

Glossary

12b-1 fee | An annual management fee charged to mutual fund shareholders and calculated as a percentage of the assets under management.

401(k) plans | An employer-sponsored defined contribution plan. Contributions may be made by employer, employee, or both. The employee's contributions are tax deferred until distribution after age 59.5 and are limited by the Internal Revenue Code.

accounting equation | $\text{Assets} = \text{liabilities} + \text{equity}$, or the value of assets must be equal to the value of the debt and equity that financed them. In personal finance, $\text{assets} = \text{debts} + \text{net worth}$, or $\text{net worth} = \text{assets} - \text{debts}$.

accrual accounting | A method of accounting in which economic consequences rather than cash flow consequences define transactions.

active management | An investment strategy that includes security selection within an asset class in order to outperform the asset class benchmark.

actual cash value | Market value of insured property at time of loss.

adjustable life | Benefits and premium can be adjusted without cancellation of the policy.

adjustable-rate mortgage (ARM) | A mortgage loan with a floating or adjustable rate of interest.

Advisory dealing | An investor-broker relationship where the broker provides advice and guidance to the client, but investment decisions remain the client's.

Ambiguity aversion | A preference for known risks over unknown risks.

American Depository Receipt (ADR) | An asset representing equity shares in a foreign corporation trading in U.S. markets.

Anchoring | A bias in which the investor relies too heavily on limited known factors or points of reference.

angel investor | An individual or group providing equity financing; usually a wealthy individual.

annual percentage rate (APR) | The annual rate of interest on credit or debt.

annuity | A series of cash flows in which equal amounts happen at regular, periodic intervals.

appraisal | An opinion of the market value of a property done by a professional appraiser who is familiar with the real estate market and with housing, and who has been certified to do appraisals.

arbitrage | Trading that profits from the market mispricing of assets in the capital markets.

arbitrage opportunities | A market mispricing that provides an opportunity for unusual gain or loss.

arbitrageurs | Traders who seek arbitrage opportunities.

asset allocation | The strategy of achieving portfolio diversification by investing in different asset classes.

asset class | A kind of investment distinguished by its uses and market (e.g., stock, bonds, fine art, real estate, currency).

assets | Resources that can be used to create future economic benefit, such as increasing income, decreasing expenses, or storing wealth as an investment.

ATM (automated teller machine) card | A card allowing direct access to a bank account through an automated teller machine (ATM), most often used to access cash without having to go to the bank housing the account.

authorized shares | Shares of common or preferred stock that have been authorized for issuance by a corporation's board of directors.

Automatic payments | A direct payment of an expense or a debt payment made as an electronic transfer of funds from the payer's bank account to the payee's.

Availability bias | In finance, an investor's tendency to base the probability of an event on the availability of information.

audit | A review of tax calculations and obligations performed by the Internal Revenue Service (IRS).

back-end load | A deferred sales charge or sales fee charged when shares are redeemed.

balance sheet | A list of all assets, liabilities, and equity or net worth, at a given point in time, providing a concise picture of financial condition at that time.

balloon mortgage | A mortgage that offers a shorter maturity but with lower payments and a large principal balance due at maturity.

bankruptcy | An economic situation when the value of debts is greater than the value of the assets that can be used to satisfy them. Formal bankruptcy is also a legal process aiming to compensate creditors, governed by the laws of the nation or state in which it occurs.

basic insurance | Health insurance that covers the costs of physician expenses, surgical expenses, and hospital expenses.

basis point | A unit of measure that is one one-hundredth of a percentage point, or 0.01 percent.

Behavioral finance | The study of how cognitive and emotional factors affect economic decisions, particularly how they affect rationality in decision making.

Behavioral interviews | A common type of job interview in which the candidate is asked about past behavior in a specific set of circumstances.

benchmark | A standard, often an index of securities, representing an industry or asset class and used as an indicator of growth potential or as a basis of comparison for similar of disparate industries or assets.

benchmarks | A standard, often an index of securities, representing an industry or asset class and used as an indicator of growth potential or as a basis of comparison for similar of disparate industries or assets.

Blue chip stock | Stock of a corporation with a history of providing steady returns.

Bodily injury liability | Responsibility for financial losses from injuries sustained in an accident for people outside of the car of the driver at fault.

bond laddering | A strategy of cash flow matching to create a series of regular cash flows from bond investments.

Bonds | Publicly issued and traded long-term debt used by corporations and governments.

book value | The valuation of assets, liabilities, and equity from the balance sheet; the corporation's original investment in its assets, liabilities, and equity.

broker-dealers | An intermediary that acts as an agent for buyers or sellers and also trades for its own account.

brokers | An intermediary that acts as an agent for buyers or sellers to arrange a trade.

budget | A projection of the financial requirements and consequences of a plan.

budget deficit | A shortfall of available funds created when income is less than the expenses.

budget surplus | An excess of available funds created when income is greater than the expenses.

budget variance | A difference between the actual results of your financial activity and your expected, budgeted results.

business cycle | Recurring periods of economy-wide expansion, when the economy is growing, and contraction, when the economy is shrinking. Cycles are often measured by the increase or decrease in the GDP.

buy-and-hold strategy | The long-term strategy of investing and holding without trading.

buyer's remorse | Regret following a purchase, especially common with an impulse purchase.

buyout option | A feature of a lease that offers the option to buy the asset financed by the lease at the end of the lease term.

bias | A tendency or preference or belief that interferes with objectivity.

broker | An intermediary that acts as an agent for buyers or sellers to arrange a trade.

callable | A bond that may be redeemed before maturity.

Capital allocation | A strategy of diversifying a portfolio between risky and riskless assets.

capital budget | The budget that shows nonrecurring events that are usually associated with long-term financial goals.

capital gain | Wealth created when an asset is sold for more than the original investment.

capital gains distribution | The shareholder's share of capital gains (losses) created by mutual fund turnover.

capital loss | Wealth lost when an asset is sold for less than the original investment.

capital market | A market where long-term liquidity is traded.

capital markets | A market where long-term liquidity is traded.

career path | A planned progression of jobs or steps to advance in a profession or career.

cash account | A brokerage account where investments are paid for from money on deposit.

cash accounting | A method of accounting in which cash flow consequences rather than economic consequences define transactions. Events are defined as cash transactions and recorded only when cash changes hands.

Cash flow matching | A strategy of investing in bonds with maturities and face values that match anticipated cash flow amounts and timing.

cash flow statement | A summary of actual cash flows for a period, detailing the sources and uses of cash and classifying them as from operating, investing, or financing activities.

cash flows from financing | Nonrecurring cash flows that result from the borrowing or repayment of debt, or from the issue or repurchase of equity.

cash flows from investing | Nonrecurring cash flows that result from buying or selling assets.

cash surrender value | The value of a whole life policy (the cash available for the policyholder) if the policy is canceled before the death of the insured.

certificates of deposit (CDs) | A savings instrument requiring a minimum sacrifice of liquidity, either as a minimum deposit amount or a minimum time deposited, in exchange for a higher rate of earnings.

charge card | Revolving credit that must be periodically paid in full.

checking account | A bank account that is used to facilitate payment by check.

churning | A broker practice of executing trades for a client's account solely to create commissions for the broker.

Closed-end funds | A mutual fund that issues a limited number of shares, so that existing shares must be sold to new investors.

closing costs | Transaction costs of the home purchase, including appraisal fees, title, fee, and title insurance; closing costs are paid at the closing or purchase of the home.

Co-pays | Partial payment for certain costs, made by the insured.

Coinurance | Shared payments by insured and insurer.

collective bargaining | The practice of union and employer representatives negotiating an employment contract to determine wages, hours, work rules, and working conditions.

collision | Responsibility for damage to the property of the driver at fault.

commercial property | Property used exclusively to create rental income.

Commodities | Raw materials (natural resources or agricultural products) used as inputs in processing goods and services.

common stock | Equity shares representing the residual claim on the company's value.

common-size balance sheet | A balance sheet that lists each asset, liability, and equity as a percentage of total assets.

common-size cash flows | A cash flow statement that lists each cash flow as a percentage of total positive cash flows.

common-size income statement | An income statement that lists each kind of revenue and each expense as a percentage of total revenues.

common-size statements | Financial statements where each item's value is listed as a percentage of or in relation to another value.

compensation | Payment for labor, including wages, salaries, commissions, stock options, and fringe benefits such as health, disability, and life insurance.

comprehensive budget | A budget that includes the operating budget and the capital budget, that is, it is designed to show all aspects of financial activities.

Comprehensive physical damage | Coverage for damage from hazards.

condominium | An ownership arrangement where individual housing units are owned by individual owners, while common spaces are owned by the condominium association of unit owners.

conservative | In finance, an approach preferred in all financial planning: overestimate expenses, losses, and the value of liabilities and underestimate incomes, gains, and the value of assets. This is based on the idea that any surprises should be advantageous. The use of this word in finance and accounting has absolutely no relation to any political associations that the word may have gained in common usage.

consumer price index | A measure of inflation or deflation based on a national average of prices for a 'basket' of common goods and services purchased by the average consumer.

consumption tax | A sales or excise tax that taxes the consumption of discretionary and nondiscretionary goods and services.

convertible bond | A bond that may be converted to common stock under specific conditions.

Conveyances | Any agreements regarding property features also included in the transaction, such as appliances, satellite dishes, and so on.

Cooperative housing | An ownership arrangement where the right to inhabit living space is claimed by the purchase of shares in the cooperative ownership of a multi-unit dwelling.

cost basis | The original cost of an asset that is used to calculate a gain (loss) upon sale of the asset.

cost of debt | The cost of borrowing capital because of having to pay interest on the principal.

cost of equity | The cost of having to share the benefits (capital gains or income (dividends)) from the investment.

coupon | The interest payment on a bond, specified as a feature of the bond at issuance.

coupon rate | The interest rate offered on a bond.

covenants | A condition placed on bond issuers (borrowers) to protect bondholders (lenders).

covenants | A condition of a loan that restricts the borrower to protect the lender.

credit card | Revolving credit that may not be paid in full, creating an interest expense.

credit cycle | The time period for extending and paying credit.

credit market | A part of the capital market where capital is lent and borrowed through the trading of debt securities such as bonds.

Credit rating | An analysis of personal creditworthiness based on income, current credit and debt, and credit history. The assessment is done by a credit rating agency that makes the credit report available to lenders.

credit score | A numerical score that rates personal creditworthiness in the credit rating process.

Credit unions | A retail banking institution that is either depositor- or member-owned. Membership is usually defined and limited to affiliation with a particular group (for example, state or union employees, or a religious or social affiliation).

creditors | Lenders; anyone to whom debt is owed.

cumulative preferred shares | Preferred shares that obligate the company to pay dividends to preferred shareholders before paying any others.

currency risk | The risk that an investment denominated in a different currency will suffer a loss due to exchange rate volatility.

current yield | The short-term return on a bond, calculated as the coupon as a percentage of the bond price.

Custodial accounts | A brokerage account for a minor, established with a guardian (adult) who is authorized to make trading decisions.

Cyclical stock | A stock that will move with the market but with more volatility.

Day trading | A short-term strategy for taking advantage of excessive volatility.

dealer | A professional investor trading for its own account.

debenture | A bond secured by only the 'full faith and credit' of the borrower and not by any specific asset.

debit card | A card that allows point-of-sale payment as an electronic transfer of funds from the payer's bank account to the payee's at the time of sale.

debt | Borrowed capital, a liability, a loan that must be repaid.

Deductibles | Costs paid by the insured before the insurer provides coverage.

default risk | The risk that a borrower will not be able to meet interest obligations or principal repayment.

Defensive stock | A stock with very little volatility that is relatively insensitive to market moves.

deferred coupon bonds | Bonds whose coupon payments are deferred until a specified time.

defined benefit plan | A pension plan sponsored by an employer in which the employer commits to providing a specific amount of benefit based on wages and tenure to retired employees.

defined contribution | A tax-advantaged pension plan, such as a 401(k), that both employer and employee may contribute to and that does not pay an obligated or defined benefit at maturity.

defined contribution retirement plans | A pension plan sponsored by an employer in which the employer commits to providing a specific amount of contribution to a retirement account owned by an active employee.

deflation | Period characterized by falling prices, increasing purchasing power, and higher currency values (one unit of currency is worth more because it buys a greater quantity of goods and services).

demand deposit | Accounts from which withdrawals may be made 'on demand,' such as a checking account.

depression | A prolonged and severe recession.

derivatives | Financial instruments such as options, futures, forwards, securitized assets, and so on whose value is derived from the value of another asset.

direct deposit | An automatic deposit of income directly to the receiver's designated bank account; widely used by employers and government agencies.

Direct investment | A real estate investment in which you are the owner and manager of property.

Disability insurance | Insurance to protect the insured against the risk of being unable to earn wages or salary as a result of injury or illness.

discount rate | The effect of time on value or the rate at which time affects value; used when calculating the equivalent present value of a nominal future value.

Discretionary trading | An investor-broker relationship where the broker is empowered to make investment decisions and trades on behalf of the client.

disposable income | Income available for expenses after tax expense has been deducted; gross income less income tax.

diversification | The strategy of reducing risk by spreading income and investments among a number of different kinds, sources, and locations.

Divestment | The sale of an asset to reverse an invested position.

dividend | A share of corporate profit distributed to shareholders, usually as cash or corporate stock.

dividend distributions | Mutual fund returns from any dividends distributed by mutual fund equity holdings.

dividend payout rate | The percentage of earnings that is paid out as a dividend.

dividend reinvestment | The practice of using dividends to automatically purchase additional shares.

dividend yield | The return provided by the dividend relative to the share price, or the dividend per each dollar of investment, given its market price.

dividends per share | The dollar value of the dividend return to each share of stock.

dollar-cost averaging | The strategy of investing regular dollar amounts at regular intervals in one security.

down payment | The share of the purchase price paid in cash at the time of purchase; also called earnest money.

due diligence | Competent and adequate research into an investment proposal to be able to project its returns and its potential risks.

early payment | Redemption or paying back the mortgage loan before its maturity.

early payment penalty | A cash penalty for the borrower for an early payment; this clause is not included in all mortgages.

earnest money | A nonrefundable deposit paid by the buyer to the seller at the time of the purchase and sale agreement then applied toward the closing costs.

earnings per share (EPS) | The dollar value of the earnings per each share of common stock.

efficient market theory | The idea that the market works best when prices reflect all available information, implying that the market price represents an unbiased estimate with an equal chance that stocks are over- or undervalued.

employment rate | A measure of the rate of labor force participation, or the percentage of the labor force that is employed, that is, people who want to work and are working.

endorsements | The clause of a homeowner's policy insuring listed property.

equity | An ownership share in an asset, entitling the holder to a share of the future gain (or loss) in asset value and of any future income (or loss) created.

escrow | A restricted account used for the earnest money until closing.

estate | All real and personal property of a decedent at the time of death, not including properties in joint ownership or assets that pass directly to a named beneficiary.

Estate taxes | A tax on the intergenerational transfer of wealth after death.

exchange-traded fund (ETF) | A fund that tracks an index or a commodity or a basket of assets but is traded like stocks on a stock exchange.

Exchange-traded funds (ETFs) | A mutual fund that is structured as a closed-end fund and actively traded on an exchange.

Excise taxes | A tax on a specific item produced within a country.

Execution-only | An investor-broker relationship where the broker's only role is to execute trades per the investor's decisions.

executor | The person named in a will who administers the payments of debts and the distribution of assets, as described in the will.

expected return | The return expected for an investment based on its average historical performance. Statistically, it is the mean or average of the investment's past performance.

expected value | The weighted average result for an event, or the value expected, on average, given the probabilities of each of its possible outcomes.

expense ratio | The total expenses of a mutual fund investment as a percentage of share value.

Expenses | The costs of consumption or daily living.

extended replacement costs | Insured amount capped at a specified percentage of actual cash value.

face value | For a bond, the amount to be repaid to the bondholder upon redemption.

financial advisors | Professionals with various backgrounds and training who give financial advice and assist with personal and business financial planning, including tax, estate, and investment planning.

financial engineering | The use of mathematical modeling to create and value new financial instruments and markets.

financial planning process | A recursive process of defining goals, assessing situations, identifying and evaluating choices, making choices and assessing the results, redefining goals, and so on.

financial ratios | Ratios used to understand financial statement amounts relative to each other.

fixed interest rate | A bond interest rate that does not change over time, from issuance to maturity.

fixed rate-loan | A loan for which the interest rate remains constant over the maturity of the loan.

fixed-rate mortgage | A mortgage loan with a fixed interest rate over the life of the loan.

flexible savings account | An account created with regular payroll deductions by an employee to finance supplemental health care costs. Monies must be expended within a specified time period or forfeited ('use it or lose it').

floating interest rate | A bond interest rate that changes over time, usually related to a benchmark rate such as the U.S. discount rate or prime rate.

floating-rate loan | A loan for which the interest rate can change, usually periodically and relative to a benchmark rate such as the prime rate.

foreclose | The repossession of real property by a lender after a default on the mortgage by the borrower, assuming the real property has acted as collateral for the financing.

formulary | A list of drugs covered by an insurer under a prescription drug plan.

forward contracts | A private contract to buy or sell an asset at a specified time and price in the future.

Framing | The idea that the presentation or perception of a decision influences the decision maker.

Free cash flow | Income remaining after the deduction of living expenses and debt obligations that is available for capital expenditures or investment.

front-end load | The sales charge for mutual fund shares, quoted as a percentage of the funds invested; it cannot be more than 8.5 percent of investment.

front-running | An agent trading for its own account before executing trading orders for its clients.

fundamental analysis | The process of estimating security value by evaluating past performance and macroeconomic and industry factors.

Funds of funds | A mutual fund that invests in shares of other mutual funds rather than in specific securities.

future value | The value of a present liquidity or projected series of cash flows in the future, accounting for the effects of time on value.

Futures | A publicly traded contract to buy or sell an asset at a specified time and price in the future.

general obligation bond | A state or municipal bond secured only by the 'full faith and credit' of the issuer.

go public | To raise capital by issuing equity shares through a public exchange.

grace period | The time between the purchase date and the date that interest is charged on revolving credit.

gross domestic product | The total value of all final goods and services produced in a year in a nation's economy. It is used as a fundamental measure of an economy's growth based on its ability to use resources productively and provide for its members.

growth stock | A stock that is expected to offer excessive rates of growth.

Guaranteed replacement costs | The full cost of replacing insured items at time of loss.

health maintenance organization | An organization to provide 'managed care' through reliance on primary care physicians and a network of specialists, with an emphasis on preventative care.

health reimbursement account | An employer owned and funded account to finance employee health care costs, with the employee choosing the type of coverage.

health savings account | Individually owned and financed savings accounts that may be used to finance health care costs with tax-deductible contributions.

high-yield bonds | Bonds rated BB or Ba or lower, considered to have significant default risk.

holding period yield | The annualized return on a bond over the period it is owned.

holographic will | A handwritten or oral will.

home equity line of credit (HELOC) | A loan secured by home equity value, structured such that principal may be borrowed only as needed, and interest paid only on the balance outstanding.

home equity loan | A loan secured by home equity value.

Identity theft | A fraud that occurs when the identity is used to access or create accounts for financial gain.

Immunization | A bond portfolio strategy designed to 'immunize' or protect the portfolio from interest rate risk.

Income | Earnings of a given period. In the case of an individual or household, this is generally cash from wages, interest, dividends, or assets (such as rental income from real estate) that can be used for consumption or saved.

income statement | A summary statement of income and expenses for a period; an income statement shows the difference between them or the net profit (net loss) for the period.

independent event | An event made neither more nor less probable by the occurrence of another event.

index fund | A mutual fund designed to track the performance of an index for investors who seek diversification without having to select securities.

index funds | A mutual fund designed to track the performance of an index for investors who seek diversification without having to select securities.

index of leading economic indicators | A set of ten economic statistics that are used to assess the potential for economic growth.

Indexing | The strategy of using index funds to achieve diversification rather than specifically selecting individual securities.

indirect investment | A real estate investment in which you buy shares of an entity that owns and manages property.

inflation | Period characterized by rising prices, declining purchasing power, and lower currency values (one unit of currency is worth less because it buys a smaller quantity of goods and services).

Inflation risk | The risk that the value of a bond's returns will be decreased by a decrease in value of the currency of the bond's denomination.

initial public offering (IPO) | A company's first issuance of stock for trade in the public markets. Companies issue stock publicly to attract more investors and thus more capital for the company. When a company has its IPO is it said to 'go public.'

inside information | Information that is not publicly available that has a material effect on an investment's value.

insider trading | The illegal practice of trading securities based on nonpublic or 'inside' information.

Installment credit | A form of credit used to purchase consumer durables, usually issued by one vendor for one item.

interest | The cost of debt expressed as an annual percentage of the principal.

interest distributions | Mutual fund returns from any interest payments on the mutual fund holdings, such as bonds

interest rate risk | The risk that a bond's market value will be affected by a change in interest rates.

intermediary | A third party that facilitates trade between two parties. In financial services, a bank is an intermediary between lenders and borrowers.

internal growth rate | The maximum rate of growth achieved without any issuance of debt or new equity capital.

intestate | To die without a valid will, leaving the disposition of assets and debts to the law.

Inverse funds | A mutual fund that aims to increase in value when the market declines, in contrast to an index fund, which aim to increase in value when the market rises.

investment grade bonds | Bonds rated BBB or Baa or higher and considered to carry insignificant default risk.

Investment policy statements | A structured framework for investment planning based on the investor's return objectives, risk tolerance, and constraints.

investor profile | A combination of characteristics based on personality traits, life stage, and sources of wealth.

irrevocable living trust | A trust created while the grantor is living, that may not be revoked or changed by the grantor. The trust is considered a legal entity, and ownership of the grantor's assets is transferred to the trust.

issue price | The original market price of a bond at issuance.

job accommodation | A provision of the Americans with Disabilities Act of 1990 that employers make 'reasonable accommodations' for employees with defined disabilities so as not to discriminate against them.

junk bonds | High yield bonds rated BB or Ba or lower and considered to have significant default risk.

Keogh Plan | A tax-advantaged retirement plan for the self-employed.

labor market | Where labor is traded through hiring or employment and price is determined by the interaction of employers and employees.

lease | A rental agreement used as a form of financing for automobile purchases.

Lemon laws | Federal and state laws protecting consumers against products that repeatedly fail to meet standards of performance. The federal Magnuson-Moss Warranty Act was enacted in 1975.

Leveraged funds | A mutual fund that invests borrowed funds as well as investors' funds.

liens | An interest in a property granted to secure payment of debt.

life cycle investing | An investment strategy in which asset allocation is based on the investor's age or stage of life.

Life insurance | Insurance to compensate beneficiaries against the financial consequences of the death of the insured.

life stages | Periods of a person's life based on age and personal circumstances that reflect different needs, goals, and financial capabilities.

Lifestyle funds | A mutual fund designed to perform asset allocation and security selection for the investor. Assets are reallocated based on the firm's expected liquidity target date.

limit order | A trading order to buy or sell a security at a specific price.

limited partnership | A partnership in which there are both general and limited partners (at least one of each). The limited partners have limited liability, and, much like corporate shareholders, cannot be liable for the partnership beyond their original investment.

line of credit | A loan structured such that money can be borrowed as needed, up to a limit, and paid down as desired, and interest is paid regularly but only on the outstanding balance.

liquidity | Nearness to cash, or how easily and cheaply (with low transaction costs) an asset can be turned into cash.

listed property | Valuable property insured separately under a homeowner's policy.

living trust | A trust created while the grantor is alive.

living will | A document conveying your intentions for your personal care and management of your assets should you become unable to do so before your death.

load fund | A mutual fund that charges a sales commission or fee upon investment or purchase of shares; the load is stated as a percentage of invested funds.

long position | Ownership of securities; used in the strategy of 'going long,' which involves buying a security so that if the price rises, its sale will create a gain.

Long-term care insurance | Insurance to provide for permanent assistance with activities of daily living in the event of disabling injury or illness.

Loss aversion | An investor's preference to avoid losses, even when the costs outweigh the benefits, in which case it is not the rational economic choice.

major medical insurance | Insurance for the costs of serious injury or illness.

Managed care organizations | Organizations or networks of health care providers based on the principle of providing preventative care in order to better health and lower costs of health care. Such organizations also provide for emergency and special treatment services under various systems.

manufacturer's suggested retail price (MSRP) | The 'sticker price' for an item.

margin account | A brokerage account allowing the investor to purchase securities with funds borrowed from the broker.

margin call | The requirement that an investor invest more capital to maintain the margin requirement, or the investor's equity in the investment.

margin requirement | The percentage of security value that must represent capital from the investor (as opposed to money borrowed from the broker).

market capitalization | The total market value of a corporation's capital.

market efficiency | The idea that the market works best when prices reflect all available information, implying that the market price represents an unbiased estimate with an equal chance that stocks are over- or undervalued.

market order | An order to trade at the market price.

market timing | The practice of basing investment strategy on predictions of future market changes or on asset return forecasts.

Matching strategies | Strategies used to create a bond portfolio that will finance specific funding or liquidity needs at specific times.

maturity | The date on which payment of a financial obligation is due, such as bond redemption date.

maturity date | Date at which a bond matures, or the end of the bond's term, when the bond must be redeemed.

Medicaid | A federal program financing health care costs with eligibility based on income.

medical payments coverage | Responsibility for financial losses from injuries sustained in an accident for people inside of the car of the driver at fault.

Medicare | A federal program financing health care costs with eligibility based on age (for those over age sixty-five).

mental accounting | A preference to segregate investment accounts by goals and constraints, rather than to perceive the entire portfolio as a whole.

Mobile homes | A manufactured home, usually under 1,000 sq. ft. in size.

money market mutual funds (MMMFs) | A savings instrument invested in the money markets.

money markets | A market where short-term liquidity is traded.

mortgage amortization | A schedule of mortgage payments showing the amounts of each payment that pay interest and that pay principal.

mortgage bond | A bond secured by a specific asset such as real property or equipment.

mortgage factor | The mortgage payment per \$1,000 of principal.

mortgage fraud | Intentional misrepresentation or omission of facts perpetrated by a borrower in the process of obtaining mortgage financing.

Mortgage-backed securities (MBS) | A security such as a bond whose return is secured by the income (mortgage payments) from a pool of mortgages.

multiple-unit dwelling | A residential building including more than one housing unit, such as a duplex, triplex, or apartment building.

municipal bonds | Bonds issued by a city, town or state to finance public projects. The coupon payments may, under certain circumstances, not be subject to federal income tax for the bondholder.

mutual fund | A portfolio of investments created by an investment company such as a brokerage or bank. It is financed as the investment company sells shares of the fund to investors. For investors, a mutual fund provides a way to achieve maximum diversification with minimal transaction costs through economies of scale.

Negative net worth | The mathematical result of liabilities being greater than the value of assets, or debts being larger than the value that can be used to meet them.

negligence | Failure to take ordinary precautions.

net asset value (NAV) | When used regarding open-end mutual funds, NAV refers to the redeemable value of each fund share at that time, given the market value of the fund's assets and the number of shares outstanding.

net worth | The value of assets owned after creditors' claims (debts) are accounted for, or literally, assets - debts.

Networking | A process of using personal contacts to get information and find job opportunities.

no-fault insurance | A system of auto insurance where the insured's insurance covers physical and property damage and liability, regardless of 'fault' determined.

no-load fund | A mutual fund that does not charge a sales commission or fee upon investment or purchase of shares.

open-end funds | A mutual fund in which shares are bought from and sold to the fund management; the number of shares is not limited.

operating budget | The budget that shows recurring income and expenses, usually living expenses and incomes from wages, interest, and dividends, usually related to short-term financial goals.

operating cash flows | Recurring cash flows that result from income and expense events.

opportunity cost | The cost of sacrificing the next best choice because of the choice made; the value of the next best choice, which is forgone once a choice is made.

Options | The right but not the obligation to buy or sell at a specific price at a specific time in the future; commonly written on shares of stock as well as on stock indices, interest rates, and commodities.

Overconfidence | A bias in which you have too much faith in the precision of your estimates, causing you to underestimate the range of possibilities that actually exist.

passive management | An investment strategy that does not include security selection within an asset class; the investment is expected to perform as well as the benchmark index.

payday loan | A small, short-term personal loan that charges a high rate of interest.

payment cap | A limit to the potential adjustment to the mortgage payment.

Penny stock | The stock of a corporation with low market capitalization; the stock has a low price (usually less than one dollar) and high volatility.

Pension Benefit Guaranty Corporation (PBGC) | An agency of the federal government that guarantees defined benefit pensions in the case of employer default.

pension plan | An employer-sponsored, defined benefit plan providing a regular, specified amount of pension, based on wages and years of service.

perpetuity | An infinite annuity; a stream of periodic cash flows that continues indefinitely.

point-of-service (POS) | A type of managed care in which physicians, hospitals, and other care providers contract with an insurer to provide care at reduced rates upon referral from the insured's primary care physician. Unlike the HMO, out-of-network providers may be used, but on a limited basis.

Points | One percent of the mortgage value, used as prepaid interest paid at time of purchase.

Ponzi scheme | A pyramid scheme practiced by Charles Ponzi in Boston during the 1920s. The term is now commonly used to describe a pyramid scheme.

power of attorney | The legal right to act on your behalf should you become unable to do so before your death.

preferred provider organization (PPO) | A type of managed care in which physicians, hospitals, and other care providers contract with an insurer to provide care at reduced rates upon referral from the insured's primary care physician. Unlike the HMO, out-of-network providers may be used.

preferred stock | Equity shares that represent a superior claim over common shares but typically do not confer voting rights.

present value | Liquid value in the present, or the discounted value of a nominal amount of future liquidity, taking into account the effect of time on value.

price discrimination | The practice of offering the same product at a different price, depending on customer needs.

price-to-book ratio (P/B) | A ratio comparing the market value of the company to its book or 'original' value.

price-to-earnings ratio | The ratio of a stock's market value per share to its earnings per share, or the market value of one dollar of the company's earnings.

primary market | The market in which the initial issuance or initial public offering of a stock occurs.

prime rate | A benchmark interest rate understood to be the rate that major banks charge corporate borrowers with the least default risk.

principal | The original amount of borrowed capital (a loan).

principal | Principal, interest, taxes, and insurance are the costs of home ownership. PITI is usually calculated on a monthly basis in the process of determining the affordability of a mortgage.

private equity | Equity not traded in a public market or exchange.

private mortgage insurance | Insurance that insures the lender against any losses incurred by the costs of a loan default.

Private placement | An issuance of bonds through a private deal rather than through the public markets.

pro forma financial statements | Projected results for financial statements in the future, given assumptions about what will happen in the meantime.

Probate | The legal process of validating a will and overseeing the orderly payment of debts and the distribution of assets.

progressive tax | A tax rate that increases as the amount to be taxed increases, a common design of an income tax.

Property damage liability | Responsibility for damage to property owned by people other than the driver at fault.

property transfer tax | A tax on the transfer of title to property; a transaction cost of purchasing property.

prospectus | A written statement of a mutual fund's structure, management, investment objectives, holdings, and historic and current performance; funds are required to make the prospectus available to all potential investors.

prudence | Acting with sound and responsible judgment; in investing, prudence implies a relative conservatism regarding risk.

purchase and sale agreement | The legally binding agreement that sets the terms of the property transaction as agreed to by buyer and seller.

purchasing power | A currency's usefulness and thus its value as measured by how much it can buy, that is, the quantity of goods and services that can be purchased with one unit of currency.

pure risks | The risk of accidental or unintentional events

pyramid scheme | A fraud in which 'returns' are created by new deposits rather than by real investment earnings.

Quantity discounts | The practice of offering a different unit price for the same product, depending on quantity purchased.

rate cap | A limit on the potential adjustment to the mortgage interest rate.

rate of compounding | The effect of time on value or the rate at which time affects value; used when calculating the equivalent future value of a present amount of liquidity.

rating agencies | Analysts of bond default risk that assign ratings to bonds.

Ratio analysis | A way of comparing amounts by creating ratios or fractions that compare the amount in the numerator to the amount in the denominator.

real estate investment trust (REIT) | A corporation investing in real estate that, practically, behaves much like a mutual fund for real estate investors.

realtor | A salesperson for real estate, usually hired by the seller to help price, advertise, and show the property and negotiate the actual sale.

recession | A period of economic contraction lasting at least six consecutive months or two consecutive quarters.

redeemable | A bond that is eligible for redemption.

refinancing | Attaining a new mortgage and simultaneously paying off the old mortgage.

regressive tax | A tax rate that decreases as the amount to be taxed increases.

reinvestment risk | The risk that a change in interest rates during the bond's term will change the earnings from reinvesting bond coupons.

replacement cost | Cost of replacing insured property at time of loss.

Representativeness | The practice of stereotyping asset performance, or of assuming commonality of disparate assets based on superficial, stereotypical traits.

resume | A document that summarizes job experience, education, and civic activities. It is commonly used in the job application process.

retained earnings | The portion of the company's earnings or net income that is not distributed (paid out) to owners as a dividend, but is retained as equity financing for the company.

retaliation | Actions by an employer to punish an employee who has complained of employer misconduct to authorities.

retention rate | The rate at which a company retains earnings for use as additional capital or the earnings retained (not paid out as dividends) as a percentage of earnings.

revenue bond | A state or municipal bond that will be repaid from revenues of the specific project it is financing.

reverse mortgage | A loan secured by equity value, most often used for elderly homeowners to extract equity value while retaining home ownership. Typically, the loan balance is payable at the home owner's death.

revocable living trust | A trust created while the grantor is living that may be revoked or changed by the grantor; therefore, ownership of the grantor's assets remains under the control of the grantor.

Revolving credit | A form of credit used to purchase consumer durables issued by a bank of finance company to purchase many items from many vendors.

rider | A clause to a policy that adds specific benefits under specific conditions.

risk | In finance, the probability that the value of an asset, income, or investment may decline in the future.

risk averse | An investor's preference to minimize exposure to risk.

Risk shifting | Selling risk to avoid bearing the full consequence of unintentional events.

risk tolerance | An investor's capacity for risk exposure, based on the ability and willingness to assume risk.

rollover | A retirement plan that may accept or distribute funds from another qualified retirement account without tax consequence or penalty.

Roth IRA | An individual retirement account for which contributions are not deductible but withdrawals are not taxed.

savings income match plan for employees (SIMPLE) | A retirement plan for employers with less than one hundred employees or for the self-employed.

scam | A scam (confidence game or con) is a fraud based on trust.

secondary market | A market in which outstanding shares are traded.

Security selection | The process of choosing individual securities to be included in the portfolio.

self-regulatory organizations (SROs) | A nongovernmental organization that regulates a profession or industry.

senior debt | A bond issue that has a superior claim in case of bankruptcy.

Severance | Compensation upon dismissal from employment.

short position | Owing securities because of having borrowed them from a broker; used in the strategy of 'shorting,' which involves borrowing and selling a security so that if the price falls, you can create a gain when the securities are repurchased to be returned.

simple will | A will leaving all property to a spouse.

simplified employee pension (SEP) | A retirement plan for employers with less than one hundred employees or for the self-employed, usually using individual IRAs (SEP-IRAs) as retirement accounts.

social capital | Connections within and between social networks that may be useful, as an asset, in a market.

Social Security | The mandatory retirement program sponsored by the U.S. government to provide supplemental retirement income. It is funded by a tax (FICA) paid by employers and employees and by self-employed individuals who act as both employer and employee.

Socially responsible investment | An investment strategy to achieve both ethical and financial goals.

specialized budgets | A budget that focuses on one particular financial asset, activity, or goal.

speculative grade bonds | High yield bonds rated BB or Ba or lower and considered to have significant default risk.

speculative risks | Intended risk that offers a chance of loss or gain.

Speculative stock | A stock promising excessive value that may already be overvalued.

split-coupon bonds | Deferred coupon bonds that pay no interest for a specified period, followed by higher-than-normal interest payments until maturity.

spread | A difference between two interest rates, quoted in basis points. The most commonly noted spreads are those between Treasury and corporate securities of the same maturity.

standard deviation | In finance, the statistical measure that calculates the frequency and amount by which actual returns differ from the average or expected returns.

STAR Method | A popular method of preparing narratives for behavioral interviews by referring to job situations, tasks, actions, and results.

stated dollar amount will | A will leaving a specific monetary amount to each beneficiary.

statutory will | A will written on a preprinted form.

step-up bonds | A bond with a floating-rate coupon that is scheduled to increase at specified intervals.

stock exchange | An organized market for the trading of corporate shares conducted by members of the exchange.

Stocks | Shares issued to account for ownership, as defined by owners' contributions to a corporation.

stop-buy order | An order to buy a security once its price has risen above a specified price.

stop-loss order | An order to sell a security once its price has fallen below a specified price.

strict liability | Responsibility for intentional or unintentional events.

subordinated debt | A bond issue that has an inferior claim in case of bankruptcy.

sunk costs | Costs that have been incurred in past transactions and cannot be recovered.

sustainable growth | The maximum rate of growth possible without changing the use of debt and equity capital.

syndicate | A group of individuals formed to own property. The syndicate acts as a vehicle for indirect investment, hiring professional management for the properties it owns.

Tax avoidance | The legal attempt to minimize tax obligations.

tax brackets | A range of income that defines an income tax rate.

tax budget | A budget that focuses on the tax consequences of projected financial activities.

tax evasion | The illegal attempt to report financial information fraudulently to minimize tax obligations.

Technical analysis | A process of estimating security value solely on the basis of past performance as an indicator of future performance.

Term insurance | Life insurance providing coverage for a specified period of time.

term structure of interest rates | A comparison of interest rates for bonds of different maturities.

termination | The ending of an employment relationship; termination may be initiated by the employee (voluntary), the employer (involuntary), or mutually agreed upon by both.

testamentary trust | A trust created by a will that becomes effective upon the death of the grantor.

Time deposits | An account from which withdrawals are made over time, or funds that are deposited for a time.

time value of money | The impact of the passing of time on the value of money, based on the premise that being separated from liquidity creates opportunity cost.

title insurance | Insurance purchased by the purchaser of the property that insures against any omission from the title search.

title search | A search of public records to determine if there are any restrictions or allowances on the property to be purchase, or any liens, or debts such as a mortgage balance, overdue taxes, a mechanic's lien, and so on, that must be paid if the property is sold.

Traditional IRA | An individual retirement account for which contributions are tax deductible and withdrawals are taxed.

traditional marital share will | A will leaving one-half of the estate to the surviving spouse.

transaction cost | The costs of achieving a trade or 'doing a deal' that do not contribute to the value of the thing being traded; a cost created by making an economic transaction.

transfer | The movement of funds in a tax-advantaged retirement account from one trustee or asset manager to another that is not considered a withdrawal or distribution of funds.

Treasury bills | Bonds issued by the U.S. government with a maturity of less than one year.

Treasury bonds | Bonds issued by the U.S. government with a maturity of more than ten years.

Treasury Inflation-Protected Securities (TIPS) | Bonds issued by the U.S. government with an adjustable face value designed to protect the bondholder against inflation risk.

Treasury notes | Bonds issued by the U.S. government with a maturity of between one and ten years.

trust | A legal entity created to own and manage assets for the benefit of beneficiaries.

turnover ratio | A measure of how much annual trading activity there is within a mutual fund's holdings.

umbrella policy | Personal liability insurance in attached to a homeowner's policy.

unemployment rate | A measure of the percentage of people in the labor force who are unemployed, that is, those who would like to be working but cannot find a suitable job.

Uninsured motorist protection | Coverage of financial losses from injuries sustained in an accident if the driver at fault has insufficient insurance.

universal life | Benefits and premiums are flexible, in terms of both timing and amounts.

utility | Value, including subjective or nonmarket value as well as objective or market value.

value stock | A stock whose return is based on its current underpricing by the market.

value-added tax | A consumption tax that spreads the tax burden among producers and consumers by taxing the value added to goods at each stage of production and consumption.

variable life | Life insurance that provides a guaranteed minimum benefit with potential to be greater depending on investment performance.

venture capital | Private equity provided to facilitate excessive growth before the initial public offering of shares.

vesting | The process of earning full ownership in an employer-sponsored retirement plan according to length of service.

vicarious liability | Responsibility for another's use of your possessions, or for another's actions, under certain circumstances.

Wallflower stock | A stock whose value is overlooked by the market.

warranty | A manufacturer's guarantee of product performance for a period of time.

whistleblowers | An employee who alerts authorities to possible employer misconduct.

whole life | Life insurance providing coverage until the insured's death; it can also be used as an investment instrument.

Widow-and-orphan stock | A blue chip stock that offers a reliable dividend.

wrongful discharge | A legal term to describe a termination by the employer that violates the employment contract or the law.

will | A legal document detailing the disposition of assets upon death.

yield curve | A graphic depiction of the term structure of interest rates.

yield to maturity | The total return on a bond, assuming it is held to maturity and that coupons may be reinvested at the same rate.

zero-coupon bond | A bond that has a coupon rate of zero, and therefore a coupon of zero. Its only cash flow return is the principal repayment at maturity.