

## CFP Flashcards PDF

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What is the primary purpose of a financial plan?

The primary purpose of a financial plan is to help individuals and families achieve their financial goals by outlining a strategy for managing their finances.

What are the three main components of a financial plan?

The three main components of a financial plan are budgeting, saving, and investing.

What is the difference between a traditional IRA and a Roth IRA?

The main difference is that contributions to a traditional IRA may be tax-deductible, while contributions to a Roth IRA are made with after-tax dollars, allowing for tax-free withdrawals in retirement.

What is the significance of an emergency fund?

An emergency fund is significant because it provides a financial safety net for unexpected expenses, helping to prevent debt accumulation.

What is the rule of 72?

The rule of 72 is a formula used to estimate the number of years required to double the investment at a fixed annual rate of return by dividing 72 by the annual interest rate.

What is asset allocation?

Asset allocation is the process of dividing an investment portfolio among different asset categories, such as stocks, bonds, and cash, to manage risk and achieve desired returns.

What is the purpose of life insurance?

The purpose of life insurance is to provide financial protection to beneficiaries in the event of the policyholder's death.

What is a 401(k) plan?

A 401(k) plan is a tax-advantaged retirement savings plan offered by an employer that allows employees to save and invest a portion of their paycheck before taxes are taken out.

What is the difference between a stock and a bond?

A stock represents ownership in a company, while a bond is a loan made to a company or government that pays interest over time.

What is diversification in investing?

Diversification in investing is the practice of spreading investments across various financial instruments, industries, and other categories to reduce risk.