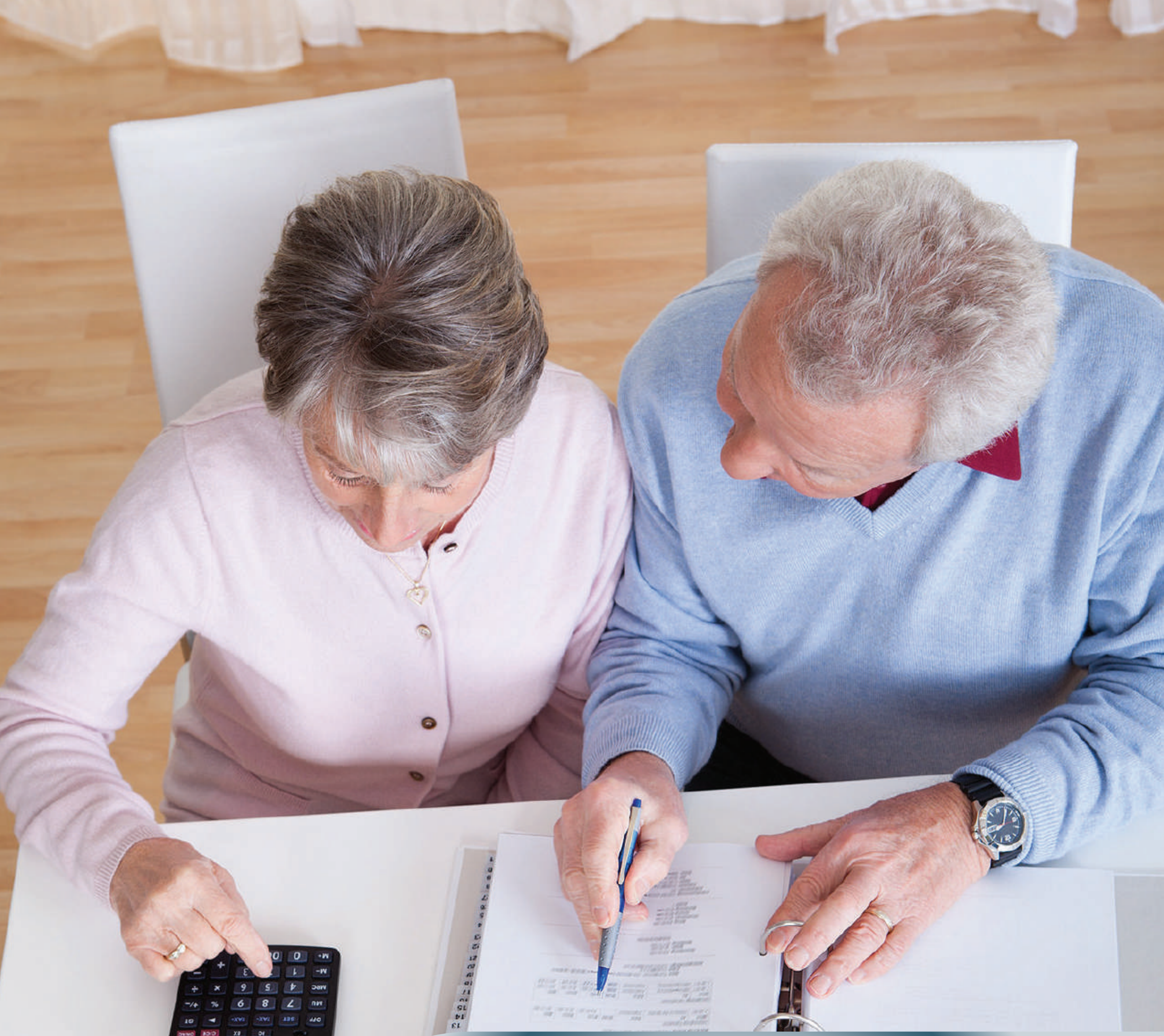
FINANCIAL TERMINOLOGY GUIDE

JL Smith

HOLISTIC WEALTH MANAGEMENT



Roth 401(k) plans, capital gains, EBITA and liquidity can all feel like foreign concepts if you don’t actively work in the finance industry. Use this guide to understand common financial terms and concepts in order to make decisions about your future with confidence.

401(k) Plan

A 401(k) plan is a retirement savings plan offered by employers. An employee that chooses a 401(k) plan agrees to have a percentage of each paycheck paid directly into an investment account. Sometimes, the employer will match part or all of the employee's contribution.

Appreciation

An appreciation is an increase in the value of a particular investment.

Asset

An asset is a resource with economic value that is expected to provide a future benefit, whether that be to generate cash flow, reduce expenses, or improve sales.

Asset allocation

Asset allocation is the belief that spreading out investments across asset categories—stocks, bonds, cash or cash equivalents—may help minimize risk.

Bond

A bond is a fixed-income instrument that signifies a loan that has been made by an investor to a borrower.

Capital

Capital can describe anything that represents value to its owner. Examples of capital include a factory, machinery, intellectual property, and financial assets.

Capital gain

Capital gain is an increase in the value of an investment, calculated by the difference between the net purchase price and the net sales price.

Capital loss

Capital loss is the loss in the value of an investment, calculated by the difference between the purchase price and the net sales price.

Diversification

Diversification is an investment strategy that combines a variety of investments within a portfolio in order to lower risk.

Dividend

A dividend is the distribution of corporate profits to eligible shareholders. The payment amount of a dividend and the time of the payment are determined by a company's board of directors.

Earnings Per Share (EPS)

Earnings per share, or EPS, is calculated as a company's profit divided by the outstanding shares of its common stock. EPS serves as a measure of a company's profitability.

EBITA

Earnings before interest, taxes, and amortization, or EBITA, is an indicator of a company’s profitability. EBITA is considered by some investors to be a more accurate representation of true earnings.

Equity

Equity, sometimes called shareholders' equity, represents the amount of money that would be returned to a company's shareholders if all the assets were liquidated and all of the company's debt was paid off.

Equity fund

An equity fund is a fund that primarily invests in equities.

Expense Ratio

Expense ratio is the measure of what it costs to operate an investment. Expense ratio is conveyed as a percentage of its assets or in basis points.

Index

Index serves as a benchmark to evaluate a particular fund's performance. Common indexes for stock funds include the Dow Jones Industrial Average and the Standard & Poor's (S&P's) 500 Index.

Index Funds

An index fund is a passive investment strategy that uses a portfolio of various stocks or bonds that mimic the composition and performance of a financial market index.

Interest rate

Interest rate is the amount a lender charges in addition to the principal for the use of an asset. the amount a lender charges a borrower is a percentage of the principal.

Liquidity

Liquidity is the ease with which an asset or security can be converted into ready cash without an affect to its market price.

Market risk

Market risk refers to the possibility that the value of an investment will decrease because of a decline in the financial markets.

Mutual fund

A mutual fund is a type of investment that consists of a portfolio of stocks, bonds, or other securities. Mutual funds give investors access to diversified, professionally managed portfolios.

Net Income

Net income, sometimes referred to as net earnings, is a company's sales minus:

- cost of goods sold
- general and administrative expenses
- operating expenses
- depreciation
- interest
- taxes
- any other expenses

Portfolio

A portfolio is a collection of investments, such as stocks and bonds that is held by an individual, organization or investment fund.

Risk tolerance

Risk tolerance refers to an investor's ability and willingness to risk losing some or all of an investment in exchange for the potential of a greater return.

Roth 401(k) Plan

A Roth 401(k) plan is an employer-sponsored retirement savings account funded by after-tax dollars. Income tax is paid at the time the money is deposited into the account. As a result, withdrawals from a Roth 401(k) account are tax-free upon retirement.

Securities

Securities financial instruments used to raise capital in public and private markets. There are three primary types of securities:

- Equity
- Debt
- Hybrids (combine aspects of debt and equity)

Share

A share is a representation of ownership in a company or investment fund.

Stock

A stock is a form of security that represents the partial ownership of a corporation. Stock entitles the owner to a proportion of the corporation's assets and profits equal to how much stock they own.

Target-Date Fund

A target-date fund, also called a life-cycle fund, refers to an investment strategy designed to provide varying degrees of long-term appreciation and capital preservation based on an individual's age or target retirement date.

Tax-exempt income

Tax-exempt income refers to certain types of income that is not subject to income tax. Income from some types of investments, like municipal bonds, qualify as exempt income.

Valuation

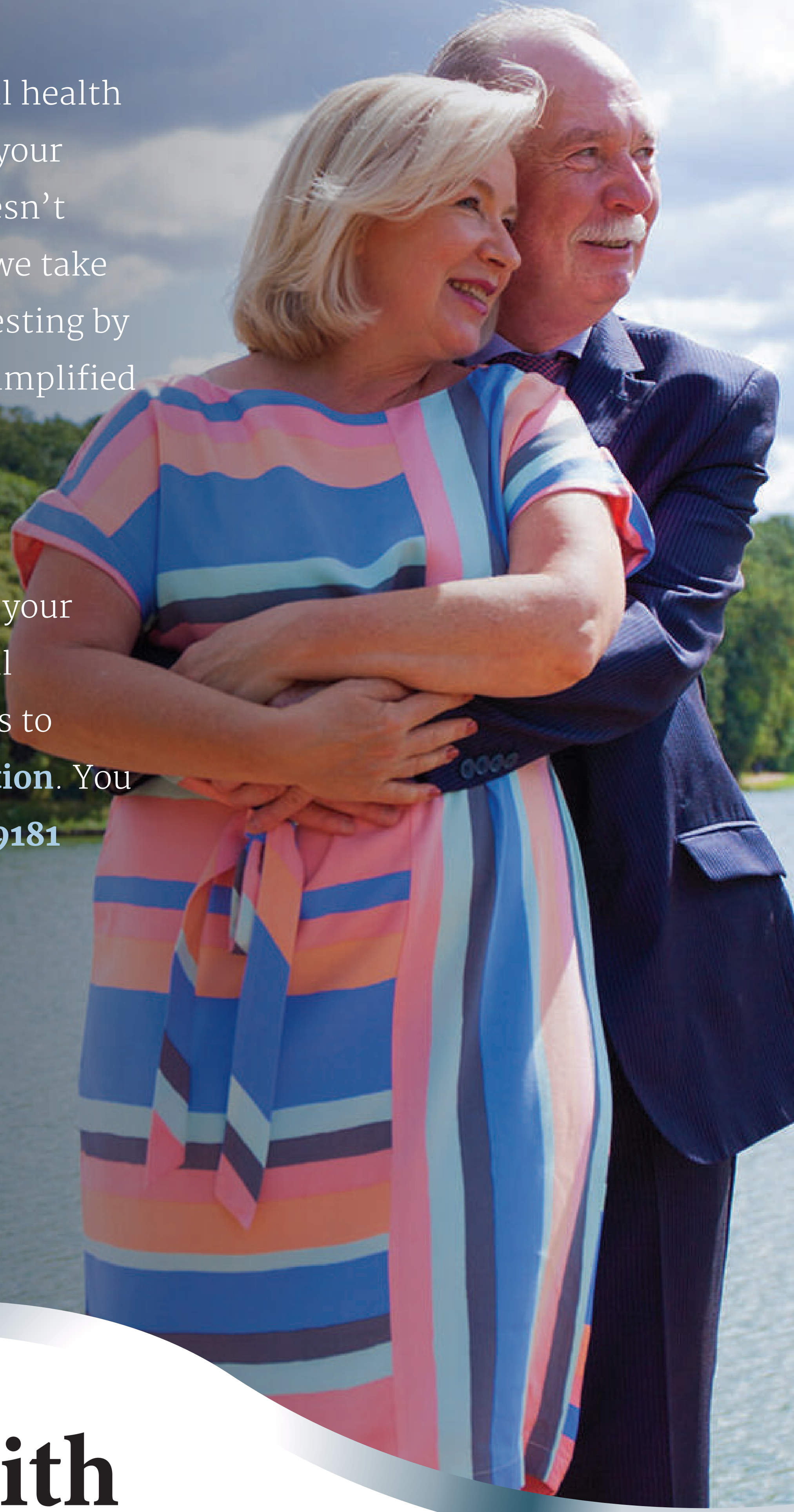
Valuation is the quantitative process of determining the value of an asset. An analyst's look at the company's management, the composition of its capital structure, the prospect of future earnings, and the market value of its assets, among other metrics to determine its fair value.

Volatility

Volatility is how large an asset's prices fluctuate around their mean price. Volatile assets are often considered riskier than less volatile assets because the price is less predictable.

Working toward financial health can be complicated, but your investing experience doesn't have to be. At JL Smith, we take the confusion out of investing by offering our partners a simplified holistic approach to financial planning.

If you're looking to start your journey towards financial independence, contact us to **schedule a free consultation**. You can also call **(440) 934-9181** for more information.



JL Smith
HOLISTIC WEALTH MANAGEMENT