**Finance Jargon and their meanings**

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There are terms you will come across regularly whenever you read an article on personal finance and unless you are an experienced investor you may not understand their meaning. I noted some which need explaining which will give you a greater understanding on how they will affect you.

The first one is ‘Risk Profile’

The basically is the level of risk which you are willing to take with your investments. There are several factors which determine your risk profile: they are your health, age, responsibilities, debt level, and your tolerance to risk.

The worst thing which can happen is for your retirement to be just around the corner and you have travel on your mind and then what happens? The markets tumble and because you invested in high risk stuff on the share market you have lost half of your money. A young person can easily recover from such setbacks because they have time on their side, but not so, the oldies.

If your health is in such a state that you are unlikely to make it to retirement age then your strategy needs to be on the conservative side.

New Zealand financial advisor Frances Cook has a formula for working out what percentage of your savings should be in the share market. It is, subtract your age from 100, so if you are aged 60 then just 40% of your savings should be in the share market. I do know of people whose percentage of exposure to the share market is well above the formula which Frances Cook uses and I am one of them. It is a case of, “I will deal with it if there is a market slump.”

Dividend yield is another terminology I am going to talk about. This is basically the ratio of dividends paid out by the company to its share price. The dividend yield can go up when the stock price goes down. I don’t pay any notice of the dividend yield when choosing which company to invest in. That does not mean that you should ignore the dividend yield but it is something to consider.

Diversification is an important word in investing circles. This means spreading your money around different companies and different industries to minimize your risk. Investing all of your life savings in just one company is dumb and some people who are considered intelligent let greed get the better of them and lost a lot during the Global FInancial Crisis (GFC)..

Compound interest is another one to note. This is when profits on your investment are reinvested and left to compound enabling investors to earn off the profits. Compound interest can increase your wealth considerably. It also works with shares.

Captain Gains is the increase of your capital. Most investments offer the opportunity of capital gains, property,shares, gold, and even art. The factor which drives up price is demand, something is only worth what others are prepared to pay for.

Assets are anything of value which you own such as stocks and shares, property, gold, and anything which produces an income for you.

Net Worth is the end result of your life’s choices. It is the value of your assets minus any debts you may have.

On that last point, your financial position can be the result of your stewardship of money. If you want to change any outcomes in your life then make different choices.

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