Glossary

1. **401(k) Plan –** 401-k plan: a retirement savings plan that is funded by employee contributions and (often) matching contributions from the employer; contributions are made from your salary before taxes and the funds grow tax-free until they are withdrawn.

2. **AFI –** The Assets for Independence Program.

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

4. **Buy-and-Hold Strategy –** A passive investment strategy in which an investor buys stocks and holds them for a long period of time, regardless of fluctuations in the market. An investor who employs a buy-and-hold strategy actively selects stocks, but once in a position, is not concerned with short-term price movements and technical indicators.

5. **Certificates of Deposit (CDs) –** A savings vehicle that pays a set rate of interest for a specific period of time (term), (ex. 6 months or 1 year). Ideal for specific savings goals short- to mid-term financial goals, or back up emergency funds.

6. **Cyclical –** The natural fluctuation of the economy between periods of expansion (growth) and contraction (recession). Factors such as gross domestic product (GDP), interest rates, levels of employment and consumer spending can help to determine the current stage of the economic cycle.

7. **Defined Benefit Plan –** A defined benefit plan provides a specific income for retired employees, either as a lump sum or as a pension, or lifetime annuity. The pension amount usually depends on the employee's age at retirement, final salary and the number of years on the job.

8. **Defined Contribution Plan –** A defined contribution plan is an employer sponsored retirement plan. The income the plan provides is not predetermined or guaranteed, as it is with a defined benefit pension. Rather, it varies according to how much is contributed to the plan, how the contributions are invested and what the return on that investment is. 401(k), 403(b), 457 and profit-sharing plans are examples of defined contribution plans.

9. **Diversification –** A risk management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio.

10. **Correlation –** A statistical measure of how two securities move in relation to each other.

11. **Individual Development Account –** The savings accounts opened by AFI participants where they make regular deposits from earned income that will be matched with Federal and non-Federal dollars from the Project Reserve Fund when they have completed project requirements and are ready to purchase their asset.

12. **Individual Retirement Account (IRA) –** Self-directed investment accounts that provide the incentive of tax-deferred (in the case of traditional IRAs) or tax-free (in the case of Roth IRAs) earnings on assets in the account. If you earn income, or are married to someone who does, you can put up to $5,000 per year in an IRA in 2011. If you're 50 or over, you can invest an additional $1,000.

13. **Laddered CDs -** a collection of CDs purchased at staggered intervals and designed to mature at staggered intervals.

14. **Money Market Deposit Account –** A savings vehicle that requires minimum deposit and minimum balance, and has monthly transaction limits. Emergency savings or financial reserve accounts, checking account when the need for monthly transfers or check writing is minimal.

15. **Negative correlation –** A statistical measure of how two securities move in relation to each other. Perfect negative correlation (a correlation co-efficient of -1) means that if one security moves in either direction the security that is perfectly negatively correlated will move in the opposite direction. If the correlation is 0, the movements of the securities are said to have no correlation; they are completely random.

16. **Office of Community Services (OCS) –** The office that manages the AFI Program and provides assistance to grantees through the AFI Resource Center.

17. **Positive correlation –** A statistical measure of how two securities move in relation to each other. Perfect positive correlation (a correlation co-efficient of +1) implies that as one security moves, either up or down, the other security will move in lockstep, in the same direction. If the correlation is 0, the movements of the securities are said to have no correlation; they are completely random.

18. **Prospectus –** A prospectus contains information required by the SEC, such as investment objectives and policies, risks, services and fees. It provides a potential investor with information about investment style and risk profile.

19. **Recession –** The state of the economy declines; a widespread decline in the GDP and employment and trade lasting from six months to a year.

20. **Roth IRA –** Roth IRA is an Individual Retirement Agreement that is named after its creator, the late Senator William Roth of Delaware. A Roth IRA allows you to save up money that you can use after retirement. Savings grow tax-free. Contributions are not tax-deductible but withdrawals, subject to certain rules, are not taxed at the federal level.

21. **Saving –** Safely storing money to meet a short-term goal.

22. **Savings Account –** The most common type of savings vehicle for short-term goals. Savings accounts offer a lower, usually fixed rate of return without the risk of losing the amount an individual deposit into the account.

23. **Securities and Exchange Commission (SEC) –** a federal agency which holds primary responsibility for enforcing the federal securities laws and regulating the securities industry, the nation's stock and options exchanges, and other electronic securities markets in the United States. The mission of the U.S. Securities and Exchange Commission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

24. **SEP IRA –** A SEP plan (Simplified Employee Pension Plan) allows employers to contribute to traditional IRAs (SEP-IRAs) set up for employees. A business of any size, even self-employed, can establish a SEP.

25. **SIMPLE IRA –** A SIMPLE IRA plan (Savings Incentive Match Plan for Employees) allows employees and employers to contribute to traditional IRAs set up for employees. It is ideally suited as a start-up retirement savings plan for small employers not currently sponsoring a retirement plan.

26. **SMART Goals –** Goals that are Specific, Measurable, Achievable, Realistic and have a Timeline for completion

27. **Systematic risk or systemic risk–** The risk inherent to the entire market or entire market segment. Also known as "un-diversifiable risk" or "market risk."

28. **Un-systematic risk or un-systemic risk–** Company or industry specific risk that is inherent in each investment. The amount of unsystematic risk can be reduced through appropriate diversification.

29. **Vesting –** If you are part of an employer pension plan or participate in an employer sponsored retirement plan, such as a 401(k), you become fully vested—or entitled to the contributions your employer has made to the plan, including matching and discretionary contributions—after a certain period of service with the employer. Qualified plans must determine the period using standards set by the federal government. If you leave your job before becoming fully vested, you forfeit all or part of those benefits.