MONEY TALK

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Wall Street Terms – What do they Mean?

Every once in awhile you might hear a financial or a "Wall Street" term and wonder "what in the heck does that means?" The following are some popular terms that might be helpful to understand.

Blood Bath (starting off with one of the worst terms) occurs when the stock market plummets and investors lose tremendous amounts of money — at least on paper.

Arm's Length Transaction is when in contract with another person, the parties are acting independent of each other. For instance, a real estate sale to your daughter at a reduced market price, would not be considered an arm's length transaction. The IRS would frown on you if you took a loss on a transaction that is not arm's length.

Cartel is an organized group who manipulates prices by regulating production and marketing of a specific product, such as oil. OPEC is the world's most famous cartel. Another famous cartel, was the silver cartel some years ago. Of course, cartels are illegal in the United States.

Deflation is described as a drop in general price levels, usually caused by increased demand for money that isn't offset by an increase in money supply. Or, a drop in money supply that isn't offset by a drop in the demand for money.

Dow Jones Industrial Average is a composite of the price movement of just 30 actively traded industrial stocks which purports to reflect the overall stock market movement.

Silver Thursday occurred on March 27, 1980 when the Hunt brothers failed to meet a margin call for $100 million in silver futures. This had a disastrous effect on the commodities and financial markets. Later, their brokerage firm made good on the call, but the damage had already been done. Could something like this happen in the future? YES.

Painting the Tape is a form of manipulation in which a broker enters matched orders to create the false impression of an active market and heavy trading in a particular security. Of course, this is illegal.

Odd Lot is a quantity of stock that is less than 100 shares. A deal involving 100 shares or more is considered a round-lot transaction.

Junior Bond is a debt instrument that falls subordinate to other bonds from the same issuer. Which means, if the issuer defaults or has financial woes, junior bonds would be paid (if there is any money left) after all other bonds.

Fallen Angel describes a well known company's stock whose value has suddenly dropped after a negative development or a negative news report. Washington Mutual and Fannie Mae are good examples of well know stocks that became Fallen Angels — they totally went to hell. Some other companies have fallen and climbed back, but generally they never make it back to heaven.

Procrastination, Your Financial Enemy

When it comes to saving for your financial goals, time is one of the most important factors. Starting an investment program early in life makes reaching your goals a lot easier.

First, to accomplish your goals, you need to define what they are and how much you will need. Then, establish a time frame as to when you will need the money. Finally, assume a reasonable rate of return.

Let's assume that one of your goals is to have $1 million by age 65 for retirement, and you think that over the long-term an eight percent return on your investment is reasonable.

You have just defined (1) **your goal** — retirement, (2) **how much you will need** — $1 million, (3) **when you will need the money** — age 65, and (4) **your assumed rate of ret**urn — eight percent. Now that you know all the variables, you just have to calculate how much you will need to invest at your current age to accomplish this goal.

Time is one of the most important ingredients when it comes to investing. The more time on your side, the less you will have to save over the accumulation period to meet your goals. Over time, the compounding of your invested dollars will seem almost magical.

The late saver will almost always have to play catch up, and in some cases may never be able to accumulate the dollars necessary to attain their goals.

Should You Rely on an Inheritance to Get Rich?

Will an inheritance from a family member help you become wealthy? For some, this could happen, as they may have rich parents who die relatively young, or perhaps they have a rich uncle with no heirs. But for most, inheritance isn't the road to riches.

Most people are living longer and as a consequence are incurring more medical expenses before they pass away. A 65 year old person can expect to live into their early to mid-eighties. That's nearly two decades beyond the average retirement age. In that time frame, health care costs could significantly eat away at your wealth, leaving nothing or very little to pass onto your heirs.

According to various statistics, 40 percent of those 65 and older will spend some time in a nursing home. On average, with nursing homes costing over $100,000 per year, living in a nursing home isn't cheap.

When thinking of future wealth, look beyond a possible inheritance to accumulate large sums of money.

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FINANCIAL ADVISORS & PLANNERS

Money Talk is a free publication, published and distributed semi-annually by U.S. Advisors, Inc.

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