

Advice Made Simple

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What is liquidity, asset allocation, RRIF, etc? 🔍



Simplifying Common Investment Terms

Investing can feel complicated and even a bit scary, especially if you're new to it. There's a lot of fancy jargon and complex terms that can get confusing. At Innovation Wealth and Aviso Wealth, we're all about making financial advice simple and easy to understand. Let's break down some common investing terms you might have heard into plain and simple language.

Asset Allocation: How you divide your money among different types of investments like stocks, bonds, and cash.

Bond: A bond is like a loan you give to a company or government. In return, they pay you back with interest over a set period. They are generally considered lower risk than stocks.

Cash: When talking about investing cash means money that is not tied up in long-term investments. It's like having money in your wallet or a savings account. It's easily accessible, safe, and you can use it quickly if needed.

Diversification: Spreading your investments to minimize risk. It's like the saying "Don't put all your eggs in one basket."

Dividend: A portion of a company's earnings paid to shareholders.

ETF (Exchange-traded fund): An ETF is a collection of different investments (like stocks or bonds) that you can buy and sell on the stock market. It's a way to invest in various things at once, helping to spread out your risk.

Liquidity: How quickly and easily you can turn an investment into cash without losing value. For example, money in a savings account is very liquid because you can access it right away. A house is less liquid because it takes time to sell.

Long-term investment: Investing for a long period, usually more than five years and let it grow over time. It's like saving for retirement or a child's education.

Market: To be "in the market" means you have money invested in stocks, bonds, or other investments. You're participating in buying and selling these investments, hoping to make a profit.

Mutual fund: It's like a pot of money collected from many people. This pot is then used to buy a mix of different investments, like stocks and bonds. A professional manager decides what to buy to try to grow the pot of money. Everyone who puts money into the pot owns a small piece of all the investments.

Plan type: These are like different containers or accounts where you can put your money to save or invest. Examples include RRSPs (for retirement), TFSAs (for tax-free savings), and RESPs (for education savings). Each type has its own rules and benefits.

Portfolio: All the investments you own.

Products: These are the actual investments you can buy with your money inside of "Plans". Examples include stocks, bonds, mutual funds, and ETFs. Each product has different risks and potential returns.

Risk tolerance: How much risk you are comfortable taking with your investments.

RRIF (Registered Retirement Income Fund):

An account that helps you manage your retirement savings. You transfer money from your RRSP into a RRIF, and then can withdraw money from it as income during your retirement. You must transfer your RRSP to a RRIF by Dec 31 of the year you turn 71.

RRSP (Registered Retirement Savings Plan):

A special plan to help you save for retirement. The money you put in is not taxed right away, which means you can save more now. Your investments grow tax-free until you take the money out when you retire - then you pay taxes on it.

Short-term investment: Investing your money for a short period, usually less than three years. It's more about quick goals.

Stock: A stock represents a small piece of ownership in a company. When you buy a stock, you become a shareholder and own a part of that company. If the company performs well, your stock's value might increase, letting you sell it for more money than you paid.

TFSA (Tax Free Savings Account): It's not just a regular savings account. Think of it as a special basket (plan) where you can put different types of investments like stocks, bonds, and cash. The best part... any money you make inside this basket (like interest, dividends, or capital gains) is tax-free!

Yield: The income you earn from an investment, usually shown as a percentage

We hope these simplified explanations were helpful and enhanced your understanding of investing. Whether you're just getting started or looking to tweak your investment plan, Innovation Wealth is here to make investing simpler. Reach out to us today, our team of experts are here to help.



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