



FINANCIAL DICTIONARY

An understanding of finance is often impeded by colloquialisms, jargon, and unfamiliar acronyms. While many of us might understand the basics of what a stock or bond is, what TFSA stands for, or what an interest rate is, the complexities of the intermediate level of financial “lingo” can be daunting to anyone. In this series, I hope to unlock the complex or confusing nature of some basic financial terms, definitions, and general information into easier to understand basic concepts to help better prepare you for a healthy financial future. In this issue, we hope to open the door with an assortment of general terms that we may return to later for a closer look.

Bonds: A bond, or fixed income instrument, is a loan that a business or government takes, and promises to repay in order to finance a project. A government might issue a bond to build a road or repair a building. A corporation might issue one to build a new factory or generate cash for a new product development.

Assume you pay \$1000 for a single bond, every six months the company that issued that bond pays you interest for lending them the money. At the end of the term, or when the bond expires, they repay you your original \$1000 of principal value plus the final piece of interest. At this point, the bond has “matured” and would disappear from your portfolio.

Stock: A stock, or equity instrument, represents the ownership of a corporation. When a person says that they “own stocks” what they mean is that they own a small piece of a business. Your single share represents a single piece of the entire business and is entitled to participate in a share of the profits, a share in the losses, and is entitled to participate in large decisions via a vote by all the shareholders.

Portfolio: Your investment portfolio is the total assets you have invested in stocks (equity), bonds (fixed income) and cash. While stocks, bonds and cash can have different subgroups and varieties, the value of the entire portfolio is the value of all these assets combined.

If you have any suggestions for future explanations, or have any questions about those discussed in this issue, please contact me at Harrison.kozak@cibc.com or 403 260-0566.

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