

Wealth 101 Vocabulary

Auditor: The person responsible for checking the accuracy of the transactions on your income statement and your balance sheet. A good auditor will find your errors ... before the IRS does!

Asset: Something that puts money in your pocket. An asset will feed me. Part of the balance sheet. Increasing your assets will help you to get out of the rat race in real life.

Balance Sheet: A snapshot of your assets and liabilities. To get to the "fast track", your assets need to increase and your personal liabilities need to decrease.

Bankruptcy: When you do not have enough income or cash to pay your bills.

Capital: Cash or something of an agreed-upon value. Money or property owned or used in business.

Capital Gain/Loss: The difference between what you bought an investment for and what you sold it for, less improvements.

Cash Flow: Cash coming in (as income) and cash going out (as expenses). It is the direction of cash flow that determines whether something is income, expense, asset or liability and it is you that determines by your choices in which direction your cash will flow.

Certificate of Deposit: A time certificate representing a sum of money deposited for a set length of time at a set rate of interest. A loan to government and businesses, issued through banks, with specified maturity dates and interest rates. Example: Depositing \$10,000 in a CD for six months at 5% interest will pay you \$250 in interest.

Debt: Money owed to another. The debt amount is shown as a liability on the balance sheet and the monthly payment as an expense on the income statement. Examples of personal debt include: retail debt, credit cards, car loans, school loans, and a home mortgage. It is important to note that each of your debt liabilities is an asset for a bank and each of your debt payment expenses is income for a bank. The owners of the bank would like to take this opportunity to thank you for putting them in the fast track while you stay in the rat race.

Dividend: A distribution of profits of a company to the shareholders. The board of directors must approve a dividend. Dividends are usually paid quarterly. Example: You own 500 shares of Company XYZ and the board of directors decides to pay a quarterly dividend of \$.05 per share. You receive a dividend check in the amount of \$25.

Doodads: Expenses, often unnecessary or unexpected, that take money out of your pocket. Examples: \$75 Sunglasses, \$600 Auto Repair, \$200 Prom Limo, \$2,000 Stereo, \$100 Speeding Ticket, \$15 CD, \$40 Beeper, \$300 Speakers, \$60 Concert, \$150 Shoes.

Down Payment: A percentage of the purchase price an investor pays for an investment. The remainder of the price is then financed through other means. Example: You purchase a rental home for \$50,000 with a 10% or \$5,000 down payment. This would leave you a mortgage or finance amount of \$45,000.

Downsized: A nice way to say you're fired. Not a good time to be living paycheck to paycheck

Dream: An ultimate goal.

Fast Track: You only get here when the passive income from your assets is greater than your living expenses. This means you have wealth.

Income Statement: A form showing your income and expenses over a period of time. Also called a profit and loss statement. Income can be earned; salary or wages you work for, or it can be passive or portfolio; money working for you through investment in assets. Expenses can be for necessities such as food, clothing, and shelter, but too often they are wealth draining debts from doodads.

Liabilities: Amounts of money that are owed to others. Debt. Something that takes money out of your pocket. A liability will eat me.

Mortgage: When you finance real estate, the property you are financing is used as collateral against the amount of money you are financing. A typical mortgage loan might be for 15, 20, or 30 years. The mortgage company will hold the title or deed to the property until the loan is paid in full. The interest paid on the life of this type of loan will often exceed the amount of the principle. Example: A \$100,00 mortgage for 30 years at 7.5% interest would double the total cost of the mortgage. Over the 30 year life of the loan, the home owner would pay back the \$100,000 principle plus pay the bank \$100,000 in interest for a total of \$200,000.

Mutual Fund: A variety of stocks, bonds, or securities, grouped together, managed by a professional investment company and purchased by individual investors through shares. The shares possess no direct ownership value in the various companies.

Passive Income: Income generated from your investments such as interest, dividends, and real estate rentals, with minimal work. Financial freedom is when money works for you, instead of you working for money.

Rat Race: The endless cycle of never seeming to get ahead financially, no matter how hard you work. Where the middle class and poor spend their days until they become financially literate.

ROI: Return On Investment. Return on capital, as an annual percentage, from an investment. Example: An apartment building costs \$500,000. You pay \$100,000 as a down payment. You have a monthly cash flow of \$2000. Your ROI is $\$2000 \times 12$, divided by \$100,000 or 24%.

Shares Split: A corporate action where the number of shares you own increases and the price per share decreases. This decision, made by the board of directors, tends to keep the price within a normal trading range. Example: You own 100 shares of XYZ. A 2 for 1 stock split is announced at today's price per share of \$40. After the shares split you now own 200 shares at a price of \$20. Note the total value of your shares (\$4,000) has not changed.

Stock: Ownership in a corporation. As a shareholder in a public company you may vote on the members of the board of directors, receive dividends, and sell your stock

shares in the market. Example: You have an opportunity to buy shares of XYZ that has a market trading range of \$10 to \$40. You buy 500 shares at today's market price of \$10 or a total cost of \$5,000. Later, you are able to sell at \$30 per share or a total of \$15,000. You have achieved a capital gain of \$10,000.

True Wealth: When you can live indefinitely off of your investment income. Example: Through the Wealth 101 course, you learn the importance of building assets and given time you build assets that produce the income you need to live the lifestyle you choose for as long as you live.