Accounts

Savings Account
A deposit account held at a bank or other financial institution that provides principal security and a modest interest rate. Depending on the specific type of savings account, the account holder may not be able to write checks from the account (without incurring extra fees or expenses) and the account is likely to have a limited number of free transfers/transactions. Savings account funds are considered one of the most liquid investments outside of demand accounts and cash. In contrast to savings accounts, checking accounts allow you to write checks and use electronic debit to access your funds inside the account. Savings accounts are generally for money that you don't intend to use for daily expenses. To open a savings account, simply go down to your local bank with proper identification and ask to open an account.

Because savings accounts almost always pay lower interest rates than Treasury bills and certificates of deposit, they should not be used for long-term holding periods. Their main advantages are liquidity and superior rates compared to checking accounts. Most modern savings accounts offer access to funds through visits to a local branch, over the internet and through automated teller machines.

Checking Account
A transactional deposit account held at a financial institution that allows for withdrawals and deposits. Money held in a checking account is very liquid, and can be withdrawn using checks, automated cash machines and electronicdebits, among other methods.

A checking account differs from other bank accounts in that it often allows for numerous withdrawals and unlimited deposits, whereas savings accounts sometimes limit both. Checking accounts can include business accounts, student accounts and joint accounts along with many other types of accounts which offer similar features.

A checking account may also be called a "*demand account*" or "*transactional account*".

Checking accounts are offered by most banking institutions for a minimal fee or no fee at all. Thanks to advances in electronic banking, many people can now use checking accounts to set up automatic payment of routine monthly expenses with a one-time setup.

Sweep Account
A bank account that automatically transfers amounts that exceed (or fall short of) a certain level into a higher interest earning investment option at the close of each business day. Commonly, the excess cash is swept into money market funds.

In a sweep program, a bank's computers analyze customer use of checkable deposits and "*sweeps*" funds into money market deposit accounts.

This is done to provide the customer with the greatest amount of interest with the minimum amount of personal intervention. That said, sweep accounts were originally devised to get around a government regulation that limited banks from offering interest on commercial checking accounts. Now, some brokerage accounts have similar features that enable investors to gain some additional return for unused cash.

Trading Account
An account similar to a traditional bank account, holding cash and securities, and is administered by an investment dealer. An account held at a financial institution and administered by an investment dealer that the account holder uses to employ a trading strategy rather than a buy-and-hold investment strategy.

Though *trading accounts* are traditionally thought to hold only stocks, a trading account can hold cash, foreign cash, securities and a number of other types of investments.

Investors who use a number of trading strategies or have a number of brokerage accounts may separate their accounts in order to avoid confusion. One account may be a registered account for their retirement savings; another account may be a buy-and-hold account for their long-term stocks; another may be a margin account; and another may be a trading account used for conducting day-trading activities.

Margin Account
A brokerage account in which the broker lends the customer cash to purchase securities. The loan in the account is collateralized by the securities and cash. If the value of the stock drops sufficiently, the account holder will be required to deposit more cash or sell a portion of the stock.

In a margin account, you are investing with your broker/bank's money. By using leverage in such a way, you magnify both gains and losses.