"FINANCIAL TECHNOBABBLE" TRANSLATION GUIDE

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Complimentary “FINANCIAL TECHNOBABBLE”
TRANSLATION GUIDE

Have you ever been confused by “financial technobabble”? What do I mean by that? Well, have you heard financial and investment related words, phrases, and acronyms that you didn’t understand?

Did they perhaps make your head spin? Perhaps you met with a well dressed financial advisor and during the meeting he kept throwing out vocabulary and terms that you didn’t understand. Perhaps it was confusing to you. Perhaps that left you wondering what the advisor was even saying.

If so, then you have been hit over the head with “technobabble” as we call it here at Torrid Tech.

Why should you care?

Well, let’s start with a story about a visit to your local car repair shop. Your car is not running right and the engine is making a funny noise, so you drop it off at the shop. After a couple of hours you hear from the mechanic at the shop who says something like “Your fuel intake valve into the fuel injector is corroded and needs to be replaced. In addition to that you’ve got a leaking head gasket on the overhead cam and a CV joint problem that is causing the transmission fluid to leak.”

Now if you are like most people that are not that savvy about automobile engines, talk like this sounds like a bunch of nonsense. What’s a CV joint? Where is the head gasket? Is this stuff really leaking?
Personally I am always afraid of getting RIPPED OFF when I go to an auto mechanic. Mainly because I don’t know cars or engines. I have to just trust what they are saying. I can’t even tell if it makes common sense or not.

So what happens? I often pay for the repairs and then for weeks later wonder whether I was completely ripped off. I have no “peace of mind” at all when it comes to car repairs.

Now think in those terms when you are talking with a financial advisor. If you don’t know what they are talking about, then how can you evaluate whether they are honest, whether they know what they are doing, and whether they are right for your needs? Too many advisors spit out a bunch of financial technobabble that is as bad and confusing as “auto repair technobabble”.

And if you are confused by your financial advisor, you could be misled into doing something you shouldn’t be doing. You could end up with someone dishonest or incompetent. You could lose money! Without any understanding of financial terms and subjects, you are more likely to get ripped off or taken advantage of.

With this “Financial Translation Guide”, we’ve tried to clarify some common financial, investing, and retirement-related terms.

**Definition of “Financial Technobabble”:**

Any words, phrases or acronyms related to financial matters, investing, or retirement that you don’t understand, and that possibly make your head spin.

- Timothy J. Turner
  Torrid Technologies Founder

**Our goal is to educate more people about financial matters so that they are not confused, and can make better financial decisions!**
Term: ASSET ALLOCATION

Financial Technobabble Definition:
Asset Allocation is a financial strategy for reducing risk in an investment portfolio in order to maximize return.

Translation:
It’s a way of investing your money to get the highest return with the lowest chance that you would lose money.

Additional Explanation:
A number of “experts” have done studies on how “asset allocation” can help investors achieve the highest returns they can, while avoiding as much risk as possible. In investing, “risk” is another way of saying “how likely is it that you will lose some of your money” or that the investment will “go down” in value.

Term: DIVIDENDS

Financial Technobabble Definition:
a sum of money paid to shareholders of a corporation out of earnings. (Source: Dictionary.com)

Translation:
If you own a stock, the company may decide to share “profits” with the shareholders by paying you money for each share that you hold. These payments are “dividends”.

Additional Explanation: Some stocks do not pay “dividends”. You have to research which stocks pay dividends if that interests you. You will be paid as a check or the money is added to your investment account. If you have the option to “reinvest” the
dividends, then you will be issued shares or partial shares of the stock equivalent in value of the amount of dividends you were supposed to receive.

**Term: PORTFOLIO OPTIMIZATION**

**Financial Technobabble Definition:**
Portfolio optimization is the process of choosing the proportions of various assets to be held in a portfolio, in such a way as to make the portfolio better than any other according to some criterion. (Source: Wikipedia.com)

**Translation:**
Tweaking the amount or percentage you invest into each investment category so that you can try to get the most return you can from your investments.

**Term: STANDARD DEVIATION**

**Financial Technobabble Definition:**
noun Statistics.
Standard Deviation is a measure of dispersion in a frequency distribution, equal to the square root of the mean of the squares of the deviations from the arithmetic mean of the distribution. (Source: Dictionary.com)

**Translation:**
Standard Deviation is a measure of how close to the averages an investment performs over time.

Additional Explanation: What the heck does this have to do with investing? Well, it is a mathematical term for sure. This one is
definitely a bit complicated. If you determine the average return of an investment, and then start looking at actual weekly, monthly, or annual returns of that investment, you will normally see changes in the “actual return”. Does the return get higher? Does it get higher by a lot? Does it get lower? Does it get lower by a lot? If the return is within one standard deviation of the average return, then it is performing pretty close to the average. As the investment changes farther away from that, then you are seeing larger fluctuations in the return.

**Term: COST BASIS**

**Financial Technobabble Definition:**
Cost basis is the original value of an asset for tax purposes (usually the purchase price), adjusted for stock splits, dividends and return of capital distributions. (Source: Investopedia.com)

**Translation:**
The amount of money you put into an investment.

**Additional Explanation:** If you just put some money into an investment, and never add any more money, then your “cost basis” is usually that initial amount you put into the investment. If you add more money to the investment over time, then that money also would increase your “cost basis”.

**Term: QUALIFIED RETIREMENT PLAN**

**Financial Technobabble Definition:**
A plan that meets requirements of the Internal Revenue Code and as a result, is eligible to receive certain tax benefits. These plans must be for the exclusive benefit of employees or their beneficiaries. (Source: Investopedia.com)
Translation:
This is a fancy term for “a retirement plan at your job or through your place of work”. It is described in technical legal terms because indeed it is a term in the “Internal Revenue Code”.

Additional Explanation: If you have one of these retirement plans through your job, then these are all “Qualified Retirement Plans”. The most common type of “Qualified Retirement Plan” is a 401(k) plan. This guide from MassMutual outlines a lot of key difference between different types of retirement plans: http://wwwrs.massmutual.com/retire/pdffolder/rm2604.pdf

Term: COST OF LIVING ADJUSTMENT

Financial Technobabble Definition:
Employment contracts, pension benefits, and government entitlements (such as Social Security) can be tied to a cost-of-living index, typically to the Consumer Price Index (CPI). A Cost of Living Allowance (COLA) adjusts salaries based on changes in a cost-of-living index. (Source: Wikipedia.com)

Translation:
This is what increases your benefits over time, mainly to keep up with inflation. The acronym most financial advisors use for this is COLA (which is the acronym for Cost of Living Adjustment).

Additional Explanation: A “raise” in your job salary is a type of COLA, although sometimes such raises are tied to performance rather than the cost of living (so not always a true COLA). If you get a pension in retirement, it might have a COLA, which will increase the amount of money you get each year from the pension. Social Security retirement benefits also have a COLA that increases your benefits slightly each year. The amount of that COLA is announced by the federal government. In a few rare cases the COLA amount was 0%, which obviously provided no increased
benefits at all. The government looks at various price indicators to see how much inflation is occurring in the economy, and from there decides how much of a COLA to provide those receiving Social Security.

**Term: REGULAR IRA or TRADITIONAL IRA**

**Financial Technobabble Definition:**
a savings plan that offers tax advantages to an individual depositor to set aside money for retirement. (Source: Dictionary.com)

**Translation:**
This is another type of retirement account that lets you save for retirement.

**Additional Explanation:** My wife asked me, “What does IRA stand for?”, so you might be wondering the same thing. IRA is an acronym or abbreviation for “Individual Retirement Account”. A Regular or Traditional IRA is the original “classic” type of IRA. When you save into a “Traditional IRA” you get a tax deduction for those savings, subject to certain limits of course. When you get to retirement and start withdrawing money from this account, you will owe ordinary income taxes on the money you withdraw, just like you owe ordinary income taxes on pay from your job.

**Term: ROTH IRA**

**Financial Technobabble Definition:**
an individual retirement account in which investments are made with taxable dollars, but earnings are tax-free and withdrawals are tax-free after age 59 1/2. (Source: Dictionary.com)
Translation:
This is a type of retirement account that lets you save for retirement.

Additional Explanation: My wife asked me, “What does IRA stand for?”, so you might be wondering the same thing. IRA is an acronym for “Individual Retirement Account”. A Roth IRA is a newer type of IRA that allows you to withdraw the money tax-free once you need it in retirement. However, you don’t get any tax deduction right now for saving money in your Roth IRA.

Term: FIDUCIARY

Financial Technobabble Definition:
Noun: a person to whom property or power is entrusted for the benefit of another. (Source: Dictionary.com)

Translation:
Someone that you trust with some of your property, or typically your investments.

Additional Explanation: It can also be a person in charge of “watching out” for a retirement plan. So 401(k) plans have one or more “Fiduciaries” that are supposed to oversee the plan, make sure it is run correctly, and that the money is not stolen. It could also be a financial entity like a bank or mutual fund company (like Fidelity). The important thing about a “fiduciary” is they are under certain legal obligations to take care of the property, investments, or accounts. If they don’t act properly, they can then be liable, or even subject to criminal prosecution.
**Term: ANNUITY**

**Financial Technobabble Definition:**
a specified income payable at stated intervals for a fixed or a contingent period, often for the recipient's life, in consideration of a stipulated premium paid either in prior installment payments or in a single payment. (Source: Dictionary.com)

**Translation:**
You give an insurance company a specific amount of money, and in return they promise to make payments back to you over time. In some cases, the annuity just accumulates in an account and they don’t make specific payments, but you can tap into that account and make withdrawals.

**Additional Explanation:** Why would anyone do this? Well, the insurance company is typically going to invest your money starting now. They think they can do a better job of that than you can. And in return, they will give you back payments that include interest. The payments are often guaranteed so you can’t lose your money in the stock market. Typically, people use “annuities” in retirement so that they can rest easy knowing they will get their payments, rather than worrying about losing their investments in the stock market.

Here are some of the various types of “annuities”:
- Single Premium Immediate Annuity (SPIA)
- Single Premium Deferred Annuity (SPDA)
- Variable Annuity
- Annuity with a Lifetime Benefit Rider
- Fixed Indexed Annuity
There are many different types and “flavors” of annuities. Literally there are hundreds of types of annuities. Make sure you do your homework about these. Just like anything, some annuities can be good, and some can have high fees and low returns.

**Term: SINGLE PREMIUM IMMEDIATE ANNUITY (SPIA)**

**Financial Technobabble Definition:**
A Single Premium Immediate Annuity is a contract between you and the insurance company where you give the insurance company a lump sum of money (Single Premium) and in return they give you a guaranteed payment for a specified time period or until you or your and your spouse dies. (Complicated sounding huh?) (Source: AnnuityRateWatch.com)

**Translation:**
You give an insurance company a specific amount of money, and in return they promise to make payments back to you over time.

Additional Explanation: Why would anyone do this? Well, the insurance company is typically going to invest your money starting now. They think they can do a better job of that than you can. And in return, they will give you back payments that include interest. The payments are guaranteed so you can’t lose your money in the stock market. Typically, people use “annuities” in retirement so that they can rest easy knowing they will get their payments, rather than worrying about losing their investments in the stock market.
**Term: SINGLE PREMIUM DEFERRED ANNUITY (SPDA)**

**Financial Technobabble Definition:**
A Single Premium Deferred Annuity is an annuity that commences not less than one year after the final purchase premium (Source: TheFreeDictionary.com)

**Translation:**
The “Deferred” part just means that the payments don’t start right now, but start later.

Additional Explanation: An “immediate” annuity, like the SPIA, has the payments start almost immediately. A “deferred” annuity has the payments back to you start more than a year later. Many times it could be years later. A 5-year Single Premium Deferred Annuity would typically involve you paying your premium right now, but the payments would not start until 5 years from now. So, for example, you are age 60 and want to retire at age 65. Then a 5-year SPDA you would buy now today, but the payments would not start for another 5 years after you have retired at age 65.

**Term: FIXED INDEXED ANNUITY (FIA)**

**Financial Technobabble Definition:**
An annuity with an interest rate linked to the performance of some index. Most annuities pay the interest rate stated in the contract, but an indexed annuity pays a minimum interest rate (which may be 0%, but never lower), with the possibility of a higher rate depending on the performance of the relevant index. (Source: TheFreeDictionary.com)
Translation:
Assuming you have read the definition of “annuity”, this type has it’s return tied to a stock market index, like the Dow or the S&P500.

Additional Explanation: One of the nice features is that if the stock market tanks and drops 20% or 30%, your annuity value would just stay the same. In other words, if the stock market tanks, your losses are capped at 0%, which means you don’t have any losses. In this way, you can participate in higher returns with the stock market index goes up, but you are protected from any losses if the stock market index goes down.

Term: VARIABLE ANNUITY (VA)

Financial Technobabble Definition:
A variable annuity is a contract between you and an insurance company, under which the insurer agrees to make periodic payments to you, beginning either immediately or at some future date. You purchase a variable annuity contract by making either a single purchase payment or a series of purchase payments.
(Source: InvestorDictionary.com)

Translation:
A variable annuity will fluctuate based on the performance of an underlying group of investments, and is not “fixed”.

Additional Explanation: Unlike a “fixed” annuity where you know what payments you will be receiving when you purchase it, a variable annuity will have its value fluctuate based on the underlying investments. Unlike a “Fixed Indexed Annuity” which is typically tied to one index, a variable annuity can have a basket of investments inside of it that are often mutual funds, bonds, and money market instruments. Some variable annuities even let
you control the “asset allocation” of the underlying basket of investments.

**CONCLUSION:**

Hi,

My name is Tim Turner and I’m one of the founders of Torrid Technologies, creators of “Keep It Simple” retirement planning software.

I started learning about financial topics in college and haven’t stopped since. Many times I have heard terms that I didn’t understand or that were confusing.

This was frustrating for me because I don’t like to be “in the dark” guessing about what is going on. In my work at Torrid I have absolutely had to learn many financial terms. I have had no choice in the matter. It is pretty much required in order to create great software that does financial and retirement planning.

After hearing so many people complain that they were confused by certain words, topics, and terms, I decided to create this “Guide”.

13
My hope is that this guide will help you in navigating the terms, vocabulary and concepts that are used by financial advisors and their companies. It can be scary trying to make decisions about complicated subjects that you know little about!

So if an advisor wants you to invest your money into a “Variable Annuity” or wants to “Optimize your Portfolio” and change your “Asset Allocation” to minimize risk over the long term, hopefully this guide has helped you understand what they are talking about!

Remember that “education is power” and never stop learning. Your financial life is no different. Always keep learning.

Regards,

-Tim Turner

ABOUT TORRID TECHNOLOGIES:

Founded in 1993, Torrid Technologies is a privately-held software and technology company located outside of Atlanta, Georgia. Torrid specializes in award-winning, easy-to-use retirement, financial, and investment planning software for consumers, financial advisors, insurance agents and financial companies.

For additional information about Torrid and its products and services, or to download a demo of its flagship “Keep It Simple” RetirementView software, please visit the company website at:

http://www.torrid-tech.com/technobabble
ADDITIONAL RESOURCES:

Download a free demo of RetirementView – our “Keep It Simple” retirement planning software for Mac® or for Windows®:
http://www.torrid-tech.com/technobabble

http://www.InvestorDictionary.com – this website is a decent dictionary for investment terms that we found on the internet

http://www.Dictionary.com – this website is a useful general dictionary for looking up any type of vocabulary terms, not just financial terms.

http://www.TheFreeDictionary.com – this website has both regular terms and a lot of investment terms that you can look up