brokers actually refund such fees to their investors.

There are some legal expenses that mutual funds must incur in the course of normal operating business. These include for paperwork they are required by law to file for regulators like the SEC, specific licenses, incorporation, and other legal procedures. The majority of funds count such costs as a small amount of their overall expense ratio.

Transfer agent costs cover the expenses that arise when a shareholder cashes out or buys into the fund. Transfer agents must handle various account statements, paperwork, and money in the process. These agents take care of all the mundane daily paperwork for purchases, redemptions, and processing which keep the fund and other capital markets working.

There are various other costs that are not included in the mutual fund expense ratio but many experts feel should be. These include mutual fund sales loads. These fees are simply commissions that go into the pocket of the institution, company, or stockbroker that persuaded you to buy the mutual fund in the first place. Because of these and other high costs of many mutual fund expense ratios, some people prefer low cost index funds that involve very low management costs.

## What is the FICO Score?

FICO Score refers to the overwhelmingly most popular and heavily utilized credit score in the United States. The company which created, owns, and manages it to this day is Fair Isaac Corporation. Financial institutions that loan out money employ this FICO score for an individual to assess any credit risk and decide whether or not they will offer the person credit. Sometimes they also consider specific information on the credit report of the borrower, but this is increasingly uncommon.

The reason for this is that the FICO score contemplates a well-rounded set of risk parameters for the would-be borrowers. These five areas it considers and draws upon to issue a credit score for credit worthiness include the individual's payment history, present amount of debts, types of credit utilized, amount of credit history, and new credit inquiries and issued accounts.

Ninety percent of financial institutions in the United States that offer loans rely on the FICO score for assessing the creditworthiness of an individual. These scores vary from as low as 300 to as high as 850. Generally speaking, scores over 650 represent desirable credit history. Individuals who boast less than 620 conversely typically find it hard to get decent financing offers approved at reasonable interest rates. Financial institutions claim that they also consider various other details besides FICO scores. These include history of time at a job, applicant's income, and the kind of credit they are seeking.

It is interesting and illuminating to understand how the three main credit bureaus calculate this FICO Score. Fair Isaac Corporation has its proprietary model in which they weigh all categories differently for every individual. This makes it more difficult to say with certainty what percentages in each of the five categories they consider.

Yet generally speaking, payment history represents 35 percent of the total. Amount owed on accounts comprises 30 percent generally. Amount of years of credit history equals approximately 15 percent. Credit mix equates to around 10 percent. New credit inquiries and accounts represent about 10 percent.

Payment history is the simple answer to the question, "does the individual borrower pay the accounts in a timely fashion?" Thanks to the exhaustive nature of credit history, the bureaus clearly demonstrate the payments which have been made for every single line of credit. The reports make special note if any of the payments came in 30, 60, 90, 120, or still more days later than due.

Amounts owed on accounts pertains to the dollar amounts individuals owe on their various accounts as a percentage of the total available credit. This does not mean that possessing a great amount of debt ruins a credit score. What the Fair Isaac Company is considering is the ratio of amount owed to amount available. A clear example shows that when Ringo owed $100,000 yet was not near his limits on any of the accounts, he had a higher credit score than George who only owed $25,000 yet had nearly maxed out his credit card accounts.

Credit history length is a complex category. FICO considers the age of the oldest account as well as the age of the most recent one. They then compile the average account age and come up with a value for this category. Those with shorter credit histories can still get a good credit score.

Credit mix pertains to the variety in types of credit accounts. Higher category credit scores go to those people who have a strong and varied mix of credit cards, retail accounts, and installment loans like mortgages, vehicle loans, and signature loans.

Finally, the Fair Isaac Company does not like recently opened accounts in much of any quantity. When borrowers take out a range of new credit lines and accounts in only a brief amount of time, this tells them that the person is becoming a credit risk and thus decreases the total FICO score.

## What is a Financial Statement?

Financial statements are official records of a business' or personal financial activity. With businesses, financial statements present any and all pertinent financial activity as usable information. They do this in a clear, organized, and simple to comprehend way.

Financial statements are commonly comprised of four different types of financial accounts that come with an analysis and discussion provided by the company's management. The Balance sheet is the first of these. It is known by several other names, including statement of financial condition, or statement of financial position. The balance sheet details will outline a corporation's ownership equity, liabilities, and assets on a particular date. This will give a good picture of the general strength and position of the company.

Financial statements similarly include income statements. These can also be called Profit and Loss statements too. They outline numerous important pieces of company information, such as corporate expenses, income, and profits made in a certain time period. This statement explains all of the relevant financial details to the business' operation. Sales and all associated expenses are included under this category. This section of the financial statement proves to be the nuts and bolts of the whole document. It provides a snap shot of the company's ability to generate sales and turn profits.

A statement of cash flow is also a part of a complete financial statement. As its name implies, this section will share all of the details regarding the company's activities pertaining to cash flow. The most important ones that will be outlined include operating cash flow, financing, and investing endeavors.

The last element of a financial statement includes the statement of retained earnings. This section of the document makes good on its name to detail any changes to a corporation's actual retained earnings for the period that is being reported. These four sections of a financial statement are all combined together to make the consolidated financial statement, once they are combined with the analysis and discussion of management.

With large multinational types of corporations, such financial statements are typically large and complicated, making them challenging to read and understand. To assist with readability, they may also come with a group of notes for the financial statement that also covers management's analysis and discussion. Such notes will go through all items listed on the four parts of the financial statement in more thorough detail. For many companies, these notes for financial statements have come to be deemed a critical component of good and complete financial statements.

Financial statements are used by several different groups of people who are looking at a company. Investors use them in order to determine if the company and its stocks or bonds make a sound investment with a chance of providing good returns on investments and profits in exchange for limited risks. Banks utilize these financial statements to decide if a company is a good credit risk for their loan dollars. Institutions and other groups that may be considering a cash infusion or buyout of the company use such financial statements to decide if the company is a viable investment or acquisition target.

## What is a Fixed Annuity?

A Fixed Annuity refers to a particular form of annuity contract. Insurance companies make such contracts with individuals who are mostly saving for retirement or estate planning. Two main types of these annuities exist, variable and fixed annuities. The fixed one permits investors to add money to the account which is tax deferred. The investor furnishes a lump sum of money in exchange for which the life insurance provides a fully guaranteed and fixed interest rate at the same time as they also guarantee 100 percent of the principle invested. These annuities are often popular for their ability to offer the annuity holder (annuitant) a fully guaranteed income on a regular basis. This can be arranged as a specific number of years or for the remainder of the individual's life.

The motivation for a person to turn over a large sum of money to an insurance company for such a Fixed Annuity lies in the wish to obtain guaranteed returns while not having any original principal at risk. The second factor centers on the special tax advantages that these contracts with insurance companies enjoy. They receive many of the identical tax advantages from which life insurance policies benefit. Among these are earnings growth on a tax-deferred basis. This does not mean that taxes will not be paid, only that they will not be due until the contract becomes annuitized into monthly payouts or the earnings in the account become withdrawn.

There are a number of advantages to these types of Fixed Annuity investments that continue to draw investors to them year in and out. They offer guaranteed minimum rates, competitive yields which are fixed, guaranteed income payments, withdrawal ability, tax deferred growth, and principal safety.

The guaranteed minimum rates are nice but not forever it is important to note. These exist for an initial period only. The subsequent rates becomes adjusted utilizing a certain formula or alternatively employing whatever the prevailing yield is in the investment accounts of the insurers. Some fixed annuities will also offer an extended minimum rate guarantee as a protection in case interest rates decline in the future.

Competitive yields that are fixed come from the life insurance firm's investment portfolio which generates them. These investments mostly go into both high quality corporate bonds and U.S. government bonds. This yield is usually greater than a comparable yield on another investment which comes without risk. Many times this will be guaranteed by the insurance company for anywhere from at least one to as many as ten years.

To many annuity buyers, the guaranteed income payments are the greatest benefit to them. This feature becomes activated when the holder converts the fixed annuity into what is known as an immediate annuity. They can do this whenever they wish to provide a fully guaranteed monthly income payout that can last the remainder of the annuitant's life if they so desire.

Withdrawals are possible with these forms of Fixed Annuities. Holders can take an annual withdrawal every year that is as high as 10 percent of the value of the account. Any amounts greater than 10 percent will be penalized with a surrender charge if this occurs during the surrender period (usually ranging from seven to 12 years from contract start). Every year this surrender charge amount decreases until it eventually reaches zero. At that point withdrawals exceeding 10 percent of the account become penalty-free. There would still be the IRS tax penalty which amounts to ten percent (plus regular income taxes levied as well) on any withdrawals made before the owner reaches 59 and ½ years of age.

Principal safety is a rare commodity in these financially unstable times in the world. Annuities guarantee this, but the strength of the guarantee is only as good as the life insurance company that makes it. This is why investors should only invest their money with those life insurance firms which have at least an A or higher financial strength rating.

## What is Garnishment?

Garnishment of wages refers to a legal procedure which results in an employer withholding part of an individual's earnings so that a debt can be paid. The vast majority of such garnishments occur because of an order from the court.

Other types of this form of wage collection happen when either a state taxing agency or the IRS itself levies wages against taxes that are not paid. Other federal agencies may similarly garnish wages for debts people owe the federal government which are not tax related. A voluntary wage assignment should not be confused with garnishing wages. Sometimes employees will instead agree of their own free will to turn over part of their earnings to creditors or for child support.

Federal law governs the garnishing of wages. The Consumer Credit Protection Act in Title III controls the maximum totals that may be taken from an employee's earnings. It also safeguards the employees so that they may not be fired when their pay is garnished for a single debt. The U.S. Department of Labor and its Employment Standards Administration administers this Title III under its Wage and Hour Division. It may not order or countermand wage garnishment. The courts or agencies responsible for beginning the garnishing are the only ones which can modify or cancel such judgments or actions.

This garnishing law applies to any individuals who earn personal income from a job, such as from salaries, wages, bonuses, commissions, or from other forms of earnings like from retirement vehicles or pensions. Tips are not covered by the laws on garnishing wages. This law enforces a maximum sum that may be taken from any pay period or work week earnings, no matter how many orders the employer receives. Normal garnishments that are not for taxes or child support may not exceed 25% of the disposable earnings of the employee.

Alimony or child supports have their own maximum amount limitations. When the worker supports another child or spouse, the law permits as much as 50% of disposable earnings to go for child or alimony support. If no other spouse or child is involved, then as much as 60% may be taken from payroll for such alimony or child support. Besides this when support payments are behind, another 5% may be garnished to catch up on back payments.

Other garnishments have different maximum earnings amounts for which the law allows. Federal agencies and agencies collecting on their behalf may take as much as 15% of all disposable earnings in order for the U.S. government to be repaid. This amount also applies for monies that have been defaulted on to the federal government. The Department of Education guaranty division is authorized by the Higher Education Act to take as much as 10% of disposable income in order to pay back federal student loans on which the borrowers have defaulted.

The way that these wage garnishments work is that the courts issue an order to collect monies that the defendant owes. These debts typically center around judgments on tax debts, child support, criminal fines, or other personal debts. The order to garnish wages is then sent to the employer of the defendant.

The employer is responsible for setting aside the part of the employee's wages that are to be utilized for paying the debt of the person incrementally. Often these payments go directly to the court which ordered them. There are cases where instead the garnished wages transfer to an agency that acts as intermediary which then processes and distributes the payments.

## What are Government Bonds?

Government bonds are debt instruments that governments issue to pay for government expenditures. Within the United States, federal government issues include savings bonds, treasury notes, treasury bonds, and TIPS Treasury inflation protected securities. Investors should carefully consider the risks that different countries' governments possess before they invest in their bonds. Among these international government risks are political risk, country risk, interest rate risk, and inflation risk. Governments generally have less credit risk, though not always.

Savings bonds are a type of United States government bonds that the Treasury department sells. They are available in an electronic form. The Treasury offers them directly from their website, or individuals can buy them from the majority of financial institutions and banks. When savings bonds reach maturity, the investors get back the bond's face value along with interest which accrued. These savings bonds may not be redeemed the first year of issue. Any investors who redeem them in their first five years of issue lose three months interest for cashing out too early.

The Treasury of the United States also issues intermediate time frame bonds known as Treasury notes or T-Notes. These notes provide interest payments semiannually at a coupon rate which is fixed. These notes typically are denominated in $1,000 face values. Those with three or two year maturity dates come in $5,000 denominations. Before 1984, T-Notes were callable and gave the Treasury the right to buy them back given specific conditions.

The U.S. government's longest term bonds are Treasury Bonds, or T-Bonds. These have maturity dates ranging from ten to 30 years time. They also provide interest payments on a semiannual basis and come in $1,000 denominated values. These T-bonds are important because they pay for federal budget shortfalls, are a form of monetary policy, and ensure the country is able to regulate its money supply. As all bond issuers, the Treasury department looks at return and risk requirements on the market when it goes to raise capital so that it can be as efficient as possible. This helps to explain the different kinds of Treasury securities and government bonds they offer.

U.S. government bonds have generally been considered to be without risk, which is why they trade so easily in extremely large and liquid markets. The downside to this is that they offer considerably lower returns than do other bonds. TIPS do provide protection against inflation so that any inflation increases will not exceed the interest rate of the bond. The prices of government bonds are based on current interest rates. This means that the fixed rate bonds will decline in value as the interest rates rise, since there is lost opportunity to obtain newer bonds at higher interest rates. Similarly, if interest rates fall, the bond's values will rise.

The federal government is able to control the money supply in part by its issue of the government bonds. If they wish to increase the money supply, they can simply buy back their own bonds. These funds then find their way to a bank and expand the money supply as banks keep small reserves and loan the rest out (in the money multiplier effect). The government is also able to lower the money supply by selling additional bonds which takes money out of circulation. If the government were to retire the funds received from the sale of these bonds, it would reduce the available money supply. More often than not, the U.S. government spends the money.

## What is a Hedge Fund?

A hedge fund is an investment fund which are commonly only open to a specific group of investors. These investors pay a large performance fee each year, commonly a certain percent of their funds under management, to the manager of the hedge fund. Hedge funds are very minimally regulated and are therefore are able to participate in a wide array of investments and investment strategies.

Literally every single hedge fund pursues its own strategy of investing that will establish the kinds of investments that it seeks. Hedge funds commonly go for a wide range of investments in which they may buy or sell short shares and positions. Stocks, commodities, and bonds are some of these asset classes with which they work.

As you would anticipate from the name, hedge funds typically try to offset some of the risks in their portfolios by employing a number of risk hedging strategies. These mostly revolve around the use of derivatives, or financial instruments with values that depend on anticipated price movements in the future of an asset to which they are linked, as well as short selling investments.

Most countries only allow certain types of wealthy and professional investors to open a hedge fund account. Regulators may not heavily oversee the activities of hedge funds, but they do govern who is allowed to participate. As a result, traditional investment funds' rules and regulations mostly do not apply to hedge funds.

Actual net asset values of hedge funds often tally into the many billions of dollars. The funds' gross assets held commonly prove to be massively higher as a result of their using leverage on their money invested. In particular niche markets like distressed debt, high yield ratings, and derivatives trading, hedge funds are the dominant players.

Investors get involved in hedge funds in search of higher than normal market returns. When times are good, many hedge funds yield even twenty percent annual investment returns. The nature of their hedging strategies is supposed to protect them from terrible losses, such as were seen in the financial crisis from 2007-2010.

The hedge fund industry is opaque and difficult to measure accurately. This is partially as a result of the significant expansion of the industry, as well as an inconsistent definition of what makes a hedge fund. Prior to the peak of hedge funds in the summer of 2008, it is believed that hedge funds might have overseen as much as two and a half trillion dollars. The credit crunch hit many hedge funds particularly hard, and their assets under management have declined sharply as a result of both losses, as well as requests for withdrawals by investors. In

2010, it is believed that hedge funds once again represent in excess of two trillion dollars in assets under management.

The largest hedge funds in the world are JP Morgan Chase, with over $53 billion under management; Bridgewater Associates, having more than $43 billion in assets under management; Paulson and Company, with more than $32 billion in assets; Brevan Howard that has greater than $27 billion in assets; and Soros Fund Management, which boasts around $27 billion in assets under management.

## What are High Yield Bonds?

High Yield Bonds turn out to be bonds that possess a lower credit rating and higher yield than those corporate, municipal, and sovereign government bonds which are of investment grade. Thanks to the greater risk of them defaulting, such bonds yield a higher return than the bonds which are qualified investment grade issues. Those companies that issue high yielding debt are usually capital intensive companies and startup firms that already possess higher debt ratios. Investors often refer to such bonds as junk bonds.

The two principal corporate rating credit agencies determine the breakdown of what qualifies as a High Yield Bond and what does not. When Moody's rates a bond with lower than a "Baa" rating, or Standard and Poor's (S&P) rates then with an under "BBB" rating, then they become known as junk bonds. At the same time, all of those bonds which enjoy higher ratings than these (or the same rating at least) investors will consider to be investment grade. There are credit ratings that cover such categories as presently in default, or "D." Those kinds of bonds holding "C" ratings and below also have high probabilities for defaulting. In order to compensate the investors who take them on for the significant risks they run of not receiving either their original principal back or accrued interest payments by the maturity date, the yields must be offered at extremely high interest rates.

Despite the negative label of "junk bond," these High Yield Bonds remain popular and heavily bought by global investors. The majority of these investors choose to diversify for safety sake by utilizing either a junk bond ETF exchange traded fund or a High Yield Bonds mutual fund. The spread between the yields on the higher yielding and investment grade types of bonds constantly fluctuates on the markets. The at the time condition of the global and national economies impacts this. Industry-specific and individual corporate events also play a part in the differences between the various kinds of bonds' interest rates.

In general though, High Yield Bonds' investors can count on receiving a good 150 to 300 basis points more in yield as measured against the investment quality bonds in any particular time frame. This is why mutual funds and ETFs make imminent sense as an effective means of gaining exposure to the greater yields without taking on the unnecessary risk of a single issuer's bonds defaulting and costing the investors all or most of their original investing principal.

In the last few years, various central bankers throughout the globe have decided to inject enormous amounts of liquidity into their individual economies so that credit will remain cheaply and easily available. This includes the European Central Bank, the U.S. Federal Reserve, and the Bank of Japan. It has created the side effect of causing borrowing costs to drop and lenders to experience significantly lower returns.

By February of 2016, an incredible $9 trillion in sovereign government debt bonds provided yields of only from zero percent to one percent. Seven trillion of the sovereign bonds delivered negative real yields once adjusted for anticipated levels of inflation. It means that holding such bonds cost investors money, or provided them a real losing return.

In typical economic environments, this would drive intelligent investors to competing markets that provide better return rates. Higher yield bond markets have stayed volatile though. Distressed debts which pay minimally a yield higher than 1,000 basis points greater than a comparably maturing Treasury bond were notably affected. Energy company high yielding debt bond prices collapsed by approximately 20 percent in 2015 as a consequence of the problems in the energy sector which resulted from plummeting energy prices.

## What are Index Funds?

Index funds are typically exchange traded funds or mutual funds. Their goal is to reproduce the actual movements of an underlying index for a particular financial market. They do this no matter what is happening in the overall stock markets.

There are several means of tracking such an index. One way of doing this is by purchasing and holding all of the index securities to the same proportion as they are represented in the index. Another way of accomplishing this is by doing a statistical sample of the market and then acquiring securities that are representative of it. A great number of the index funds are based on a computer model that accepts little to no input from people in its decision making of the securities bought and sold. This qualifies as a type of passive management when the index fund is run this way.

These index funds do not have active management. This allows them to benefit from possessing lesser fees and taxes in their accounts that are taxable. The low fees that are charged do come off of the investment returns that are otherwise mostly matching those of the index. Besides this, exactly matching an index is not possible since the sampling and mirroring models of this index will never be one hundred percent right. Such variances between an index performance and that of the fund are referred to as the tracking error, or more conversationally as a jitter.

A wide variety of index funds exist for you to choose from these days. They are offered by a number of different investment managers as well. Among the more typically seen indices are the FTSE 100, the S&P 500, and the Nikkei 225. Other indexes have been created that are so called research indexes for creating asset pricing models. Kenneth French and Eugene Fama created one known as the Three Factor Model. This Fama-French three factor model is actually utilized by Dimensional Fund Advisers to come up with their various index funds. Other, newer indexes have been created that are known as fundamentally based indexes. These find their basis in factors like earnings, dividends, sales, and book values of companies.

The underlying concept for developing index funds comes from the EMH, or efficient market hypothesis. This hypothesis claims that because stock analysts and fund managers are always searching for stocks that will do better than the whole market, this efficient competition among them translates to current information on a company's affairs being swiftly factored into the price of the stock. Because of this, it is generally accepted that knowing which stocks will do better than the over all market in advance is exceedingly hard. Developing a market index then makes sense as the inefficiencies and risks inherent in picking out individual stocks can be simply eliminated through purchasing the index fund itself.

## What is an Individual Retirement Account (IRA)?

IRA's offer two types of savings for retirement. They can either be tax free or tax deferred retirement plans. In the universe of IRA's, numerous different types of accounts exist. These are principally either traditional and standard IRA's or Roth IRA's as the most popular types. The various IRA's are helpful to different individuals based on the particular scenarios and end goals of every person.

Standard IRA's permit contributions of as much as $4,000 every year. These are contributions that are tax deductible, giving the IRA's their primary advantage as retirement accounts. People who are older than fifty are allowed to contribute more than the $4,000 maximum for the purposes of catching up for their approaching retirement. Any money put into the IRA is used to reduce your annual income amount, which lessens your overall tax liability for the year.

The tax is really only deferred though, since monies taken from an IRA will be taxed at the typical income tax rate for the individual when they are withdrawn, even if they are held in such an account until retirement. When the money is taken out earlier than this age of 59 ½, then an extra ten percent penalty is applied as well. There are exceptions to the penalty rule though. When these early withdrawn monies are utilized to buy a home or to pay for the tuition costs associated with higher education, then they are not penalized. The typical tax rate would still apply, although the penalty is waived in these two cases. This makes IRA's a good vehicle for investments that also give you the versatility of making significant purchases with the money.

Roth IRA's are the other principal type of IRA's. The government established these types of IRA account back in 1997 in an effort to assist those Americans in the middle class with their retirement needs. Roth IRA's do not turn out to be tax deductible. The upside is that they offer greater amounts of flexibility than do the typical IRA's. These contributions are allowed to be taken out whenever you want without a penalty or extra tax. Interest that the account earns is taxed if taken out before the first five years have passed. At the end of five years, the earnings and contributions both made are capable of being taken out without having to pay either taxes or penalties. The identical housing and education allowances that permit to standard IRA's pertain to Roth IRA's. The principal attraction of Roth IRA's is that they offer tax free income at retirement time.

It is worth noting that the Roth IRA's have their particular rules that keep them from being for everybody. If your income is higher than $95,000 in a year, then you will be barred from making the full contribution, and if it exceeds $110,000, then you will not be allowed to make a partial contribution. For married, filing jointly, the limits are $150,000 for full contributions and $160,000 for partial contributions.

## What is Inflation?

Inflation proves to be prices rising over time. It is specifically measured as the increase in a given basket of goods and services' prices. These goods and services are taken to represent the entire economy. Inflation is also the going up in cost of the average prices of goods and services as measured by the CPI, or consumer price index. The opposite of inflation is known as deflation. Deflation turns out to be the falling of an average level of prices. The point that separates the two from each other, both deflation and inflation, is price stability, or no change in the costs of goods and services.

Inflation has almost everything to do with the amount of money available. It is inextricably tied to the money supply. This gives rise to the popularly remarked observation that inflation is actually an excessive number of dollars chasing too small a quantity of goods. Comprehending the way that this works is easier when considering an example.

Pretend for a moment that the world possessed only two commodities: oranges that are gathered up from orange trees and paper money created by government. In seasons where rain is limited and the oranges are few as a result, the cost of oranges should go up. This is because the same number of printed dollars would be competing for a smaller number of oranges.

On the other hand, if a bumper crop of oranges are seen, then the cost of oranges should drop, since the sellers of oranges have no choice but to cut prices to sell off their large inventory of oranges. These two examples illustrate inflation in the former and deflation in the latter. The main difference between the real world and this example is that inflation measures changes in the price movement on average of many or all goods and services, and not simply one.

The quantity of money in an economy similarly impacts the amount of inflation present at any given time. Should the government in the example above choose to print enormous amounts of money, then there will be many dollars for a relatively constant number of oranges, as in the lack of rain scenario. So inflation is created by the number of dollars going up against the quantities of oranges that exist, or overall goods and services existing. Deflation, as the opposite of inflation, would be the numbers of dollars dropping compared to the quantity of oranges available.

Because of this, levels of inflation result from four different factors that often work together in combination. The demand for money could drop. The supply of money could expand. The available supply of various other goods might decline. Finally, the demand for other goods increases.

Even though these four factors do work in correlation, economists say that inflation is mostly a currency driven event. This means that in the vast majority of cases, it results from governments tampering with the money supply. Generally, they do this by over printing their own currency to have money to pay for spending, resulting in higher inflation.

## What is Initial Public Offering (IPO)?

An IPO is the acronym for an Initial Public Offering. Such IPO's represent the first opportunity for most investors to start buying shares of stock in the firm in question. Initial Public Offerings commonly generate a great deal of excitement, not only for the company involved but also for the members of the investing community.

Private companies decide to issue stock and become publicly traded companies for a few different reasons. The main two motivating factors revolve around the need to raise more capital, as well as the desire to permit the original business owners and investors to take profits on their time and investment that they originally put into starting up the company.

It is true that private companies are limited in the amount of capital that they are able to raise, since their ownership turns out to be restricted to certain organizations and individuals. Public companies have the advantages of allowing any investor to take a stake through buying stock shares on exchanges that are publicly traded. It is far easier for them to raise money as public companies.

Initial Public Offerings that go well translate to large amounts of cash for a company. They use this for future expansion and development. Those who began the company or who were initial investors typically make enormous gains at that time in compensation for their time and effort.

Initial Public Offerings take huge amounts of preliminary work. Great amounts of paper work have to be filled in and filed with the regulatory oversight groups. A prospectus has to be created for investors to study and consider. Advertising campaigns for the first shares that will be sold must be developed. On top of these tasks, the company has to continue its normal operations. Because of this, financial firms such as Morgan Stanley or Goldman Sachs are commonly engaged to perform these tasks on the company's behalf. Such a firm is called the IPO underwriting company. With enormous sized IPO's, these tasks could even be divided up between a few different IPO underwriting companies.

Contrary to what many people think, the majority of IPO's typically do not do well initially. Besides this, a percentage of the companies will not make it, meaning that all of the investment in the IPO stock could be lost. Because of this, there is great risk and often lower rewards for sinking money into Initial Public Offerings than in traditional well established companies and stocks. Many investors buy into the enthusiasm and excitement that surrounds Initial Public Offerings. Another explanation for their euphoria may have to do with believing that there is something special in being among the first investors to acquire the next possible Apple, Coca Cola, or IBM. Whatever their reasoning proves to be, investors continue to love Initial Public Offerings and the somewhat long shot opportunities that they represent.

## What is Interest Rate?

Interest rates are the levels at which interest is charged a borrower for using money that they obtain in the form of a loan from a bank or other lender. These are also the rates that individuals and businesses are paid for depositing their funds with a bank. Interest rates are central to the running of capitalist economies. They are commonly written out as percentage rates for a given time frame, most commonly per year.

As an example, a small business might require capital to purchase new assets for the company. To acquire these, they borrow money form a bank. In exchange for making them this loan, the bank is paid interest at a pre set and agreed upon rate of interest for lending it to the company and putting off their own use of the monies. They receive this interest in monthly payments along with repayments of the principal.

Interest rates are also used by government agencies in pursuing monetary policies. Central banks set them to influence their nation's economic performance. They impact many elements of an economy such as unemployment, inflation, and investment levels.

There are several different interest rates to consider. The most commonly expressed one is the nominal interest rate. This nominal interest rate proves to be the amount of interest that is payable in money terms. If a family deposits $1,000 in a bank for a year, and is paid $50 in interest, then their balance by the conclusion of the year will be $1,050. This would translate to a nominal interest rate amounting to five percent per year.

The real interest rate is another type of rate used to determine how much purchasing power is received. It is the interest rate after the level of inflation is subtracted. Determining the real interest rate is a matter of calculating the nominal rate and removing the amount of inflation from it. In the example above, supposed the economy's inflation level is measured at five percent for the year. This would mean that the $1,050 in the account at year end only buys what it did as $1,000 at the beginning of the year. This translates to a real interest rate of zero.

Interest rates change for many reasons. They are altered for political gains of parties in power. By reducing the interest rate, an economy gains a short term boost. The help to the economy will often influence the outcome of elections. Unfortunately, the short term advantage gained is often offset later by inflation. This reason for changing interest rates is eliminated with independent central banks.

Another main reason that interest rates change is because of expectations of inflation. Since the majority of economies demonstrate inflation, fixed amounts of money will purchase fewer goods a year from now than they will today. Lenders expect to be compensated for this. Central banks raise interest rates to fight this inflation as necessary.

## What is Investment Management?

Investment Management proves to be a general term which most often relates to purchasing and selling investments inside of a portfolio. It might also be utilized to cover budgeting and banking tasks and tax management. Most of the time, the phrase pertains to managing portfolios and trading securities to reach a particular set of investment goals or objectives.

Analysts and economists also call Investment Management by the names of money management, private banking, or even portfolio management. This includes the professional money management of various assets and financial instruments. Among these are equities, bonds, real estate, and other types of securities such as gold, derivatives, and mortgage-backed securities. Successful and well-rounded management of investments works to achieve particular investment objectives for the good of the underlying investors. Such investors are not necessarily individuals, or private investors. They are often family investment offices as well as institutional investors. Among the various deep-pocketed institutional investors are governments, pension funds, sovereign wealth funds, insurance companies, and educational foundations.

The services of Investment Managers cover many functions. These include analysis of financial statements and assets, proper asset allocation and diversification, investment instruments and stocks selection, financial plan implementation, estate planning, and maintenance of existing investments in the portfolios. An entire industry has grown up around these needs for wealthy clients and investors. This is called the Investment Management industry.

For those who feel led to start an Investment Management firm, there are many important and sensitive tasks that must be successfully accomplished. This starts with hiring professional money managers. It extends to performing research on types of asset classes and particular investments. Marketing, dealing, settling, and internal auditing are all core functions on the administration side of the business. Finally, this type of firm will have to prepare regular reports and statements for the various clientele.

This means that it requires much more than simply hiring an effective asset gathering marketing team and a highly qualified and results-driven money management staff to manage the daily flow of investing. Owners of these firms must also handle the various jurisdictional regulatory and legislative environments, carefully monitor the business' cash flow, stay on top of the internal controls and all systems, and accurately record and track all fund values and any transactions performed.

This means that Investment Management firms have a certain set of stressful problems that they deal with routinely. This is the trade off for what can be substantial and highly lucrative rewards. First of all, investment management firms are highly dependent for their income on the performance of the various asset markets. In other words, the firm's profits will often come down to the progress of the markets. When asset prices suffer a substantial decline, this will undoubtedly lead to the management firm's revenues dropping off. This is particularly the case when the fall in prices is higher than the investment basis cost of the company.

There are also issues of client expectation management. When times in the markets are hard and lean, clients can become agitated, impatient, and even angry. Even fund performance which is above industry average may not be good enough to keep the clients satisfied with their portfolios' progress. This is the reason it is critical for any investment management company to attract and retain highly successful money managers. The problem with this is that top talent is costly and hard to keep loyal when the competition is always hungry for and eager to steal effective money managers.

For clients who are seriously contemplating a particular Investment Management firm, it is a common mistake to single out only the performance of one particular investment manager on staff. Instead the all-around total performance of the investment firm is what matters. This is why a successful investment company will have to retain expensive and performance-generating investment managers in order for their clientele to be willing to trust in the firm to manage their money.

## What are Junk Bonds?

Junk bonds are almost the same as regular bonds with an important difference. They are lower rated for credit worthiness. This is why in order to understand junk bonds, individuals first must comprehend the basics of traditional bonds.

Like traditional bonds, junk bonds are promises from organizations or companies to pay back the holder the amount of money which they borrow. This amount is known as the principal. Terms of such bonds involve several elements. The maturity date is the time when the borrower will repay the bond holder. There will also be an interest rate that the bond holder receives, or a coupon. Junk bonds are unlike those traditional ones because the credit quality of the issuing organization is lower.

Every kind of bond is rated according to its credit quality. Bonds can all be categorized in one of two types. Investment grade bonds possess medium to low risk. Their credit ratings are commonly in the range of from AAA to BBB. The downside to these bonds is that they do not provide much in the way of interest returns. Their advantage is that they have significantly lower chances of the borrower being unable to make interest payments.

Junk bonds on the other hand offer higher interest yields to their bond holders. Issuers do this because they do not have any other way to finance their needs. With a lower credit rating, they can not borrow capital at a more favorable price. The ratings on such junk bonds are often BB or less from Standard & Poor's or Ba or less by Moody's rating agency. Bond ratings such as these can be considered like a report card for the credit rating of the company in question. Riskier firms receive lower ratings while safe blue-chip companies earn higher ratings.

Junk bonds typically pay an average yield that is from 4% to 6% higher than U.S. Treasury yields. These types of bonds are placed into one of two categories. These are fallen angels and rising stars. Fallen angels bonds used to be considered at an investment grade. They were cut to junk bond level as the company that issued them saw its credit quality decline.

Rising stars are the opposites of fallen angels. This means the rating of the bond has risen. As the underlying issuer's credit quality improves, so does the rating of the bond. Rising stars are often still considered to be junk bonds. They are on track to rise to investment quality.

Junk bonds are risky for more reasons than the chances of not receiving one or more interest payments. There is the possibility of not receiving the original principal back. This type of investing also needs a great amount of skills in analyzing data like special credit. Because of these risk factors and specialized skills that are needed, institutional investors massively dominate the market.

A better way for individuals to become involved with junk bonds is through high yield bond funds. Professionals research and manage the holdings of these funds. The risks associated with a single bond defaulting are greatly reduced. They do this by diversifying into a variety of companies and types of bonds. High yield bond funds often require investors to stay invested for minimally a year or two.

When the yield of junk bonds declines below the typical 4% to 6% spread above Treasuries, investors should be careful. The risk does not become less in these cases. It is that the returns no longer justify the dangers in the junk bonds. Investors also should carefully consider the junk bond default rates. These can be tracked for free on Moody's website.

## What is a Keogh Plan?

Keogh Plans are like 401(k) plans intended for small businesses. They are distinguished from them by having higher limits than the 401(k)s do. These tax deferred pension plans can be established by businesses that are not incorporated or individuals who are self employed.

These types of plans can be one of three types. There are money purchase plans preferred by those who are high income earners. Profit sharing plans provide yearly flexibility that is dependent on the company profits. Defined benefit plans feature higher yearly minimums.

Keogh Plans are also referred to as HR(10) plans. They are permitted to invest in the same investments as IRAs and 401(k)s. This includes stocks and bonds, annuities, and certificates of deposit. The reasons these plans are so popular for sole proprietors and small business owners has to do with their higher contribution limits. A downside to them revolves around their greater maintenance costs and more burdensome administration than SEP Simplified Employee Pension plans feature.

These Keogh Plans derive their name from the creator of the concept Eugene Keogh. He put together the 1962 Self Employed Individuals Tax Retirement Act which became named for him. The plans received a name change after the Economic Growth and Tax Relief Reconciliation Act passed in 2001. This act so altered these plans that the IRS code dropped the reference name of Keogh.

They simply call them HR(10) plans now. These retirement accounts are still utilized, but have lost many followers to the solo 401(k) and the SEP IRA. The HR(10) plans still find a good fit with professionals who are highly compensated as with lawyers or dentists who are self employed. Otherwise these plans generally do not serve retirement savers better than the competing plans.

The HR(10) plans come in two different principal breakdowns. These are defined contribution and defined benefit plans. With defined contribution plans, self employed persons can decide the amount of contribution they will make every year. This can be done either through money purchase or profit sharing plans.

Money purchase requires that the profits percentage to go in the Keogh be decided at the beginning of the year. If the employed person makes profits, these contributions must be made without changes or a penalty will be assessed by the IRS. The amounts owners contribute to their profit sharing plans may be changed every year. As much as 25% of income can be deducted and contributed every year. The limit on this amount is $53,000 for 2015 and 2016.

Defined benefit plans operate much as traditional pensions would. Business owners determine a pension goal for themselves then fund it. As much as $210,000 may be contributed in a year (up to 100% of all compensation) for the years 2015 and 2016. Business owners make all contributions in both types of Keogh plans as pre-tax. This means they these contributions come out of the taxable salary before taxes are figured.

Keoghs plans are also similar to typical 401(k)s in the way that invested monies are able to be tax deferred until retirement. This may start as early as 59 ½ years old but can not be delayed until any later than 70 years of age. Any withdrawals taken before these years are federally and potentially state taxed as regular income and also penalized at 10%. Exceptions to the penalty rules exist if certain physical or financial health issues come up for the account owner before retirement.

In order to maintain a Keogh Plan, a great amount of paperwork has to be filed each year. This includes the Form 5500 from the IRS. It requires a financial professional or tax accountant's help.

## What are Liabilities?

Where a business is concerned, liabilities prove to be amounts of money that are owed by the company at any given point. These liabilities are displayed on the firm's balance sheet. They are commonly listed as items payable, or simply as payables.

There are two types of liabilities. These are longer term liabilities and shorter term liabilities. Long term liabilities turn out to be business obligations that last for greater than the period of a single year. Mortgages payable and loans payable are included in this category.

Short term liabilities represent business obligations that will be paid in less than a year. There are many different kinds of short term liabilities. They include all of the items detailed below.

Payroll taxes payable are one of these. They represent sums automatically collected from the employees and put to the side by the employer. They have to be given to the IRS and any state taxing agencies at the pre determined time.

Sales taxes payable are another short term liability. The business collects them from its customers when sales are made. They hold them until it is time to give them to the proper revenue collecting department within the state.

Mortgages and loans payable are another short term liability. These represent payments made every month on mortgages and loans. They are not large single payments or the total amount of a loan that is eventually owed, but instead represent recurring monthly obligations.

Liabilities for individuals are another type of liabilities altogether. They also represent money that has to be paid out. For people, they are debts owed, as well as monthly cash flow that goes out of the individual's accounts.

Liabilities and assets are the opposites of each other, yet people often get them confused. While assets are things that contribute positive cash flow to a person's finances, liabilities are those that create negative cash flow, or money that leaves an individual's accounts every month.

For example, a house that an individual owes money on and makes monthly payments on is a liability, not an asset. The house takes money from the person in the form of monthly mortgage payments each month. For a house to be an asset, it would have to be completely paid off. Even still, if monthly taxes and insurance payments are being made, then technically it would still be a liability. Houses can only be assets really and truly when they are rented out and the rental income that a person receives is greater than all of the expenses associated with the house every month, including any mortgage payments, taxes, insurance, upkeep, and property management fees. When the net result of a property is money coming in, then it is an asset and not a liability.

## What is Loan-to-Value-Ratio (LTV)?

The Loan to Value Ratio is commonly known by its acronym LTV. This loan to value ratio states the total value of the first mortgage against the full real estate property's appraised value. The formula for figuring this ratio is simply the amount of the loan divided by the property value. It is expressed as a percent. So if a borrower is seeking $180,000 with which to buy a $200,000 house, then the Loan to Value Ratio is ninety percent.

The loan to value ratio proves to be among the most critical risk factors that lenders consider when they are deciding whether to qualify borrowers for a mortgage loan on a house. The dangers of a default occurring most influence the loan officers in their lending decisions. The chances of an institution having to take a hit in a foreclosure procedure only goes up as the dollar amount of the property equity goes down. Because of this, as the Loan to Value ratio goes up, the qualification tests for many mortgage programs get significantly stricter. Some lenders will insist on a borrower who comes with a high loan to value ratio on the property in question to purchase mortgage insurance. This safe guards the lender from any default realized by the borrower, but it also raises the mortgage's total costs.

Property values used in the loan to value ratio are generally set by appraisers. Still, the most accurate value of a piece of real estate is undoubtedly that determined when a willing seller and willing buyer come together to agree on a sale. Usually, banks decide to go with the lower number when they are offered choices of a purchase price that is fairly recent or an appraisal value. Recent sales are commonly deemed to be those that happened from a year to two years ago, although every bank makes its own rules in this regard.

When a borrower selects a property that he or she will purchase with a lower loan to value ratio that is less than eighty percent, lower interest rates can many times be obtained by borrowers who are low risk. Higher risk borrowers will also be considered in such a scenario, meaning those who have prior histories of late payments on mortgages, who have lower credit scores, who have high loan requirements or higher debt to income ratios, and who have neither sufficient cash reserves nor requested income documentation. Generally, higher loan to value ratios are only permitted for those borrowers who have a reliable mortgage payment history and who possess greater credit scores. Only those buyers with the greatest credit worthiness are considered for one hundred percent financing that translates to a one hundred percent loan to value ratio.

Loans that are made to the standards of lending giants Freddie Mac and Fannie Mae and their guidelines can not have loan to value ratios that exceed or are equal to eighty percent. Any loans higher than this percentage of eighty percent must come with attached private mortgage insurance. The private mortgage insurance premiums simply go on top of the existing mortgage principal and interest payments.

## What is Maturity?

In the world of business and finance, maturity stands for the last payment date of either a loan or some other form of financial instrument. It is also known as the maturity date. On this maturity date, both the outstanding principal and any remaining associated interest are owed and expected to be rendered for final payment. If they are not paid on the maturity date, such loans or instruments are considered to be in default.

A fixed maturity pertains to a kind of financial instrument where the loan will have to be paid back on a pre set date. Included in fixed maturity instruments are variable rate loans and fixed interest rate loans or other kinds of debt instruments. Besides these, redeemable preferred shares of company stocks fall under this category of fixed maturity instruments. The key to fixed maturities is that they must have a particular maturity date spelled out in their terms. This maturity date is much like a redemption date.

Other instruments do not come with a set fixed maturity date. These kinds of loans go on indefinitely, until the point that a lender and borrower get together and agree on the loan being paid down. These instruments and loans are sometimes referred to as perpetual stocks. Other financial instruments may include a range of potential dates of maturity. These types of stocks may be repaid at any time that suits the borrower, so long as it is within the time range that is provided to them.

Another form of maturity is the serial maturity. Serial maturities mostly pertain to bonds that companies issue to borrow money for a variety of purposes, including expansion into new markets or developing and marketing new products. With serial maturities, all of the bonds are actually issued at one time. Their classes describe the various redemption dates on them, which are generally staggered away from each other.

Maturity is also used by financial news media to discuss securities that have maturities, such as bonds themselves. This abbreviation for these kinds of investments is commonplace. They might claim that the yields declined on twenty year maturities. This would mean that bond prices which are due to reach full maturity in twenty years rose while their actual yields fell, since bond prices move inversely to the direction of their associated yields.

All types of bonds may be referred to using this short hand form of calling them maturities. This could include corporate bonds, Federal Treasury bonds, and also local government municipal bonds. All of these bonds have specific dates of maturity on which they will repay their principal. Preferred stocks also could be thought of as maturities, since they similarly possess set dates on which they are redeemed. They are not commonly referred to by this abbreviation though.

## What are Mortgage Backed Securities (MBS)?

Mortgage backed securities turn out to be a special kind of asset which have underlying collections of mortgages or individual mortgages that back them. To be qualified as an MBS, the security also has to be qualified as rated in one of two top tier ratings. Credit ratings agencies determine these ratings levels.

These securities generally pay out set payments from time to time which are much like coupon payments. Another requirement of MBS is that the mortgages underlying them have to come from an authorized and regulated bank or financial institution.

Sometimes mortgage backed securities are called by other names. These include mortgage pass through or mortgage related securities. Interested investors buy or sell them via brokers. The investments have fairly steep minimums. These are generally $10,000. There is some variation in minimum amounts depending on which entity issues them.

Issuers are either a GSE Government Sponsored Enterprise, an agency company of the federal government, or an independent financial company. Some people believe that government sponsored enterprise MBS come with less risk. The truth is that default and credit risks are always prevalent. The government has no obligation to bail out the GSEs when they are in danger of default.

Investors who put their money into these mortgage backed securities lend their money to a business or home buyer. Using an MBS, regional banks which are smaller may confidently lend money to their clients without being concerned whether the customers can cover the loan itself. Thanks to the mortgage backed securities, banks are only serving as middlemen between investment markets and actual home buyers.

These MBS securities are a way for shareholders to obtain principal and interest payments out of mortgage pools. The payments themselves can be distinguished as different securities classes. This all depends on how risky the various underlying mortgages are rated within the MBS.

The two most frequent kinds of mortgage backed securities turn out to be collateralized mortgage obligations (CMOs) and pass throughs. Collateralized mortgage obligations are comprised of many different pools of securities. These are referred to as tranches, or pieces. Tranches receive credit ratings. It is these credit ratings which decide what rates the investors will receive. The securities within a senior secured tranche will generally feature lesser interest rates than others which comprise the non secured tranche. This is because there is little actual risk involved with senior secured tranches.

Pass throughs on the other hand are set up like a trust. These trust structures collect and then pass on the mortgage payments to the investors. The maturities with these kinds of pass throughs commonly are 30, 15, or five years. Both fixed rate mortgages and adjustable rate ones can be pooled together to make a pass through MBS.

The pass throughs average life spans may end up being less than the maturity which they state. This all depends on the amount of principal payments which the underlying mortgage holders in the pool make. If they pay larger payments than required on their monthly mortgages, then these pass through mortgages could mature faster.

## What are Municipal Bonds?

Municipal bonds prove to be counties', cities', and states' debt obligations. They issue these in order to raise money against future tax revenues for building highways, schools, sewer systems, hospitals, and numerous other public welfare projects.

When you as an investor buy a municipal bond, you are actually loaning a state or local government or agency money. They agree to pay you back your principal, along with a certain sum of interest that is generally paid out twice a year. The principal is commonly given back on the pre arranged maturity date of the bond.

The advantage that is most commonly touted to municipal bonds is their tax free nature. The truth is that not every municipal bond actually provides income which is tax free on both state and federal levels. Many municipal bond issues are exempt from taxes from the state and local authorities but still have to pay taxes on earning to the federal government. Municipal bonds that come without any federal taxes as well are generally known as Munis. These Munis prove to be the most appealing bonds for many investors since they are generally exempt from all Federal, state, and local taxes too. Besides this, Munis are commonly investments made in the local and state infrastructure, impacting your daily quality of life and that of your community. Projects including highways, hospitals, and housing are all covered by these types of municipal bonds.

Municipal bonds can also be further subdivided into one of two general categories. These are general obligation bonds and revenue bonds. With a general obligation bond, the interest and principal that is owed to you is commonly backed up by the issuer's own credit and faith. They typically come underpinned by the taxing power of the issuer. This can be based on their limited or unlimited powers of taxing. General obligation bonds usually come approved by the voters who will pay the taxes that support their repayment.

Revenue bonds on the other hand are backed up by specific revenues for the project in question. Their interest and principal payment amounts have supporting revenues that come from tolls, rents from the facility that they build, or charges to use the facility that is built. Many different public works are built with revenue bonds. These could be airports, bridges, roads, sewage and water treatment plants, subsidized housing, and even hospitals. A great number of such bonds come issued by authorities which are specifically launched to create such bond issues in the first place.

Municipal bonds and notes commonly come with minimum investment amounts. These are typically denominated by $5,000. They can come in multiples of $5,000 increments as well. If you want to buy a municipal bond, you can buy them directly off of the bond issuer when they come out on the primary market, or alternatively off of other bond holders after they have come out, from the secondary market.

## What are Mutual Funds?

Mutual funds prove to be collective investment pools that are managed professionally. They derive their sometimes enormous capitals from the contributions of many different investors. These monies are then invested in a variety of investments and securities comprised of bonds, stocks, other mutual funds, money markets, and commodities like silver and gold.

Mutual funds all have a fund manager. His responsibility is to sell and buy the holdings of the fund according to the guidelines spelled out in the particular mutual fund's prospectus. U.S. regulations require that all mutual funds registered with the governing SEC, or Securities and Exchange Commission, make distributions of practically all income and net gains made from selling securities to the investors minimally once a year. The majority of these mutual funds are furthermore overseen by trustees or boards of directors. Their job is to make certain that the fund is properly managed by its investment adviser for the investors of the funds ultimate good.

There are really a wide variety of different securities that mutual funds are permitted by the SEC to purchase. This is somewhat limited by the objectives spelled out in the prospectus of the fund, which is comprised of a great amount of useful information on the fund and its goals. While cash instruments, stocks, and bonds are the more common types of investments that they purchase, mutual funds might also buy exotic types of investments like forwards, swaps, options, and futures.

The investment objectives of mutual funds explain clearly the types of investments that the fund will purchase. As an example, if a fund's objective claimed that it was attempting to realize capital appreciation through investing in U.S. company stocks regardless of their amount of market capitalization, then it would be a U.S. stock fund that purchased U.S company stocks.

Other mutual funds purchase specific market sectors or different industries. Utilities, technology, and financial service funds are examples of this. Such a fund is called a sector fund or specialty fund. There are also bond funds that purchase different kinds of bonds, like investment grade corporate bonds or high yield junk bonds. They can invest in the bonds issued by government agencies, municipalities, or companies.

They might also be divided up according to whether they purchase long term or short term maturities of bonds. These funds may also buy bonds or stocks of either domestic companies or global companies, or even international companies outside of the United States. Index funds are another type of mutual fund that attempts to match a certain market index's performance over time. The S&P 500 index is an example of one on which index mutual funds are based. With this type of index fund, the mutual fund would find derivatives based on the

S&P 500 stock index futures so that they could match the index's performance as identically as possible.

To help investors better understand the type of fund that they are getting into, the SEC came out with a particular name rule in the 40' Act that makes funds actually invest in minimally eighty percent of securities that actually match up with their name. So a fund called the New York Tax Free Bond Fund would have to use eighty percent or more of its funds to purchase investments of tax free bonds that New York State and its various agencies issued.

## What is Net Worth?

Net worth is a figure that represents a business, an individual, or another group's difference between the assets that they have and the liabilities that they owe. Figuring up this net worth is done by first taking all of the entity's debts and obligations and then subtracting that number from the entire sum of assets. If the total of all of these assets is greater than the sum of all of the debts and obligations, then a positive net worth results. Otherwise, when the debts are greater than the assets, then the entity has a negative net worth.

When you sit down to determine the net worth figure, every asset should be totaled in the operation. There are many different kinds of assets. These are comprised of cash in the bank, holdings of stocks, real estate, bonds, and other types of investments, and major possessions like vehicles. Correctly figuring out the different assets' values is done with the use of the up to date fair market value, not the cost paid for the item when it is purchased.

You must also correctly add up the total of debts and obligations when you are attempting to get a correct net worth value. Liabilities cover many different obligations, like a car payment, mortgage, total of credit card debt outstanding, and any other forms of loans that have balances left on them. Both every asset and liability must be measured in order to come up with an accurate net worth.

Knowing your present net worth is very useful and meaningful. If you are able to cover all of your outstanding debt obligations simply by selling of all of your assets, then you have a financial condition that is fairly stable and in order. If your assets are more than sufficient to cover all of your obligations, then your finances are in greater shape. Most businesses and people seek to reach a point that they have actual positive net worth.

There are a few benefits from having a correct understanding of your net worth. It is essential that your present assets' value is greater than your present debt load. A person who owes more money than they actually own presents a profile of a person who is not an especially good credit risk. Without a positive net worth, many lending institutions like banks will think twice about providing you with the most advantageous loan rates offered. This is because they feel that you present more of a risk to lend money.

It is also good to know where your net worth stands because it is a helpful beginning point for your general financial planning. Should you discover that you hardly have sufficient assets with which to cover your present amount of debts, then this is a good sign that you should not engage in any other purchases until later, after you have eliminated several of your debts. This means that if you occasionally figure up your net worth, then you will comprehend not only where you stand now, but also when you will be in a better position to purchase a new car.

## What are Options?

Options are contracts on stocks, indexes, currencies, commodities, or debt instruments. There are two principle types. These are call options and put options. Call options give holders the ability to purchase a set amount of the underlying instrument for a specific price in a certain amount of time. This specific price is known as the strike price. Put options grant holders the ability to sell the exact amount of the underlying instrument at a fixed price in a given period of time.

With options on stocks, the set amount of the underlying shares that calls and puts cover are typically 100 shares. Option contracts have two parties to them. The first are the sellers who are also known as writers of the option. The buyers are the holders of the option.

Option values are made up of two components. These are intrinsic value and time value. Intrinsic value is the amount that the option is in the money. For an option to be in the money, the stock price must be higher than the strike price for calls. For puts, the stock price has to be lower than the strike price. The value that is left after subtracting intrinsic value is the option's time value. When an option has no intrinsic value, one hundred percent of its value is time value.

Investors can buy and sell options until they run out of time. At this point, they expire either with some intrinsic value or worthless. They can also be exercised. When an option is exercised, the seller must transfer the underlying shares to the holder of the option. When the instrument is not able to be transferred over, then the parties settle in cash instead.

Investors like this financial tool because they give buyers peace of mind. The most an option holder is able to lose is the total price that they paid when they bought the contract. If options are not exercised or sold within the given time frame, then they expire. An option that expires worthless does not involve any exchange of shares or cash.

Buyers and sellers have different potential profits with options. Profit potential is limitless for the buyers. For the sellers, the profit is limited to the price which they receive for the contract. Sellers have unlimited loss potential unless they own the underlying shares or instrument. When a seller of an option holds the underlying instrument, the option is covered.

There are two main reasons that investors buy options. These can be to gain leverage or to obtain protection. The leverage benefit means that the option holder can control a larger amount of equity for a much smaller price than it costs to actually buy the shares. This exposes the buyer to a far smaller potential loss.

Options provide protection to investors who own the shares that underlie the contract. While the owners of the option hold the contract, they gain protection against adverse price movements in their shares. This is because the contract provides the ability to obtain the stock at a certain price during the option's contract time-frame. In this case, the cost of the option is the premium that the owner pays.

There are several downsides to options. The trading costs for options are higher than with buying the underlying shares of the stock or other instrument. This is because the spread between the bid and ask is higher for options. Option commissions also cost more than do stock commissions.

Option trading is more complicated than stock trading too. Options also have to be watched more closely than do stocks generally. The time involved to trade and maintain option strategies can be significant.

## What are Origination Fees?

Origination fees are also known as activation fees. These are the costs pertaining to setting up an account with a mortgage broker, bank, or other firm that will go through the tasks of collecting and processing all documents and requirements for getting a loan, in particular a mortgage on a house.

These origination fees are generally amounts that are pre determined for any new account. Origination fees can range from half a percentage point to two percentage points of the entire loan total. This variance has to do with where the loans come from, off of either the prime or the subprime loan market. On a subprime mortgage for $200,000, the origination fee would likely amount to two percent, equaling four thousand dollars in this particular case.

The average origination fee comes in at approximately one percent of the total mortgage loan dollar amount. This fee goes to the firm that originates and processes your loan. It defrays their expenses that arise from developing, putting together, and finally closing on your mortgage.

The rise of the Internet has allowed for an alternative compensation scheme for companies that put together and originate mortgages. While the vast majority of mortgage brokers and banks still charge these loan origination fees, there are some Internet based brokers who use a different model. These entities do no charge origination fees at all; instead they pass the savings directly on to you the customer. The way that they get paid is by selling your loan to an investor once it is closed. The investor pays them a premium for the packaged loan, which covers the origination fees, and the online mortgage broker is compensated for his or her work and time.

The origination fees can be deducted from taxes. The year that the transaction closed and the origination fees were charged, they can be used to reduce actual income on income tax forms. The Internal Revenue Service permits this reduction to income no matter who pays the origination fees, meaning that a person who employs a broker that does not charge them origination fees will still be able to deduct the fees that the investors who later buy the loan are subsequently paying to the mortgage broker. This means that if you take out a $200,000 mortgage, then you are able to deduct the $2,000 in loan origination fees, even if you did not have to pay them, but an investor in the loan did instead.

Origination fees are listed on the HUD-1 Settlement form. They are tallied beneath the sub-heading of lender charges. Discount points that are used to bring down interest rates either permanently or temporarily are also listed on this form under the category.

## What is Prime Rate?

The Prime Rate is the most typically utilized shorter term interest rate for the United State banking system. All kinds of lending institutions in the United States employ this U.S. benchmark interest rate as a basis or index rate to price their medium term to short term loans and products. This includes credit unions, thrifts, savings and loans, and commercial banks.

This makes the Prime Rate consistent around the country as banks strive to be competitive and profitable in their lending rates which they provide to both consumers and businesses. A universal rate like this simplifies the task for businesses and consumers as they shop around comparable loan products that competing banks offer. Every state in the country does not maintain its own benchmark rate. This makes a California Prime or New York Prime identical to the U.S. Prime.

Commercial and other banks charge this benchmark rate to their best customers. These are those clients who have the best credit ratings and loan history with the bank. Most of the time banks' best clients are made up of large companies.

The prime interest rate is also known as the prime lending rate. Banks typically base it on the Federal Reserve's federal funds rate. This is actually the rate that banks loan money to each other for overnight purposes. Retail customers also need to be aware of the prime lending rate. It directly impacts the lending rates that they can access for personal and small business loans as well as for home mortgages.

The federal government and Federal Reserve Bank do not set the prime lending rates. The individual banks set it. They then utilize this base rate or reference rate to set the prices for a great number of loans such as credit card loans and small business loans.

The Federal Reserve Board releases a statistics called "Selected Interest Rates." This is their survey of the prime interest rate as the majority of the twenty-five biggest banks set it. It is this publication which reveals the Prime Rate periodically. This is why the Federal Reserve does not directly set this important benchmark rate. The banks more or less base it on the target level of the federal funds rate that the Federal Open Market Committee sets and changes at their monthly meetings.

Different banks adjust their prime lending rate at the same time. The point where they change it is generally when the Federal Open Market Committee adjusts their own important Fed Funds Rate. Many publications refer to this periodically changing reference rate as the Wall Street Prime Rate.

A great number of consumer loans as well as commercial loans and credit card rates find their basis in the prime lending rate. Among these are car loans, home equity loans, personal and home lines of credit, and various kinds of personal loans.

The rates above the prime lending rate that banks charge their less then prime (or subprime) customers depend on the credit worthiness of the borrower in question. The banks attempt to correctly ascertain the risk of default for the borrower. For the best credit customers who have lower chances of defaulting, banks can afford to assess them a lower interest rate than others. Customers with higher chances of defaulting on their loans pay larger interest rates because of the risk associated with their loans not being repaid.

As of June 15, 2016, the Federal Open Market Committee voted to maintain its target fed funds rate in a range of from .25% to .5%. As a result of this, the U.S. prime lending rate stayed at 3.5%. Once per month the Federal Reserve committee meets to determine if they will change the fed funds rate.

## What is the Principal?

Principal has several different meanings. It most commonly pertains to the initial amount of money that a person either invests or borrows with a loan. A secondary meaning has to do with a bond and its face value. Sometimes the word pertains to the owners of a company or the main participants in any type of transaction.

Where borrowing is concerned, this term relates to the upfront amount of any loan. It also is utilized to describe original amounts which the individuals still owe on the loan in question. Looking at a clear example always helps to clarify the concept. When people obtain a $100,000 mortgage, this Principal is the same $100,000. As the individuals pay down $60,000 of this amount, the remainder of $40,000 that is left to pay off is similarly referred to as Principal.

It is the original Principal that decides how much interest borrowers will pay. If borrowers take out a loan with an initial amount equaling $20,000 that comes with a yearly interest rate at seven percent, then they would be required to pay $1,400 in annual interest for each year that the loan remains open. As borrowers pay the monthly payments to the loan servicer, the interest charges for the month will first be paid off. What remains goes toward the initial amount which the individuals borrowed. Paying down this original amount borrowed remains the only means of lowering the interest amount that accrues on a monthly basis.

Another form of mortgage that operates differently has the name of zero principal mortgages. Bankers think of these as interest-only loans. They represent a unique form of financing where the routine monthly payments of the borrower only apply to the loan's interest. This means that the initial loan amount never gets paid down unless the borrower makes extra payments. It also translates to no equity building up in the property which backs the mortgage loan.

Because of this, financial advisors will typically not recommend these types of mortgages to home buyers as they are rarely in the true interest of the purchaser. Despite this fairly obvious assessment, there are a few unusual cases when they could work out for certain people. When a home buyer is starting out on a career path that pays very little initially but will later on earn substantially more in the not too distant future, it could be worthwhile to lock in the home price now while it is lower. Once the income increases apace, the borrowers always have the ability to refinance into a more traditional mortgage which would cover payments on the initial amounts borrowed as well.

Another scenario where these loans make sense relates to unusual and fantastic opportunities for a particular real estate investment deal. When huge returns on investment dollars can be anticipated, it is practical to go with these mortgage's far lower payments that are interest-only. Meanwhile the borrower can plow the additional monthly payment money savings into the exceptional investment opportunity.

Principal also finds use describing the first initial outlay on an investment. This does not take into consideration any interest that builds up or earnings on the investment. Savers might deposit $20,000 at a bank in a savings account with interest. After a number of years, the balance will grow to $21,500. The principal remains the original $20,000 the savers gave the bank. The additional $1,500 will be called interest or earnings on top of this initial outlay.

It is interesting to note that inflation will not change the nominal value of a loan or financial instrument's principal. Yet the effects of inflation do very much reduce the real value of the initial amount.

## What is a Promissory Note?

Promissory notes are negotiable instruments that are called notes payable in accounting circles. In such promissory notes, an issuer writes an unlimited promise that he or she will pay a certain amount of money to the payee. This can be set up either on demand of the payee, or at a pre arranged future point in time. Specific terms are always arranged for the repayment of the debt in the promissory note.

Promissory notes are somewhat like IOU's and yet quite different. Unlike an IOU that only agrees that there is a debt in question, promissory notes are made up of a particular promise to pay the debt. In conversational vernacular, loan contract, loan agreement, or loan are often utilized in place of promissory note, even though such terms do not mean the same things legally. While a promissory note does provide proof of a loan in existence, it is not the loan contract. A loan contract instead has all of the conditions and terms of the particular loan arrangement within it.

Promissory notes contain a variety of term elements in them. Among these are the amount of principal, the rate of interest, the parties involved, the repayment terms, the date, and the date of maturity. From time to time, provisions may be included pertaining to the payee's rights should the issuer default. These rights could include the ability to foreclose on the issuer's assets.

A particular type of promissory note is a Demand Promissory note. This specific kind does not come with an exact date of maturity. Instead, it is due when the lender demands repayment. Generally, in these cases lenders only allow several days advance notice before the payment must be made.

Within the U.S., the Article 3 of the Uniform Commercial Code regulates most promissory notes. These negotiable forms of promissory notes are heavily used along with other documents in mortgages that involve financing purchases of real estate properties. When people make loans in between each other, the making and signing of promissory notes are commonly critical for the purposes of record keeping and paying taxes. Businesses also receive capital via the use of promissory notes that are sometimes referred to as commercial papers. These promissory notes became a finance source for the creditors of the firm receiving money.

Promissory notes have functioned like currency that proved to be privately issued in the past. Because of this, such promissory notes that are bearer negotiable have mostly been made illegal, since they represent an alternative to the officially sanctioned currency. Promissory notes go back to well before the 1500's in Western Europe. Tradition claims that the very first one ever signed existed in Milan in 1325. Reference is made to some being issued between Barcelona and Genoa back in 1384, even though we no longer have the promissory notes themselves. The first one that we still have dates back to 1553 where Ginaldo Giovanni Battista Stroxxi issued one that he created in Medina del Campo, Spain against the city of Besancon.

## What is a Recession?

A recession is literally defined as the declining of the nation's GDP, or Gross Domestic Product, by a smaller amount than ten percent. This drop in GDP has to occur over greater than a single consecutive quarter in a given year. Gross domestic product stands for the total of all goods and services that a country produces, or the actual total of all business, private, and government spending on the categories of investment, labor, services, and goods.

The terms recession and depression are typically confused and sometimes used interchangeably. They are quite different from each other. Recessions are typically less severe than are depressions. Recessions are generally corrected in significantly less time and with less economic pain for individuals. Depressions furthermore involve drops in GDP of greater than ten percent.

There is no universal consensus on what makes a recession within an economy. Most economists agree on a few different factors that are commonly involved in causing such recessions. Prices might decrease substantially, or alternatively they could go up substantially. The decrease in prices shows that people are spending smaller amounts of money, and this will cause the Gross Domestic Product to go down. Conversely, higher prices can diminish the amounts of public and private spending, similarly causing the Gross Domestic Product to decrease.

As much as governments, individuals, and businesses hate recessions, many economists feel that they are normal for economies to go through, particularly mild ones. They claim that such economic pull backs are a built in part of society and economics. Prices go up and down, and spending and the amount of consumption similarly decreases and increases over time as well. Still, natural decreases in spending are not sufficient to provoke a recession into occurring. Some other factor changes suddenly and leads to sharp spikes or drops in real prices.

For example, the early 2000's recession came about as a result of the dot com industry suddenly and precipitously decreasing in activity. One day, the demand that they had anticipated turned out to be far less than expected. This created enormous failures of companies and significant layoffs that led to production decreases and finally spending cuts. This dot com drop created a shock effect on the gross domestic product, leading to a significant fall in production and output as spending dropped.

The recession had ended by 2003, yet the consequences of it turned out to be dramatic and can still be felt. High paying jobs suddenly disappeared, only to be outsourced to foreign countries. These jobs will likely never return to the United States. Still, as the Gross Domestic Product began growing again, the recession was deemed to have ended. This does not change the fact that numerous individuals still feel the impact of it in their own personal lives.

Similarly, the Great Recession that you saw stem from the financial collapse of 2007-2010 came about as a sudden seizure in the banking industry and credit markets. It has led to the highest levels of real unemployment since the Great Depression, reaching nearly twenty percent when measured by the formula that had been used until President Bill Clinton changed it. Even though this recession has been called over, the unemployment levels have not declined meaningfully. This means that for several more years at least, a great amount of economic pain and hardship will continue to be felt by those countless millions who have lost their jobs in the recession.

## What is Refinance?

When the word refinance is used, it is referring to the act of refinancing, or canceling out a currently existing debt with another debt that a bank or refinance company issues under alternative terms. By far and away the most popular refinancing that pertains to consumers is for mortgages on houses. Debt replacements that are performed in conditions of financial distress are also known as debt restructuring.

Home owners might choose to refinance their mortgage for a variety of reasons. It can assist them in meeting a range of end goals. You as a home owner might be interested in lowering your monthly payments on the mortgage through attaining a better interest rate or lengthening the terms of the loan.

You could lessen the amount of interest that you pay during the loan's term and expand the equity build up by going through a refinance to get a loan with a shorter life. You could also decrease your exposure to the risk of rising interest rates through obtaining a fixed term loan in place of a balloon mortgage or adjustable rate mortgage. Finally, you might be interested in drawing out home equity in order to do debt consolidation or to cover the costs of major expenses that you are encountering elsewhere.

The act of refinancing eliminates the original mortgage loan. This is then replaced with a new loan. There are many factors that you will have to decide in obtaining this new loan. This includes what type of loan is most ideal for the circumstances, which lender you will utilize, which term and rate are most advantageous, and the fees that you feel are reasonable. Because of these complicated decisions that must be made, consumers should seek out advice in their refinancing. If you do not possess a clear comprehension of all that is involved with the refinancing procedure, then you could accidentally put your house or your finances in danger.

There are risks associated with refinancing. These are principally penalty clauses that are also known as call provisions. When you pay off a mortgage loan early, these penalties would be triggered along with closing fees. The refinancing itself will entail transaction fees. All of these fees should be figured up and considered before you begin a project to refinance your home loan. This is especially the case since all of the fees together may eliminate any potential savings that you hoped to realize through the refinancing.

Another possible downside to refinancing loans is that they may provide you with lower payments every month on the same amount of money to be repaid. In this case, you will pay a greater amount of interest throughout the loan term. You would also pay on the debt for a great number of additional years over the original mortgage's terms. This is why it is so important to determine not only the upfront charges, but also the variable and ongoing costs involved in refinancing as a factor in the decision on whether to pursue it or not.

## What are Repurchase Agreements?

Repurchase agreements refer to types of short term time borrowing. It is the government securities dealers who engage in them. The appropriate dealer will first sell such government securities to institutional investors or financial institution investors. They usually do this for overnight. After this, they will purchase them back the next day.

Those parties who sell the security and agree to subsequently buy it back in the near future are involved in such a transaction as a repo. The opposite end of the transaction parties who buy the security and consent to sell it back in the near future are engaging in a reverse repurchase agreement.

Economists and analysts consider repurchase agreements to be money market instruments. They are typically utilized to raise shorter time frame capital. In these arrangements, the buyer functions as the short term time frame lender. The seller carries on like the shorter term borrower. The collateral is the security itself. In this way, both entities involved in the transaction meet their goals to secure liquidity and funding.

Repurchase agreements typically rank as safe forms of investments. This is because the security being traded is also collateral. It also helps to explain why the majority of such agreements have Treasury bonds as their security. Besides this, the United States Federal Reserve uses these types of agreements themselves. They deploy them to control the amount of bank reserves and the overall money supply. Individual investors like these agreements for financing debt security purchases. In any case, the repurchase agreement is always and only a shorter term investment. The term or rate refers to the maturity period of the repo in question.

Even though they are many similarities between these agreements and interest paying loans which are short term in nature, repurchase agreements are different. They represent true purchases. Yet the buyers keep such instruments only temporarily. This is why both accounting and taxing authorities treat them as loans. Those agreements which specify their maturity date represent term agreements. In the majority of cases, these agreements will reach maturity either the next week or alternatively the following day.

Other Repurchase agreements are open ones. This is because they do not have a maturity date specified by and in the contract. It means the sellers or buyers can complete the terms of the agreement and then renew them or instead choose to terminate them. Almost all such open arrangements will wind down in from one to two years.

Three different kinds of repurchase agreements exist. The first is called a specialized delivery repo. These financial transactions mandate that the agreements and maturities must have a guarantee of bonds. Such an agreement is uncommon.

There are also the held in custody repos. With these, sellers get cash for the security sale. They still keep it within a custody account on behalf of the purchaser. Such an arrangement is still less common than the specialized delivery repos. This is because there is a chance that the seller could declare bankruptcy, leaving the borrower unable to access the collateral as a result.

The most common kind of repurchase agreement is the third party repo agreement. Such arrangements involve either banks or clearing agents which act as intermediaries of the transaction between sellers and buyers. They safeguard each party's interest this way. By taking possession of the securities involved, they make certain that the seller will obtain cash when the agreement commences and the purchaser will transfer over the funds for the seller and also make delivery of the securities when maturity occurs. Such arrangements as these make up more than 90 percent of the total repo market. In 2016, this market contained around $1.8 trillion.

## What are Reverse Mortgages?

Reverse mortgages are special types of loans. They are limited to homeowners who are at least 62 years old. These mortgages permit the owners to take a portion of their home equity and convert it to cash. The seniors may use these mortgage proceeds in any way that they like.

The government came up with these unique products because they were looking for a way to help out retired individuals who did not have enough income. The idea was that they might unlock the wealth they had built up in their houses to provide for health care, outside home care, or ordinary monthly costs of living.

These loans are referred to as reverse mortgages because the home owners do not send a lender monthly payments. These are the opposite of traditional mortgages. Lenders provide the borrower with payments instead. The home owners have several advantages. They do not have to repay the loan until they either no longer live in the home or sell it. They also do not make any regular monthly payments against the balance of the loan. The borrowers are required to keep up with their homeowners insurance, property taxes, and any association or homeowner fees.

The most common type of reverse mortgages are known as HECM Home Equity Conversion Mortgages. The U.S. HUD Housing and Urban Development designed and oversees these. These are not loans from the government. Rather they are mortgage loans that lenders provide with insurance from the FHA Federal Housing Administration. In these particular types, borrowers accrue a 1.25% insurance fee as part of the balance on the loan. This increases the loan balance annually.

This insurance is useful for two protections. In case the lender can not make the monthly payment, it provides for it. Should the house resale value be insufficient to pay back the final loan balance at the end, it makes the lender whole. The government and its insurance fund would then clear any balance that remained.

These HECMs comprise the majority of such reverse mortgages in the United States. Included in their regulations is that the senior borrowers must undergo third party counseling to help them with all of the documents and agreements.

The other type of reverse mortgage is a Proprietary Reverse Mortgage. The mortgage lenders that provide these also insure them privately. This means that they do not have to follow the regulations as with the HECMs. The majority of firms that offer these mortgages choose to honor the identical consumer protections featured in the HECM program. This means that mandatory counseling is usually a part of their programs.

These types are also known as jumbo reverse mortgages. Seniors with larger value houses go with these kinds since there is a $625,500 maximum loan limit on the government's HECMs. Two companies in the country presently offer these types of PRMs. These are the Orange, California based American Advisors Group and the Tulsa, Oklahoma based America Reverse Mortgage.

Regardless of the type of reverse mortgage, the lenders have to put potential borrowers through a financial assessment before making the loan. This is so that they can be certain the seniors will be able to pay the future homeowners insurance and taxes and afford to live in the house for the loan's life. To do this, lenders consider all of the income streams of the borrower. This includes their Social Security, investments, and any pensions. The home owners are also required to give the lender their tax returns and bank statements so that expenses and income may be properly documented.

## What means Risk Averse?

Risk averse investors are those who fear or are intolerant of risk. Given a chance to pick from two investments with similar returns they will go with the one that offers the lesser risk. This is because risk averse investors do not like risk.

Because of this they will avoid investing in stocks and other investments that they consider to be higher risk. This means that they will likely miss out on greater rates of return as a result of their more cautious investing approach. These investors who look out for investments they perceive to be safer will tend to go with government bonds and index funds. Both of these typically offer lower returns.

Studies have been done that show investors will tend to avoid risk that is unnecessary. This is a subjective measurement because every investor has a varying definition of what is unnecessary risk. Those investors who wish to obtain a greater return will understand that a larger amount of risk is necessary. Individuals who are satisfied with a lower return would consider this type of investment strategy foolhardy. The overwhelming majority of economic players are risk averse enough to choose an investment that is less risky if it offers the same return as a riskier investment.

Risk averse markets are those which are afraid of geopolitical or economic events. When the markets are like this they favor safer havens such as gold and the precious metals, Swiss Francs, Treasury bonds, and U.S. dollars. In risk averse markets, investors tend to shun higher risk stocks and securities and try to preserve their investment capital from losses. The opposite of these are risk tolerant markets.

Risk aversion is the representation of individual's and investor's all around preference to have certainty over uncertainty. Because of this, they attempt to reduce the repercussions of the worst potential outcomes that lie before them. Risk aversion means that people will prefer to stay in a low paying job that offers perceived job security rather than to become an entrepreneur who has the chance to make a great amount of money as well as to lose all of the money and time that is invested.

Risk aversion will drive these individuals to seek out a lower rate of return with their investment and savings capital. They would rather have a savings account or certificate of deposit than equities. Even though equities offer much greater potential returns than these other instruments, they are far riskier and can deliver negative returns. A great number of risk averse investors will give extreme weight to the worst possible scenario. It does not matter that the probabilities of these occurring are low. They will shy away from these investments because losses could happen.

Studies have determined that risk aversion comes from an individual's experience. This is particularly true of the economic situation they experienced while a child. Those who grew up in harder economic times are more likely to handle and invest their money far differently from those who grew up in prosperous times.

A classic example concerns Americans who grew up in the 1930's Great Depression. This group has always tended to be extremely risk averse about career or job changes. They are typically extremely conservative with their money. They also avoid the stock market as much as possible as they remember the Black Thursday and Black Monday crashes of 1929.

Financial advisers and planners must understand the risk tolerance and aversion of their clients clearly. They can not recommend the appropriate investments and risk level without this. They will invest the money of a risk averse individual far differently than that of a person who is risk tolerant.

## What is Required Minimum Distribution (RMD)?

The Required Minimum Distribution is a concept that pertains to retirement accounts and IRS rules which govern their distributions. Many individuals are not aware that they can not simply choose to hold retirement money in their retirement vehicle forever. They must begin accepting withdrawals from their traditional IRA, SEP IRA, Simple IRA, or other type of retirement plan and account after they turn age 70 ½. The notable exception to this rule is for Roth IRAs, which do not mandate disbursements while the owner is still alive.

The required minimum distribution is literally the minimum legal dollar amount that account holders have to take out of the retirement account every year. Naturally most people choose to withdraw a larger amount than this required minimum. Withdrawals that are received must be detailed in the individuals' taxable income. The exception to this is for any income that had been previously taxed as with Roth IRA contributions or any earnings which accrued on a tax free basis. This relates to distributions from Roth IRA accounts.

Figuring out the actual amount of the RMD is not so easy. The simplest way to do it is to work with the IRS published Uniform Lifetime Table. In this method, people figure their RMD in any given year by taking the balance from the end of the prior calendar year and dividing this amount by a distribution period taken from the Uniform Lifetime Table. There is also a different table to be utilized if the owner of the account's spouse is the only beneficiary and he or she is at least ten years younger than the owner.

The IRS provides worksheets on their website to help account holders figure up the mandated minimum amount. They also provide several tables to help with this. As mentioned, the Uniform Lifetime Table is for every IRA account owner who is figuring up his or her own withdrawal. The Joint Life and Last Survivor Expectancy Table is for those whose spouse is at least ten years younger and who is the only beneficiary.

The initial date for the first RMD on an IRA is figured out by taking the April 1st of the year that comes after the calendar year in which the account holder turns 70 ½. With a 401(k), 403(b), profit sharing plan, or similar defined contribution plan, either this same April 1st deadline applies or the April 1st that follows the calendar year in which the owner actually retires.

The individual turns 70 ½ on the calendar date which falls 6 months following his or her 70th birthday. The plan terms themselves govern whether the individuals can wait until the year in which they actually retire to take the initial RMD. Other plans will require distributions begin on the April 1st following the year of turning 70 ½ whether or not the person has retired.

Once account holders have received the first RMD, they must take their subsequent ones on or before December 31st. It is possible to avoid having the first and second RMD's included in a single tax year. In the year individuals turn 70 ½ they can simply go ahead and take that first RMD by the end of the year to avoid the double distribution taxation in one calendar year.

People who do not take their full minimum required distribution will suffer an IRS penalty. Any amount which they do not take as the law requires will suffer a 50% excise tax that will be levied on it. This failure to take the RMD must be reported on a Form 5329, Additional Taxes on Qualified Plans.

## What is Return on Investment (ROI)?

ROI is the acronym for return on investment. This return on investment is among the most often utilized methods of determining the financial results that will arise from business decisions, investments, and actions. ROI analysis is used to compare and contrast both the timing and amount of investment gains directly with the timing and amount of investment costs. Higher returns on investment signify that the results from investments are positive when you compare them against the costs of such investments.

Over the past couple of decades, this return on investment number has evolved into one of the main measurements in the decision making process of what types of assets and equipment to buy. This includes everything from factory equipment, to service vehicles, to computers. ROI is similarly utilized to determine which budget items, programs, and projects should be both approved and allocated funds. These cover every type of activity from recruiting, to training, to marketing. Finally, return on investment is often employed in choosing which financial investments are performing up to expectations, as with venture capital investments and stock investment portfolios.

Return on investment analysis is actually used for ranking investment returns against their costs. This is done by setting up a percentage or ratio number. With the vast majority of return on investment calculation methods, ROI's that are higher than zero signify that the returns on the investment are higher than the associated expenses with it. As a greater number of investments and business decisions compete for funding anymore, hard choices are increasingly made using the comparison of higher returns on investment. Many companies believe that this yields the better business decision in the end.

There is a downside to relying too heavily on the return on investment as the only consideration for making such business and investment decisions. Return on investment does not tell you anything regarding the anticipated costs and returns and if they will actually work out as forecast. Used alone, return on investment also does not explain the potential elements of risk for a given investment. All that it does is demonstrate how the investment or project returns will compare against the costs, assuming that the investment or project delivers the results that are anticipated or expected. This limitation is not unique to return on investment, but similarly plagues other financial measurements. Because this is the case, intelligent investment and business analysis also relies on the likely results of other return on investment eventualities. Other measurements should also be used along side the return on investment to help measure the risks that accompany the project or investment.

Wise decision makers will demand more from return on investment figures than simply a number. They will require effective suggestions from the person making the return on investment analysis. Among these inputs that they will desire are the means of increasing an ROI's gains, or alternatively the means for improving the ROI through decreasing costs.

## What is a Rollover IRA?

An IRA is the acronym for Individual Retirement Account. These accounts represent a form of government-approved and -created savings account for retirement. They have several advantages, the main one of which is the significant tax breaks they receive in tax deferment. This makes them the optimal way to put cash aside towards eventual retirement. It is important to know that IRAs are not investments. Instead they are more like the basket in which individuals maintain their mutual funds, stocks, bonds, and other assets. When one retirement account is transferred to another one, this is known as a Rollover IRA.

Generally people open such a Rollover IRA themselves. There are also a few types which small business owners and the self employed can open. Among the various types of Individual Retirement Accounts in existence are the Roth IRAs, traditional IRAs, SEP IRAs, and SIMPLE IRAs. Not all of these can be accessed by every individual in the U.S. This is to say that every one of them has specific eligibility requirements which revolve around the type of employment and income level. What they do all have in common is the caps on the amount individuals are allowed to contribute every year. They also mostly share steep penalties for withdrawing funds ahead of the government set age of retirement.

The greatest benefit to these accounts lies in their ability for all of the assets within the plan to gain in value while not being taxed by the U.S. Federal government. This means that all income generated by capital gains, dividends, and interest will compound every year with no tax bite. Taxes on the majority of these forms of IRAs only become due as the owners take qualified (or unqualified with a penalty) distributions. There are two different forms of this. With the majority of the IRAs, individuals are able to commit pre-taxed dollars to the account. With Roth IRAs, the dollars are after-taxed, but then no additional taxes on them will be required upon withdrawals at retirement. Using the Rollover IRA concept, individuals can switch from one type of IRA to another.

The Internal Revenue Service strictly limits how much money people can put into such accounts. The majority of individuals who are less than 50 are not permitted to contribute over $5,500 each year as of 2016. These limits become higher once the holders attain an age greater than 50. They call this “catch up contributions,” and the limits are typically raised by $1,000 to $1,500 more in this decade immediately before holders reach retirement age.

Practically all individuals are allowed to make contributions each year to a traditional form of IRA. So long as either the holder or spouse earns taxable income and is less than 70 and a half years old, they can participate.

The various kinds of IRAs are important to understand. A ROTH IRA does not provide tax deductions on contributions. There are also income restrictions which in 2016 amounted to under $184,000 for married filing jointly families or $117,000 for single heads of households or those who are married filing separately and not living with their spouses.

Both SEP and SIMPLE IRAs apply to only small business owners and the self employed. Only employers who claim fewer than 100 employees can set up these SIMPLE IRA accounts. Any individual who possesses freelancing income or who owns a business can open an SEP IRA.

While individuals can always withdraw their contributions (and even earnings) at any point once they have deposited them to their IRAs, there are penalties if they are less than 59 and ½ years old. The penalty is an extra 10 percent above the that-year tax bracket of the individuals who take distributions early. The government’s point is to discourage people from utilizing their retirement accounts like ATM machines or credit cards.

## What is a Roth IRA?

A Roth IRA is a particular type of Individual Retirement Account. These Roth IRA's prove to be special retirement plans that are given favorable tax treatment. The tax laws of the United States permit tax reductions on restricted amount savings for retirement accounts.

Roth IRA's are different from other IRA's in several ways. Among the chief of these is that tax breaks are not given on monies that are put into the plan and account with a Roth IRA. Instead, these tax breaks are given out on the money and its investment gains when they are taken out of the account at retirement. This chief appeal of Roth IRA's is that they provide completely tax free income at retirement.

Other Roth IRA benefits over traditional forms of IRA's exist as well. The restrictions placed on the kinds of investments that they are allowed to contain are fewer. You can turn them into gold IRA's and annuity account IRA's. Roth IRA's can also contain all of the usual forms of investments that IRA's contain, such as mutual funds, stocks, bonds, and certificates of deposit. More unusual investments such as real estate, mortgage notes, derivatives, and even franchises are allowed to be purchased with Roth IRA's. These investment choices do depend on the capability and allowance of the Roth IRA trustee, or firm with which the plan is set up. Roth IRA's also permit you to make un-penalized withdrawals of all direct contributions that you make, after the first five years of the account have and plan have passed, which is certainly not the case with traditional IRA's.

These distributions, or withdrawals, are not taxed because they are taxed before the contributions are made. The penalties are waived for principal, as well as interest and earnings in the account, if the distributions are for purchasing a house or for disability or retirement withdrawal uses. If there is not a justified reason for the distribution, then the account earnings and income made above contributions will be taxed.

All IRA's contain specific limits on the dollar amount of contributions that the government permits. This amount changes per year, and is set through the year 2011 now. Presently, you can put $5,000 per year into Roth IRA's. There are income restrictions that govern whether you are allowed to make this full contribution as well. Individuals who make less than $106,000 are permitted to make full Roth IRA contributions, and those who make under $121,000 may make a partial contribution. Married couples who file together are allowed to earn less than $167,000 to make their full contribution to the Roth IRA, while those who make under $177,000 can do a partial contribution.

Roth IRA conversions from traditional IRA's have been allowed by the IRA in the past, although with certain income restrictions. Beginning in 2010, this policy changed. Now the IRS permits any persons, regardless of how much money that they make, to convert their traditional IRA’s into Roth IRA’s.

## What is Standard Deduction?

A Standard Deduction refers to the minimum amount of income which will not be subjected to taxes. This deduction may also be utilized to decrease the AGI adjusted gross income of the tax payer in question. Such standard deductions are only allowed to be employed in cases where the tax paying individual elects to skip the itemized deductions for figuring up income which is taxable.

Standard deductions are ultimately dependent on a number of personal factors that are particular to the filing individual. Among these are the age, filing status (married or single), any disabilities, and ability of any other taxpayer to claim them as dependent on their tax return.

Naturally, not every tax payer will elect to go with the standard deductions. Many do however. The single most compelling reason that they choose this over the itemized deduction route has to do with the fact that the majority of tax paying individuals (in the nation) will not accrue receipts for all of their potential deductible expenses as they go through a given year.

Besides this fact, a great number of individuals decide that the government's standard deduction is reasonably generous. When they examine the comparisons between the two, they discover that the standard deductions will usually provide them a better reduction to their taxable income than the alternative method of figuring up the sum total of their allowable expenses and entering these instead. For one thing, such standard deduction amounts receive an adjustment for inflation every year. For another, if tax payers cannot supply evidence of such allowed expenses upon request to the Internal Revenue Service, then they may not choose to proceed with the itemized deductions method in any case.

The ultimate idea behind such standard deductions is to make certain that every tax payer will receive at least a portion of their income which will not be assessed by the federal income taxes. These standard deductions also apply to many different states which levy a state income tax. They generally permit individuals to claim some kind of deduction like this on the income tax return of the given state.

Each person's level for standard deduction varies based on the filing status that they have particular to their situation. It always helps to look at a clear and real world example to understand challenging concepts like this one. Take the tax year of 2016. Those single tax payers along with married filing separately tax payers were allowed to take the standard deduction of $6,300. For those who filed as married filing jointly, they received $12,600, exactly twice the deduction of the single filers. For those who file as the head of a household (which are single individuals that can claim at-home dwelling dependents), the deduction rises to $9,300.

There are also higher standard deductions available to those taxpayers who have blindness, are at least 65 years old, or who are both. For those who are totally or partially blind, the Internal Revenue Service gives this special adjustment. Such filers require an eye doctor-certified statement to reinforce their claim. A great number of the various states throughout the country also give these kinds of adjustments based on blindness or old age.

Though there is little doubt that it proves to be significantly simpler to just take the standard deduction than it is to go through the trouble and time to itemize specific deductions, this could cost filers tax-reducing deduction amounts. Many individuals who gave large amounts of money to churches or charities, encountered major medical costs, paid property taxes or interest on mortgage, or who suffered from uninsured losses because of natural disasters or theft will find itemizing pays off. This is why the IRS suggests individuals spend some time to work their tax deductions both ways to learn which one will provide a larger deduction. For people who utilize a good tax program like Turbo Tax, it will do it on the behalf of the filer.

## What are Stocks?

Stocks are financial instruments that are issued by publicly traded corporations. These shares of stocks prove to be the tiniest portion of ownership that you can acquire in a company. Even by owning a single share of a company's stock you are a small part owner of the firm.

Owning shares of stock gives you the privilege of voting for the underlying company's board of directors, along with other critical issues that the company is considering. Should a company decide to distribute earnings to share holders as dividends, then you will get a portion of them.

With the ownership of stock, your liability in the company is only limited to the value of your shares. This means that should a company lose a lawsuit and be forced to pay an enormous fine or judgment, then you can not be made to contribute to it. The company's creditors also can not pursue you if the company runs into financial trouble and goes bankrupt.

Two different types of stock shares exist. These are common shares and preferred shares. The vast majority of shares that are issued are common stock shares. These are the shares that members of the public hold most of the time. They come with full voting rights and also the possibility of receiving dividends that the company pays out.

Preferred stocks come with fewer voting rights but give preferential treatment for dividend payment. Preferred stock issues are paid out before common share dividends. Companies that offer preferred stock typically pay dividends on both classes of shares anyway. Preferred stocks also have a higher claim on the assets of a company if it fails.

Liquidity is a feature of stocks that should always be considered. Common stock shares are almost always more liquid than are preferred shares. Large companies offer the greatest amount of liquidity in the trading of their stocks. Because of the depth of the stock markets, you are able to purchase and sell the shares of practically all companies that are publicly traded at any time that the exchanges are working.

When you purchase a stock, you are looking for two different kinds of gains. Cash flow or passive income with stocks comes from the dividends that they declare and pay out. Capital gains appreciation is realized when you buy a stock at a lower price than the price that you get when you later sell it. While cash flow dividends are smaller payments that are realized on a generally quarterly basis, capital gains turn out to be larger one time returns made when you sell the underlying stock shares investment. At this point, you would no longer own the stock and you would have to purchase another stock in order to work towards cash flow gains from dividends, as well as other possible capital gains.

## What are Tax Sheltered Annuities 403(b)?

Tax sheltered annuities are retirement savings programs and vehicles that the Internal Revenue Service allows for under the 403(b) section of their tax code. They were created for the benefit of employees who work for churches, educational institutions, and specific not for profit agencies.

They offer the advantage of permitting employees who are eligible to participate to contribute nearly all of their annual income towards retirement savings and investments in the plan. As an example of the generous limits with these particular plans, employers who choose to contribute can put in as much as $53,000 as of 2016 for any single tax year.

This supplemental program for retirement savings gives participating individuals a variety of ways in which they can choose to contribute funds. They may invest on an after tax basis, as with a Roth plan. They may also choose to contribute using funds that are pre-taxed. They can also opt to use a combination of the two methods. These plans and their participating contributions are entirely voluntary. Employees generally make the majority of these contributions as there is not always an employer match involved with them.

A variety of employees of eligible organizations may participate in these tax sheltered annuity plans. Employees of public schools, universities, and state colleges are allowed to participate. Many employees of churches are also allowed to become involved. Those who work for the school systems run by Indian tribes and their governments may participate. Not for profit 501(c)(3) churches' and organizations' ministers are included in them, as are ministers who are self employed who serve as part of a tax exempt organization. Chaplains are also usually qualified to participate.

There are several good reasons to become involved with these tax sheltered annuity plans. With automatic payroll deductions, it is a simple and relatively painless means of building up extra savings which individuals will require to increase their after retirement income.

They can get involved in a low cost program that is flexible enough to offer a good selection of investment choices. People can make contributions on a Roth after tax basis, a pre tax basis, or a combination of the two. Finally these plans are portable, meaning the owners can take their retirement vehicles with them when they move to a different job or another not for profit organization.

Thanks to these plans and vehicles, account holders are able to invest tax money that would otherwise go to the IRS. They can move money between the various funds in the plans without suffering from capital gains taxes or additional fees. This gives these TSA pre tax accounts a greater return than a taxable account would enjoy if it earned similar returns. For any individuals who use these account vehicles as Roth after tax accounts, all qualified distributions at retirement will be enjoyed completely tax free.

Money from these accounts can not be taken out without penalties until the individual reaches the government mandated minimum retirement age of 59 ½. They must begin taking distributions by the time they turn 70. An exception to the minimum retirement age is for individuals who stop working for their not for profit company before they reach retirement age. In this case, they are allowed to go ahead and begin receiving distributions without having to pay the extra 10% early withdrawal penalty tax. Only any taxes that were due for monies which had been contributed as pre tax dollars would apply in this particular case.

## What means Tax-Deferred?

Tax deferred money and status pertains to earnings on investments. This includes dividends, interest, and capital gains which are allowed to accumulate without taxes paid until the owner withdraws the earnings and gains. The two most popular kinds of these deferred investments are found in IRAs and tax deferred annuities. Growth that is tax deferred permits gains to be compounded instead of having taxes paid on them.

Investors gain in two different ways from having taxes deferred on their investment returns. The first method is through growth on investments which is tax free. Instead of having to pay taxes on the present returns of the investment, the taxes are not paid until a later time. This allows the investment to increase without setbacks.

The second method from tax deferral pertains to investments which are entered in pre-retirement accumulation phases. At this point, the earnings and taxes on them are generally significantly higher than earnings will be when the owners retire. This means that withdrawals drawn out of deferred accounts typically happen after individuals are bringing in less taxable income. The end result is that their tax rate is at a lower level than the one the IRS applies with they are still working.

There are a number of qualified and approved tax deferred vehicles available today. Probably the most common and popular is the 401(k). Employers provide these plans as a company benefit to help their employees to increase their retirement savings.

Third party administrators act to deduct contributions from employee payrolls and help manage the plans. The employees then get to choose from several options in which to invest their tax deferred savings. These include company stock, mutual funds, or some fixed rate choices. All gains made in these accounts do no add to the taxable earnings of the employees participating. These contributions they make to the 401(k) and other qualified accounts like most IRAs come from pre-taxed dollars. This means that the employee’s taxable income amount becomes reduced.

When the employees surpass the minimum 59.5 retirement age, they are able to take distributions from these plans. The taxes they pay are only those which apply on their earnings as they are received. So investors who may earn enough to pay 33% tax bracket while employed will likely pay as little as 10% to 15% taxes on distributions they take from their 401(k) plans at retirement that they have along with their any other income from interest, social security, or pensions.

401(k)s typically involved employer dollar matching programs that inspire employees to set aside a greater amount of their earnings in order to increase the size of their retirement nest egg. In putting the money off to the future, they will pay fewer taxes in the end.

It is important to understand the difference between tax deferred and non tax deferred retirement vehicles. Some retirement investment accounts are not tax deferred. The owners pay the taxes on the earnings before they contribute them to the accounts. The advantage to this is that all interest, dividends, and capital gains grow without any other taxes being owed on them when they are taken out as distributions at retirement age. One beloved insurance product that works this way is an annuity.

Retirement plans like traditional IRAs have annual contribution limits of $5,500 per year as of 2016. Annuities do not come with such annual restriction levels. Employees can contribute even millions of dollars per year to them if they wish.

The earnings made in these insurance backed products grow without having taxes taken out of them even at retirement. This means that any and all earnings in these account compound fully from the second year of the annuity contract. So long as the gains earned are taken out after the employee reaches 59.5, there will not be any taxes or early withdrawal penalties of 10% levied against the earnings in these pre-taxed contribution accounts.

## What is a Term Life Insurance?

Term life insurance is a form of life insurance. It offers coverage for a preset and limited amount of time that is called the relevant term. The coverage provided is a fixed rate of payment coverage. Once the term expires, the individual's coverage at the rate of the premiums that were charged before are not assured any more.

The client will be forced to drop their term life insurance coverage or to get a different coverage with varying payments and terms. Should the person who is insured die within the term, the death benefit amounts are paid out to the insured person's beneficiary. This term life insurance proves to be the most affordable means of buying a major dollar value of death benefit coverage based on the premium cost charged.

Term life insurance turns out to be the first type of life insurance created, and it stands in contrast to permanent forms of life insurance like universal life, whole life, and variable universal life. These coverage types promise an individual pre set premiums that can not go up for the person's entire life. People do not usually employ term insurance for strategies involving charitable giving or their needs for estate planning. Instead, they are thinking about a need to replace an income if a person passes away on his or her family unexpectedly.

A great number of the permanent life insurance policies also offer the advantage of increasing in value during the person's contract. This cash value can then be withdrawn when certain conditions are met by the policy holder. Generally, withdrawing these cash amounts closes out the policy. Beneficiaries of permanent life insurance products get the insurance policy face value but not the cash value upon the holder's death. Because of this, financial advisers will suggest that people purchase term life insurance for their insurance needs and then invest the money saved over permanent products in retirement accounts that provide tax deferred contributions and investment gains, like 401k's and IRA's.

Like with the majority of insurance policies, term life insurance pays out claims for the insured, assuming that the contract is current and the premiums are paid as due. Assuming that a claim is not filed, the premium is not given back to the policy holder. This makes term life insurance like home owners' insurance policies that pay claims if a home becomes destroyed or damaged as a result of fire, or like car insurance policies that pay drivers if they have a car accident. Premiums are not refunded when the product is no longer required. Because of this, term life insurance like these other products only provides risk protection.

## What is a Thrift Savings Plan?

The Thrift Savings Plan represents a government created retirement savings vehicle. In 1986, Congress passed the Federal Employee Retirement System Act. This plan was established for the benefit of retired or present employees in the civil service of the federal government.

In 2001, Congress expanded the TSP so that it would include the members of the armed forces with the National Defense Authorization Act. This extended participation beyond the original civilian employees. Armed forces members were allowed to enroll beginning on October 9th of 2001.

The Thrift Savings Plan was set up to be a defined contribution plan. The goal behind its creation was to provide the federal government employees with similar retirement savings types of benefits as private sector workers had. Employees in the private sector already enjoyed these retirement savings opportunities via the available 401(k) plans. With every payroll check, plan contributions to both the 401(k) and TSP are deducted automatically.

These TSPs include a variety of different funds. Participants can choose from and invest in six different types. Among these are the government security fund, the common stock fund, the fixed income fund, the international stock fund, the small cap stock fund, and the life cycle fund.

The government security TSP fund is specifically managed by the Federal Retirement Thrift Investment Board itself. This fund's management purchases U.S. government guaranteed Treasury securities that are not marketable. Because of this conservative and safe strategy, the G Fund does not lose money. Its returns are also lower as a result of this low risk.

The common stock fund is one of the index funds that track a particular benchmark. In the case of this C fund, it invests in a stock index fund which mirrors the composition of the Standard and Poor 500 Index (S&P 500). This means it buys an index based on the various stocks of the 500 medium to larger sized American corporations. Its goal is to replicate the S&P 500s annual performance.

With the fixed income fund, it also tracks a benchmark index. This F fund's goal is to match the Barclays Capital US Aggregate Bond Index's performance. This broad based index was established to represent the bond market in the United States. As such it returns earnings commiserate with American corporate bond performances.

As the name implies, the international stock fund buys prominent stocks of international companies. It also follows a benchmark index. This particular I fund tracks the MSCI Europe, Australasia, Far East Index also known as the EAFE. Its returns are made up of gains or losses from the stock prices, income from dividends, and fluctuations in the comparative currency valuations. Regardless of what is happening in international markets, this fund and the fixed income, common stock, and small cap stock funds are always fully invested.

The small cap stock fund buys the index fund of stocks which follows the Dow Jones US Completion Total Stock Market Index. This S Fund earnings come from both dividend income received and any losses or gains in the prices of the underlying stock.

An interesting combination is the life cycle fund. These are managed to invest in the five different TSP funds. They professionally determine the allocations and percentages in each based on the retirement time frame set by the owner. There are L2020, 2030, 2040, and 2050 versions which assume that within a few years of those dates the owner will be looking to retire and be more conservatively invested.

TSP benefits are several. Government agencies are able to match employee contributions. They also have an agency automatic contribution option. Employees can make catch up contributions when they reach a certain age. These funds feature low, affordable expense ratios. All contributions made to these plans are not taxed until the point where the money is withdrawn at retirement.

## What is a Traditional IRA?

The Traditional IRA is the most common type of the various individual retirement accounts available to savers for retirement. Besides this type of IRA, there are also SEP IRAs, Roth IRAs, and Self Directed IRAs. Each of these types of accounts has at least a few features in common with the original and still most popular plain IRA.

These accounts are all particularly designed to help save, grow, and fund individuals' retirements. They all permit investors to trade a variety of securities, such as stocks, mutual funds, ETFs, and bonds. Different from other kinds of brokerage and investment accounts, IRAs most importantly offer account holders tax benefits. The main difference between traditional IRAs and Roth IRAs centers on the way taxes are paid or deferred by the IRS rules.

With a Roth IRA, owners pay taxes on contributions now. All gains that account holders make in the account then accrue tax free for the entire life of the retirement savings vehicle. The traditional forms of IRAs give holders the advantage of tax deferred contributions. This means that they will not have to pay any taxes on money contributed until they withdraw them later on at retirement time. All gains that they earn in the account over the life of the IRA will be taxable at the time they withdraw them.

With all of these types of IRAs, the annual contribution limits remain the same. For tax year 2016, this amount is $5,500 for individual contributions or $11,000 for married individuals filing jointly. Catch up contributions are also the same in these various kinds of IRAs. When people reach age 50, they can make additional contributions amounting to $1,000 each year for an individual or $2,000 for married people filing jointly.

This means that instead of adding $5,500 individually to the IRA for the year, an individual could contribute $6,500 per year once he or she turns 50. Similarly married individuals would be allowed to add $13,000 per year instead of $11,000 annually once they both reach age 50.

Traditional IRAs do not feature any income limits while Roth IRAs do have these. People can be disqualified from making investments in their Roth IRAs if they earn too much money any given tax year. Single filers are only allowed to make less than $110,000 each year. Above this income, the contribution amount which the IRS allows tapers down until the income reaches $125,000.

Once this income limit is reached, a Roth IRA contribution is disallowed for the tax year. With married filing jointly, the income maximum is higher. With under $173,000 earned for the year, the full $13,000 maximum contribution is permitted. This amount tapers off as the earnings rise to $183,000. Beyond these earnings, two individuals who are married are not allowed to utilize the Roth IRA in that particular tax year.

IRAs are different from 401(k)s, the other popular retirement savings vehicle, in several critical ways. Traditional and the other forms of IRAs can only be set up and maintained by an individual acting on his or her own behalf. 401(k)s are retirement accounts that employers set up on behalf of their employees. Many employers make partially matching contributions to their employees' 401(k) accounts.

IRAs also commonly offer superior choices in different investment possibilities than do the more limited 401(k) plans. Self directed IRAs are allowed to invest in most any type of investment that is not considered to be a collectible item. This means that Self Directed IRAs are allowed to invest in franchises, real estate, precious metals, mortgages, energy, and other alternative investment ideas.

## What are Treasury Bills?

Treasury Bills prove to be among the largest category of United States issued Treasuries. They are also called T-Bills for short. Treasury Bills have maturities of a year or less. They never pay investors interest before they mature, making them somewhat like zero coupon bonds. The government instead sells Treasury Bills at a face value discount, which causes there to be a positive yield to maturity. Numerous economists and ratings agency consider Treasury bills to be the lowest risk investments that American and foreign investors can purchase.

T-bills come issued with varying maturity dates. These typical forms of weekly Treasuries can have four week maturity dates, thirteen week maturity dates, twenty-six week maturity dates, and fifty-two week maturity dates. Every week, the government runs single price auctions for its Treasury bills. The quantity of thirteen week and twenty-six week Treasury bills available for purchase at auction are actually announced every Thursday. They are then offered on Monday and issued on the next Thursday.

Four week T-bill quantities get announced Mondays for next day auctions. The bills become issued on Thursday. Fifty-two week bills become announced only on the fourth Thursday, to be auctioned the following Tuesday and issued that Thursday. Associated purchase orders have to be received before 11 AM on Monday auctions at Treasury Direct. Minimum purchases for these T-bills are a reasonable $100, marked down from the former $1,000 minimum. The Treasury redeems T-bills that mature every Thursday. The biggest buyers of T-bills prove to be financial institutions such as banks, and primary dealers in particular. These Treasuries in their individual issue all get one of a kind CUSIP numbers.

Sometimes the Treasury cash balances are lower than usual. At these times, the Treasury often opts to sell CMB's, or cash management bills. They sell these in much the same way as T-bills, at auction with a discount. Their main difference lies in their irregular amounts and shorter terms of fewer than twenty-one days. They also possess different week days for auction, issue, and maturity. As these CMB's mature on the identical week day as typical T-bills, commonly Thursdays, they are termed on cycle. When they instead reach maturity on another day, they are known as off cycle.

Treasury bills are regularly sold on the secondary market too. Here, they are both quoted and sold via annual discount percentages, known as a basis. The secondary market trades these T-bills heavily.

The Treasury has modernized its means of offering T-bills to investors recently. Treasury Direct is their means of selling T-bills over the Internet, so that funds can be taken out and then deposited straight to the individuals' bank accounts. This permits investors to make better rates of interest on their savings than with simple bank account interest.

## What are Treasury Bonds?

Treasury Bonds are also called T-Bonds. These financial instruments prove to be government debt issued by the United States federal government at a fixed rate of interest. Such debt securities come with maturity dates of longer than 10 years. The T-bonds offer interest payments twice per year. Because they are federal debt instruments, their earned income may only be taxed by the federal level authorities of the Internal Revenue Service. Though nothing is really risk free in the investing world, investors generally consider these bonds to be virtually without risk, since they are issued by the United States federal government. Investors perceive them to have a minimal amount of default risk.

Such Treasury Bonds turn out to be among the four kinds of Department of Treasury issued debt. They employ all of these to finance the runaway spending activities of the Federal Government. In these four debt types are the T-bills, Treasury notes, T-bonds, and TIPS Treasury Inflation Protected Securities. Each of these different debt securities is different according to both their coupon payments and their varying maturities.

Despite this, every one of them are the benchmarks for their particular fixed income categories. This is because they are American government backed, almost free of risk, and guaranteed by the revenues and tax base of the United States Treasury. In theory the Treasury can always levy higher taxes to make sure the interest and principles are repaid on these financial instruments. As they are all the lowest returns in their investment category, they are also deemed to be benchmarks for the various fixed income types of investments.

Such Treasury Bonds come standard issued with maturities which vary from 10 years to as long as 30 years. Their denominations start at $1,000 minimums. Each coupon interest payment pays out on a semi-annual basis. The bonds themselves sell via an auction system. The most of them that investors can purchase is $5 million when the bid proves to be non-competitive or as much as a full 35 percent of the entire issues when the bids turn out to be competitive.

It is important to understand what a competitive bid actually is. These types of bids declare that the bidder will accept a certain minimum interest rate bid. These become accepted according to the comparison versus the bond's set rate. With noncompetitive bids, bidders are guaranteed to receive the bonds so long as they will take them at the pre-set interest rate. Once the bonds have been auctioned off, the buyers may sell them off via the secondary market.

Investors call the active market for Treasury bonds re-sales the secondary market. Thanks to this enormous market, T-bonds and T-bills are extremely liquid. It means they can be easily resold on a constant continuous basis. It is this secondary market that causes the T-bonds' prices to gyrate considerably in the markets. This is why both yield rates and current auction rates for the T-bonds determine their prices via the secondary market.

As with all other kinds of standard bonds, these Treasury bonds will experience declining prices as the rates at auction increase. Conversely, the bonds will experience rising prices when the auction rates decrease. The reason for this inverse relationship is that the future cash flows of such bonds becomes discounted according to the higher rate.

T-bonds are also important because they are part of the yield curve for the fixed income markets. As one of the four principal investments which the American federal government offers, they make up this yield curve. The curve is critical because it pictorially displays the range of maturity yields. It is typically sloping upward since lower maturities provide lower rates than do the farther out maturity varieties. There are cases though when the farther out maturities experience peak demand. This causes the yield curve to become inverted. In such a scenario, the farther out maturities will have lower rates than the closer dated maturities.

## What is a Trust Account?

A trust account refers to a type of account which a trustee holds on the behalf of the beneficiary. The trustee does not have the ability to utilize the funds in any personal capacity, but merely to safe keep, disburse, and invest them for the advantage of the beneficiary.

An example of this type of arrangement is when an attorney holds funds for the benefit of the client. The attorney will not be able to draw upon the funds until after a certain protocol takes place. As the attorney earns the lawyer fees, the client will have to first review and then actually approve the bill from the attorney before he or she can transfer the client funds from this trust account over to the general account of the attorney for settlement of bills.

There are a number of reasons and situations in which individuals may opt to establish a trust account. In some scenarios, people wish to disperse a pre-determined sum of money to their family or other loved ones over a number of years or throughout the remainder of their natural lives.

As a real world example, consider the following. Parents may wish to establish some trust accounts which will provide money to their dependents and/or children every month if and when they die. In such a scenario, it would normally be banking brokers who would manage such accounts. In fact these broker trustees would draw down the account values by the appropriate amount every month or year as they disbursed the either monthly or yearly funds to the beneficiaries for the individuals who originally formed the trust.

There are other common kinds of trusts as well. One of these is a property tax trust account. Such accounts will be established by entrepreneurs of real estate who own a variety of properties. Rather than have to be concerned about the property tax funds and disbursements to the appropriate taxing authorities themselves, they elect to form a trust account which will pay the taxes. This prevents the entrepreneurs from forfeiting their valuable properties because they forgot to pay the property taxes. There are a number of monetary benefits to having such an account. One of these is that estate taxes will not apply to properties contained in such a trust when the owner dies.

There are two different main types of trust accounts. These are revocable and irrevocable trusts. With revocable trusts, these represent deposit accounts whose owners chose to name one or several beneficiaries. These beneficiaries would then obtain the deposits in the account once the holder of the account died. As the name implies, such revocable trusts may be terminated, revoked, or altered on demand whenever the holder of said account wishes. In this particular case, the owner is the trustor, settlor, or grantor of the revocable trust in question. These types of trusts will be established as either informal or formal. While trustees are powerful and have a broad scope of authority over the assets of the beneficiary, they are not omnipotent, but must be bound by the laws and regulations of the jurisdiction which pertain to trust accounts.

Irrevocable trusts on the other hand are similarly deposit accounts but they are not titled in the name of the owner. Instead these become titled as an irrevocable trust for the name. The owner, trustor, settlor, or grantor also makes deposits of money or other valuable assets to the trust account. The principal difference is that the owners forfeit all ability to alter or cancel the trust once they have established it. These types of trusts also become created once an owner of a revocable type of trust dies. They can be set up through a judicial order as well, or even by a statute as appropriate.

## What is a Trust Fund?

A trust fund proves to be a specific kind of legal entity. It contains property or cash which it holds to benefit another group, individual, or organization. Numerous different kinds of trusts exist. They are governed by almost as many provisions that determine how they work. Every trust fund involves three critical parties. These are the grantor, the beneficiary, and the trustee.

A grantor is the individual responsible for creating the trust fund. Grantors can do this with a variety of assets. They might give stocks, bonds, cash, mutual funds, real estate, private businesses, art, or other items of value to the fund. They also determine the terms by which the trustee will manage the fund.

Beneficiaries are the individuals who receive the benefit of the fund. The grantor sets it up on their behalf. The assets the grantor places inside of the trust fund are not the property of the beneficiary. The trustee oversees them so that the financial gain benefits this individual according to the rules laid out by the grantor at the time he or she establishes it.

Trustees are the managers of these funds. They could be an institution like a the trust department of a bank, an individual, or a number of trusted advisors. Their job is to make sure that the fund fulfills its duties spelled out by the governing law in the trust documents. Trustees typically receive small management fees. The trustee could manage the assets directly if the trust specifies this. In other cases, trustees have to pick out investment advisors who are qualified to manage money.

Trust funds come to life under the rules of the state legislature where the trust originates. Different states offer advantages to certain types of trusts. This depends on what the grantor wants to do by establishing the fund. This is why attorneys help to draft the trust documents to make sure they are correct and most advantageous. As an example, there are states which allow perpetual trusts that can continue forever. Other states make these illegal because they do now want to enfranchise a class of future generations who receive substantial wealth for which they did not work.

Special clauses may be inserted into these trusts. Among the most heavily used is the spendthrift provision. This keeps the beneficiary from accessing the fund assets to pay debts. It also allows parents to ensure that any irresponsible children they have do not find themselves destitute or homeless despite poor decisions they may make.

Trust funds provide a large number of benefits. They receive special protection from creditors. They ensure that family members follow wills after the grantor passes away. These trusts also help estates to avoid as many estate taxes as possible so that wealth can reach a greater number of generations.

Trusts can be an ideal way to ensure the continuity of a business. Sometimes business owners wish to protect a company and their employees after they die. They might still wish for the profits to benefit their heirs. In this case, the trustee would oversee the management of the business while the heirs reaped the financial rewards but could not break up or ruin the company through mismanagement.

Trusts can also be used with life insurance to transfer significant amounts of money which will benefit the heirs. A small trust could purchase a grantor life insurance. When the grantor dies, the insurance money funds the trust. The trustee will then buy investments and give the rents, interest, and dividends to the beneficiaries.

## What is a Variable Interest Rate?

Variable Interest Rate refers to the applicable interest rate which comes with a security or loan. When such rates are variable, it means that they will fluctuate up or down in time. The reason for this is that a specific index or interest rate benchmark underlies them. This rate or index will change from time to time in the natural course of events. There is a potential great benefit to having such a variable interest rate when this index or interest rate goes down. This is because the interest payments of the borrowers will similarly decline. On the other hand though, when such underlying benchmarks go up, the interest payments will also rise, sometimes painfully.

Not every loan, mortgage, or security will utilize the same benchmark index or interest rate as its underlying comparison point with these Variable Interest Rates. In fact it actually comes down to the kind of security or loan in question. With credit cards, car loans, or mortgages, the Variable Interest Rates are often based on the prime rate for the nation in which the loan is based. Naturally the financial institutions, lenders, and banks will assess a spread between their rate and the true benchmark rate. The amount of this spread form of fee depends on many factors. Some of these are the credit rating of the individual getting the loan and the kind of asset to which the loan is attached.

Where credit cards are concerned, most of them work on a Variable Interest Rate arrangement. Their APR annual percentage rate happens to be fixed to a specific interest index. In most cases, this is the prime rate. With the prime rate, it generally moves up or down in lockstep alongside the federal funds rate that the United States Federal Reserve sets as part of their fiscal and monetary policy tools. A move up or down in this rate eventually leads to a net change in the underlying interest rate of credit cards across America. Such rates for these credit cards working off of variable interest rates are able to shift up or down at will. The credit card companies are not even required to provide written or verbal advance notice to their cardholding customers before adjusting the rates when the benchmark moves.

In the accompanying terms and conditions of such credit card accounts, the applicable interest rates will generally be described as the underlying prime rate added to a certain percentage rate. This specified additional percentage is always heavily based upon how credit worthy the card holding individual proves to be. As a real world example, many cards will assess an interest rate addition of 10.9 percent on top of the prime rate to come up with their credit card customer interest rates.

With other forms of loans that have Variable Interest Rates, the payment schedule proves to be different. The majority of non-credit card forms of loans are actually installment loans. These payments to repay them are fixed and pre-arranged. This leads to the loan reaching pay off on a pre-set specified day. All that changes as interest rates rise or fall is the amount of the payment. This will similarly increase or decrease per the amount of the interest rate change as well as the numbers of payments that remain to fully pay off the loan.

Mortgages have their own specific features. When they carry Variable Interest Rates, such loans are known as ARM adjustable rate mortgages. A great number of such ARMs actually begin their repayment life with a fixed lower interest rate during the initial years of the loan life. Once this pre-determined time frame expires, they will adjust up, sometimes steeply. The most typical periods of fixed interest rates on these adjustable rate mortgages turn out to be either three or five years. Loan officers refer to this as 5/1 or 3/1 ARMs.

## What is Yield?

In business and finance, yield is the word that states the quantity of cash that comes back to a security's owners. It is measured independently of variations in price. It proves to be a percentage of total return. It is used for measuring the return rates of fixed income investments, such as bonds, bills, strips, notes, and zero coupons; stocks, including common, convertible, and preferred; and various other insurance and investment hybrid products like annuities.

Yield can mean different things in varying situations. It is sometimes figured up as an IRR, or Internal Rate of Return, or alternatively as a ratio. Yield describes an investment owner's entire return or a part of the income.

The end result of the many differences in yield is that they can not be compared one against the other. This is because they are not all the same from one branch of finance and investments to another. You could see numerous different formulas for figuring up yield used by different investments and groups.

Bonds are a classic example of this. Nominal yield is also known as coupon yield. This proves to be the face value of a bond divided into the annual interest total. Current yield instead is those interest payments over the bond's price on the spot market.

A yield to maturity is the internal rate of return on the bond cash flow, including the bond principal when maturity arrives plus the interest received, and the purchase price. Finally, a bond's yield to call is the bond's cash flow internal rate of return if it is called in by the company at their earliest opportunity.

Bonds yields are unusual in that they vary inversely to the price of the bond. Should a bond price decline, then the yield will rise. If instead the rates of interest drop, then the bond's price will go up in general.

Some securities come with real yields. TIPS are a primary example of this. A real yield means that the face value of the instrument will be adjusted upwards compared to the CPI inflation index. It would then be set against this principal that is adjusted to make certain that an investor makes a better return than the rate of inflation.

This ensures that his or her purchasing power is protected. TIPS are one rare investment that will not allow investors to lose money if they purchased them in the auction and keep them until they mature, either as a result of deflation, meaning falling prices, or inflation, signifying rising prices over time.

## Improve Financial Literacy – Books & Documentaries

The following list of books and documentaries represents an overview of the major financial shift that started happening a few decades ago. Not only in the US – in most industrial countries. The financial markets and societies are experiencing a paradigm shift. Most financial concepts and rules that used to be successful are no longer working.

These recommendations won't provide you with a silver bullet on how to manage your money. However, they will provide you with a deep insight into the mechanics of money itself. How it has changed over the last 100 years, the consequences, and where it may go. It also shows you how central banks and governments have changed the meaning and the value of money, without you even noticing. It explains the major shifts in economics, education, and in wealth distribution worldwide.

From that perspective you will gain a solid, free from deception, financial knowledge that no universities, bankers or financial experts can ever provide. It will empower you to take full responsibility, and it will lead you to make better financial decisions. Eventually it will free you from money itself.

### Investing

Guide to Investing In Gold and Silver
Michael Maloney

Bank On Yourself: The Life-Changing Secret to Protecting Your Financial Future
Pamela Yellen

### Mindset

Rich Dad's Prophecy
Robert T. Kiyosaki, Sharon L. Lechterr

Global Shift: How A New Worldview Is Transforming Humanity
Edmund J. Bourne

Life Inc.: How the World Became a Corporation and How to Take It Back
Douglas Rushkoff

## Wealth

Sustainable Wealth
Axel Merk, William Poole

Unlimited Wealth: The Theory and Practice of Economic Alchemy
Pilzer, Paul Zane

## Money & Currency

The Creature from Jekyll Island: A Second Look at the Federal Reserve
G. Edward Griffin, Dan Smoot

This Time is Different: Eight Centuries of Financial Folly
Carmen M. Reinhart, Kenneth Rogoff

The End of Money and the Future of Civilization
Thomas H. Greco Jr.

## Money as Debt

Empire of Debt: The Rise of an Epic Financial Crisis
William Bonner, Addison Wiggin

Web of Debt: The Shocking Truth About Our Money System and How We Can Break Free
Ellen Hodgson Brown

Debt: The First 5,000 Years
David Graeber

## Economy & Society

The Third Industrial Revolution: How Lateral Power Is Transforming Energy, the Economy, and the World
Jeremy Rifkin

The Way We're Working Isn't Working: The Four Forgotten Needs That Energize Great Performance
Tony Schwartz

The Zero Marginal Cost Society: The Internet of Things, the Collaborative Commons, and the Eclipse of Capitalism
Rifkin, Jeremy

## Beyond Money

The Best That Money Can't Buy: Beyond Politics, Poverty, & War
Jacque Fresco

The Economics of Happiness
Mark Anielski

Grunch of Giants
R. Buckminster Fuller

Treknonomics – The Economics of Star Trek
Manu Saadia

## Scarcity Versus Abundance

Abundance: The Future Is Better Than You Think
Peter H. Diamandis, Steven Kotler

The Soul of Money: Reclaiming the Wealth of Our Inner Resources
Lynne Twist, Teresa Barker

Sacred Economics: Money, Gift, and Society in the Age of Transition
Eisenstein, Charles

## Documentary Films

Money as Debt
Paul Grignon

Money Versus Currency – Hidden Secrets Of Money
Mike Maloney

Finance and Capital Markets
Khan Academy

Zeitgeist – Part III Moving Forward
Peter Joseph

Money and Life
Katie Teague

Heist – Who Stole The American Dream?
Donald Goldmacher