COMMONLY USED FINANCIAL TERMS

(That everyone should know)

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1099

Form 1099-MISC: Miscellaneous Income (or Miscellaneous Information, as it's called starting in 2021) is an Internal Revenue Service (IRS) form used to report certain types of miscellaneous compensation, such as rents, prizes and awards, healthcare payments, and payments to an attorney.

401(k)

A 401(k) plan is a retirement savings plan offered by many American employers that offers tax advantages to the saver. It is named after a section of the U.S. Internal Revenue Code.

529 Plan

A 529 plan is a tax-advantaged savings plan designed to help pay for education. Originally limited to post-secondary education costs, it was expanded to cover K-12 education in 2017 and apprenticeship programs in 2019. The two major types of 529 plans are savings plans and prepaid tuition plans.

Savings plans grow tax-deferred, and withdrawals are tax-free if they're used for qualified education expenses. Prepaid tuition plans allow the account owner to pay in advance for tuition at designated colleges and universities, locking in the cost at today's rates. 529 plans are also referred to as qualified tuition programs and Section 529 plans.

Active Management

The term active management implies that a professional money manager or a team of professionals is tracking the performance of a client's investment portfolio and regularly making buy, hold, and sell decisions about the assets in it. The goal of the active manager is to outperform the overall market.

Active managers may rely on investment analysis, research, and forecasts as well as their judgment and experience in making decisions on which assets to buy and sell.

Adjusted Gross Income

Adjusted gross income (AGI) is a figure that the Internal Revenue Service uses to determine your income tax liability for the year. It is calculated by subtracting certain adjustments from gross income, such as business expenses, student loan interest payments, and other expenses.

Amortization

An accounting technique used to periodically lower the book value of a loan or an intangible asset over a set period of time. Concerning a loan, amortization focuses on spreading out loan payments over time. When applied to an asset, amortization is similar to depreciation.

Annual Percentage Rate

Annual percentage rate (APR) refers to the yearly interest generated by a sum that's charged to borrowers or paid to investors. APR is expressed as a percentage that represents the actual yearly cost of funds over the term of a loan or income earned on an investment. This includes any fees or additional costs associated with the transaction, but it does not take compounding into account. The APR provides consumers with a bottom-line number they can compare among lenders, credit cards, or investment products.

Annual Percentage Yield

The real rate of return earned on an investment, taking into account the effect of compounding interest. Unlike simple interest, compounding interest is calculated periodically and the amount is immediately added to the balance. With each period going forward, the account balance gets a little bigger, so the interest paid on the balance gets bigger as well.

Annuity

An insurance contract issued and distributed by financial institutions with the intention of paying out invested funds in a fixed income stream in the future. Investors invest in or purchase annuities with monthly premiums or lump-sum payments. The holding institution issues a stream of payments in the future for a specified period of time or for the remainder of the annuitant's life. Annuities are mainly used for retirement purposes and help individuals address the risk of outliving their savings.

Appreciation

An increase in the value of an asset over time. The increase can occur for a number of reasons, including increased demand or weakening supply, or as a result of changes in inflation or interest rates.

Asset

A resource with economic value that an individual, corporation, or country owns or controls with the expectation that it will provide a future benefit.

Asset Allocation

An investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance, and investment horizon.

Balance Sheet

A company's balance sheet is comprised of assets, liabilities, and equity. Assets represent things of value that a company owns and has in its possession or something that will be received and can be measured objectively. Liabilities are what a company owes to others—creditors, suppliers, tax authorities, employees, etc. They are obligations that must be paid under certain conditions and time frames. A company's equity represents retained earnings and funds contributed by its shareholders, who accept the uncertainty that comes with ownership risk in exchange for what they hope will be a good return on their investment.

Bankruptcy

Bankruptcy is a legal proceeding involving a person or business that is unable to repay their outstanding debts.

Bear Market

A bear market is when a market experiences prolonged price declines. It typically describes a condition in which securities prices fall 20% or more from recent highs amid widespread pessimism and negative investor sentiment.

Beneficiary

Any person who gains an advantage and/or profits from something. In the financial world, a beneficiary typically refers to someone eligible to receive distributions from a trust, will, or life insurance policy.

Blue Chip Stock

A huge company with an excellent reputation. These are typically large, well-established, and financially sound companies that have operated for many years and that have dependable earnings, often (but not always) paying dividends to investors.

Bonds

A fixed-income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental). A bond could be thought of as an I.O.U. between the lender and borrower which includes the details of the loan and its payments. Bonds are used by companies, municipalities, states, and sovereign governments to finance projects and operations. Owners of bonds are debtholders, or creditors, of the issuer.

Bottom-Up Investing

Bottom-up investing is an investment approach that focuses on the analysis of individual stocks and de-emphasizes the significance of macroeconomic cycles and market cycles. In bottom-up investing, the investor focuses his attention on a specific company and its fundamentals, rather than on the industry in which that company operates or on the greater economy as a whole. This approach assumes individual companies can do well even in an industry that is not performing, at least on a relative basis.

Broker

An individual or firm that acts as an intermediary between an investor and a securities exchange. Because securities exchanges only accept orders from individuals or firms who are members of that exchange, individual traders and investors need the services of exchange members. Brokers provide that service and are compensated in various ways, either through commissions, fees, or through being paid by the exchange itself.

Bull Market

A bull market is the condition of a financial market in which prices are rising or are expected to rise. The term "bull market" is most often used to refer to the stock market but can be applied to anything that is traded, such as bonds, real estate, currencies, and commodities. The commonly accepted definition of a bull market is when stock prices rise by 20% after two declines of 20% each.

Capital Gains

Capital gain is an increase in a capital asset's value and is considered to be realized when the asset is sold.

Capital Loss

A capital loss is the loss incurred when a capital asset, such as an investment or real estate, decreases in value. This loss is not realized until the asset is sold for a price that is lower than the original purchase price.

Cash flow

The term cash flow refers to the net amount of cash and cash equivalents being transferred in and out of a company. Cash received represents inflows, while money spent represents outflows.1 A company's ability to create value for shareholders is fundamentally determined by its ability to generate positive cash flows or, more specifically, to maximize long-term free cash flow (FCF). FCF is the cash generated by a company from its normal business operations after subtracting any money spent on capital expenditures (CapEx).

Certificate of Deposit (CD)

A product offered by banks and credit unions that provides an interest rate premium in exchange for the customer agreeing to leave a lump-sum deposit untouched for a predetermined period of time. Almost all consumer financial institutions offer CDs, although it's up to each bank which terms it wants to offer, how much higher the rate will be compared to the bank's savings and money market products, and what penalties it applies for early withdrawal.

Collateral

The term collateral refers to an asset that a lender accepts as security for a loan. Collateral may take the form of real estate or other kinds of assets, depending on the purpose of the loan. The collateral acts as a form of protection for the lender. That is, if the borrower defaults on their loan payments, the lender can seize the collateral and sell it to recoup some or all of its losses.

Collection Agency

A collection agency is a company used by lenders or creditors to recover funds that are past due, or from accounts that are in default. Often, a creditor will hire a collection agency after it has made multiple failed attempts to collect its receivables. A lender may outsource the debt-collection activity to a third party (the collection agency), or it may have an internal department or a debt-collection subsidiary that would handle the job.

Commodities

A basic good used in commerce that is interchangeable with other goods of the same type. Commodities are most often used as inputs in the production of other goods or services. The quality of a given commodity may differ slightly, but it is essentially uniform across producers. When they are traded on an exchange, commodities must also meet specified minimum standards, also known as a basis grade.

Compound Interest

Compound interest (or compounding interest) is the interest on a loan or deposit calculated based on both the initial principal and the accumulated interest from previous periods. Thought to have originated in 17th-century Italy, compound interest can be thought of as "interest on interest," and will make a sum grow at a faster rate than simple interest, which is calculated only on the principal amount.

Credit History

A measure of your ability to repay debts and demonstrated responsibility in repaying them. It is recorded in your credit report, which details the number and types of your credit accounts, how long each account has been open, amounts owed, the amount of available credit used, whether bills are paid on time and the number of recent credit inquiries. Your credit report also contains information regarding whether you have any bankruptcies, liens, collections, or judgments.

Credit Report

A detailed breakdown of an individual's credit history is prepared by a credit bureau. Credit bureaus collect financial information about individuals and create credit reports based on that information, and lenders use the reports along with other details to determine loan applicants' creditworthiness.

Credit Score

A number between 300–850 that depicts a consumer's creditworthiness. The higher the score, the better a borrower looks to potential lenders. A credit score is based on credit history: number of open accounts, total levels of debt, repayment history, and other factors. Lenders use credit scores to evaluate the probability that an individual will repay loans in a timely manner.

Credit Utilization Ratio

The percentage of a borrower’s total available credit that is currently being utilized. The credit utilization ratio is a component used by credit reporting agencies in calculating a borrower’s credit score.

Lowering the credit utilization ratio can help a borrower improve their credit score. One thing you should not do if you are trying to improve your credit score is closing a credit card. It is better for your credit utilization ratio to have a low ratio than a closed card.

Cryptocurrency

A cryptocurrency is a digital or virtual currency that is secured by cryptography, which makes it nearly impossible to counterfeit or double-spend. Many cryptocurrencies are decentralized networks based on blockchain technology—a distributed ledger enforced by a disparate network of computers. A defining feature of cryptocurrencies is that they are generally not issued by any central authority, rendering them theoretically immune to government interference or manipulation.

Debt Consolidation

Debt consolidation refers to the act of taking out a new loan to pay off other liabilities and consumer debts. Multiple debts are combined into a single, larger debt, such as a loan, usually with more favorable payoff terms—a lower interest rate, lower monthly payment, or both. Debt consolidation can be used as a tool to deal with student loan debt, credit card debt, and other liabilities.

Debt-To-Income Ratio

A personal finance measure that compares an individual's monthly debt payment to their monthly gross income. Your gross income is your pay before taxes and other deductions are taken out. The debt-to-income ratio is the percentage of your gross monthly income that goes to paying your monthly debt payments.

Deductible

For tax purposes, a deductible is an expense that an individual taxpayer or a business can subtract from adjusted gross income while completing a tax form. The deductible expense reduces reported income and therefore the amount of income taxes owed.

U.S. individual taxpayers may either use the standard deduction or fill out a list of all of their deductible expenses, depending on which results in a smaller taxable income.

Default

Default is the failure to repay a debt, including interest or principal, on a loan or security. A default can occur when a borrower is unable to make timely payments, misses payments, or avoids or stops making payments. Individuals, businesses, and even countries can default if they cannot keep up their debt obligations.

Deferment

A time during which a borrower does not have to pay interest or repay the principal on a loan. The deferment period also refers to the period after the issue of a callable security during which the issuer can not call the security.

The duration of a deferment period can vary and is established in advance usually by a contract between the two parties. A student loan deferment, for example, is usually for up to three years, while many municipal bonds have a deferment period of 10 years.

Defined-Benefit Plan

An employer-sponsored retirement plan where employee benefits are computed using a formula that considers several factors, such as length of employment and salary history.1 The company is responsible for managing the plan's investments and risk and will usually hire an outside investment manager to do this. Typically, an employee cannot just withdraw funds as with a 401(k) plan. Rather they become eligible to take their benefit as a lifetime annuity or in some cases as a lump sum at an age defined by the plan's rules.

Defined-Contribution Plan

A retirement plan that's typically tax-deferred, like a 401(k) or a 403(b), in which employees contribute a fixed amount or a percentage of their paychecks to an account that is intended to fund their retirements. The sponsor company will, at times, match a portion of employee contributions as an added benefit. These plans place restrictions that control when and how each employee can withdraw from these accounts without penalties.

Deflation

A general decline in prices for goods and services, is typically associated with a contraction in the supply of money and credit in the economy. During deflation, the purchasing power of currency rises over time.

Dependent

A person who relies on someone else for financial support, and can include children or other relatives. Having a dependent entitles a taxpayer to claim a dependency exemption on their tax return, as long as the dependent meets the qualifying definition according to the Internal Revenue Service (IRS). A taxpayer who can demonstrate that they have a dependent also may be able to use this filing status to qualify for certain tax credits.

Depreciation

An accounting method used to allocate the cost of a tangible or physical asset over its useful life or life expectancy. Depreciation represents how much of an asset's value has been used.

Discretionary Income

The amount of an individual's income that is left for spending, investing, or saving after paying taxes and paying for personal necessities, such as food, shelter, and clothing.

Diversification

A risk management strategy that mixes a wide variety of investments within a portfolio. A diversified portfolio contains a mix of distinct asset types and investment vehicles in an attempt at limiting exposure to any single asset or risk. The rationale behind this technique is that a portfolio constructed of different kinds of assets will, on average, yield higher long-term returns and lower the risk of any individual holding or security.

Dividends

A distribution of cash or stock to a class of shareholders in a company. Typically, dividends are drawn from a company's retained earnings; however, issuing dividends with negative retained income is still possible, but less common.

Dollar-Cost Averaging

An investment strategy in which an investor divides up the total amount to be invested across periodic purchases of a target asset in an effort to reduce the impact of volatility on the overall purchase. The purchases occur regardless of the asset's price and at regular intervals.

In effect, this strategy removes much of the detailed work of attempting to time the market in order to make purchases of equities at the best prices. Dollar-cost averaging is also known as the constant dollar plan.

Down Payment

A sum of money that a buyer pays in the early stages of purchasing an expensive good or service. The down payment represents a portion of the total purchase price, and the buyer will often take out a loan to finance the remainder.

Education Loan (Student Loans)

A sum of money borrowed to finance post-secondary education or higher education-related expenses. Education loans are intended to cover the cost of tuition, books and supplies, and living expenses while the borrower is in the process of pursuing a degree. Payments are often deferred while students are in college and, depending on the lender, sometimes they are deferred for an additional six-month period after earning a degree. This period is sometimes referred to as a "grace period."

Although there are a variety of education loans, they can be broken down generally into two basic types: federal loans sponsored by the federal government and private loans.

Employee Stock Options

A type of equity compensation granted by companies to their employees and executives. Rather than granting shares of stock directly, the company gives derivative options on the stock instead. These options come in the form of regular call options and give the employee the right to buy the company's stock at a specified price for a finite period of time.

Equity

Equity, typically referred to as shareholders' equity (or owners' equity for privately held companies), represents the amount of money that would be returned to a company's shareholders if all of the assets were liquidated and all of the company's debt was paid off in the case of liquidation. In the case of acquisition, it is the value of company sales minus any liabilities owed by the company not transferred with the sale.

Estate Planning

The preparation of tasks that serve to manage an individual's asset base in the event of their incapacitation or death. The planning includes the bequest of assets to heirs and the settlement of estate taxes. Most estate plans are set up with the help of an attorney experienced in estate law.

Exemption

A deduction allowed by law that reduces the amount of income that is subject to income tax. The Internal Revenue Service (IRS) previously offered two types of exemptions: personal and dependent exemptions. But with the changes brought about by the 2017 Tax Cuts and Jobs Act, the personal exemption is disappearing until 2025. At the same time, the standard amount that can be deducted when filing nearly doubled.

Federal Reserve

The Federal Reserve System (FRS), often called simply the Fed, is the central bank of the United States and arguably the most powerful financial institution in the world. It was founded to provide the country with a safe, flexible, and stable monetary and financial system.

Forbearance

The temporary postponement of loan payments, typically for a mortgage or student loan. Lenders and other creditors grant forbearance as an alternative to forcing a property into foreclosure or leaving the borrower to default on the loan. The companies that hold loans and their insurers are often willing to negotiate forbearance agreements because the losses caused by foreclosures or defaults typically fall on them.

Garnishment

Garnishment, or wage garnishment, is when money is legally withheld from your paycheck and sent to another party. It refers to a legal process that instructs a third party to deduct payments directly from a debtor's wage or bank account.

Typically, the third party is the debtor's employer and is known as the garnishee. Federal law prohibits employers from firing a worker to avoid processing a garnishment payment. Garnishments are used for debts such as unpaid taxes, monetary fines, child support payments, and defaulted student loans.

Gross Profit

The profit a company makes after deducting the costs associated with making and selling its products, or the costs associated with providing its services. Gross profit will appear on a company's income statement and can be calculated by subtracting the cost of goods sold (COGS) from revenue (sales). These figures can be found on a company's income statement. Gross profit may also be referred to as sales profit or gross income.

Guarantor

A guarantor is a financial term describing an individual who promises to pay a borrower's debt in the event that the borrower defaults on their loan obligation. Guarantors pledge their own assets as collateral against the loans.

Index

A method to track the performance of a group of assets in a standardized way. Indexes typically measure the performance of a basket of securities intended to replicate a certain area of the market. These could be a broad-based index that captures the entire market, such as the Standard & Poor's 500 Index or Dow Jones Industrial Average (DJIA), or more specialized such as indexes that track a particular industry or segment.

Individual Retirement Account (Roth)

An individual retirement account (IRA) that allows qualified withdrawals on a tax-free basis provided certain conditions are satisfied. Established in 1997, it was named after William Roth, a former Delaware Senator.

Roth IRAs are similar to traditional IRAs, with the biggest distinction between the two being how they're taxed. Roth IRAs are funded with after-tax dollars; the contributions are not tax-deductible. But once you start withdrawing funds, the money is tax-free.

Individual Retirement Account (Traditional)

An individual retirement account (IRA) allows individuals to direct pre-tax income toward investments that can grow tax-deferred. The IRS assesses no capital gains or dividend income taxes until the beneficiary makes a withdrawal. Individual taxpayers can contribute 100% of any earned compensation up to a specified maximum dollar amount.

Income thresholds may also apply. Contributions to a traditional IRA may be tax-deductible depending on the taxpayer's income, tax-filing status, and other factors.

Inflation

The decline of purchasing power of a given currency over time. A quantitative estimate of the rate at which the decline in purchasing power occurs can be reflected in the increase of an average price level of a basket of selected goods and services in an economy over some period of time. The rise in the general level of prices, often expressed as a percentage, means that a unit of currency effectively buys less than it did in prior periods.

Investment Time Horizon

An investment time horizon, or just time horizon, is the period of time one expects to hold an investment until they need the money back. Time horizons are largely dictated by investment goals and strategies. For example, saving for a down payment on a house, for maybe two years, would be considered a short-term time horizon, while saving for college would be a medium-term time horizon, and investing for retirement, a long-term time horizon.

Liabilities

Something a person or company owes, usually a sum of money. Liabilities are settled over time through the transfer of economic benefits including money, goods, or services. Recorded on the right side of the balance sheet, liabilities include loans, accounts payable, mortgages, deferred revenues, bonds, warranties, and accrued expenses.

Liquidity

Liquidity refers to the efficiency or ease with which an asset or security can be converted into ready cash without affecting its market price. The most liquid asset of all is cash itself.

Marginal Tax System

The marginal tax rate is the tax rate you pay on an additional dollar of income. In the United States, the federal marginal tax rate for individuals increases as income rises. This method of taxation, known as progressive taxation, aims to tax individuals based upon their earnings, with low-income earners being taxed at a lower rate than higher-income earners.

Money-Market Account

An interest-bearing account at a bank or credit union—not to be confused with a money market mutual fund. Sometimes referred to as money market deposit accounts (MMDA), money market accounts (MMA) have some features not found in other types of accounts. Most money market accounts pay a higher interest rate than regular passbook savings accounts and often include check writing and debit card privileges. They also come with restrictions that make them less flexible than a regular checking account.

Mortgage

A loan used to purchase or maintain a home, land, or other types of real estate. The borrower agrees to pay the lender over time, typically in a series of regular payments that are divided into principal and interest. The property serves as collateral to secure the loan. A borrower must apply for a mortgage through their preferred lender and ensure they meet several requirements, including minimum credit scores and down payments. Mortgage applications go through a rigorous underwriting process before they reach the closing phase. Mortgage types vary based on the needs of the borrower, such as conventional and fixed-rate loans.

Mutual Fund

A type of financial vehicle made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

Net Income

Net income (NI), also called net earnings, is calculated as sales minus cost of goods sold, selling, general and administrative expenses, operating expenses, depreciation, interest, taxes, and other expenses. It is a useful number for investors to assess how much revenue exceeds the expenses of an organization. This number appears on a company's income statement and is also an indicator of a company's profitability.

Net Worth

Net worth is the value of the assets a person or corporation owns, minus the liabilities they owe. It is an important metric to gauge a company's health, providing a useful snapshot of its current financial position.

Option

The term option refers to a financial instrument that is based on the value of underlying securities such as stocks. An options contract offers the buyer the opportunity to buy or sell—depending on the type of contract they hold—the underlying asset. Unlike futures, the holder is not required to buy or sell the asset if they decide against it. Each contract will have a specific expiration date by which the holder must exercise their option. The stated price on an option is known as the strike price. Options are typically bought and sold through online or retail brokers.

Overdraft

An overdraft occurs when there isn't enough money in an account to cover a transaction or withdrawal, but the bank allows the transaction anyway. Essentially, it's an extension of credit from the financial institution that is granted when an account reaches zero. The overdraft allows the account holder to continue withdrawing money even when the account has no funds in it or has insufficient funds to cover the amount of the withdrawal.

Basically, an overdraft means that the bank allows customers to borrow a set amount of money. There is interest on the loan, and there is typically a fee per overdraft. At many banks, an overdraft fee can run upwards of $35.

Post-Tax Contribution

Money paid into a retirement or investment account after income taxes on those earnings have already been deducted. When opening a tax-advantaged retirement account, an individual may choose to defer the income taxes owed until after retiring, if it is a traditional retirement account, or pay the income taxes in the year in which the payment is made, if it is a Roth retirement account.

Power of Attorney (POA)

A legal authorization that gives a designated person, termed the agent or attorney-in-fact, the power to act for another person, known as the principal. The agent may be given broad or limited authority to make decisions about the principal's property, finances, investments, or medical care.

Pre-Tax Contribution

A payment made with money that has not been taxed. The traditional IRA, 403(b), 457, and most 401(k) plans are examples of tax-advantaged accounts that allow retirement planners to make annual pre-tax contributions.

Premium

Premium has several meanings in finance. Most commonly, it refers to:

1. Generically, a security trading above its intrinsic or theoretical value is trading at a premium (in contrast to a discount). The difference between the price paid for a fixed-income security and the security's face amount at issue is referred to as a premium if that price is higher than par.
2. The purchase price of an insurance policy or the regular payments required by an insurer to provide coverage for a defined period of time.
3. The total cost to buy an option contract (often synonymous with its market price).

Principal

A term that has several financial meanings. The most commonly used refers to the original sum of money borrowed in a loan or put into an investment. Similar to the former, it can also refer to the face value of a bond. Principal can also refer to an individual party or parties, the owner of a private company, or the chief participant in a transaction.

Personal Loans

An amount of money you can borrow to use for a variety of purposes. For instance, you may use a personal loan to consolidate debt, pay for home renovations, or plan a dream wedding. Personal loans can be offered by banks, credit unions, or online lenders. The money you borrow must be repaid over time, typically with interest and/or fees.

Rally

A period of sustained increases in the prices of stocks, bonds, or related indexes. A rally usually involves rapid or substantial upside moves over a relatively short period of time. This type of price movement can happen during either a bull or a bear market, when it is known as either a bull market rally or a bear market rally, respectively. However, a rally will typically follow a period of flat or declining prices.

Rebalancing

Rebalancing is the process of realigning the weightings of a portfolio of assets. Rebalancing involves periodically buying or selling assets in a portfolio to maintain an original or desired level of asset allocation or risk.

For example, say an original target asset allocation was 50% stocks and 50% bonds. If the stocks performed well during the period, it could have increased the stock weighting of the portfolio to 70%. The investor may then decide to sell some stocks and buy bonds to get the portfolio back to the original target allocation of 50/50.

Recession

A macroeconomic term that refers to a significant decline in general economic activity in a designated region. It had been typically recognized as two consecutive quarters of economic decline, as reflected by GDP in conjunction with monthly indicators such as a rise in unemployment. However, the National Bureau of Economic Research (NBER), which officially declares recessions, says the two consecutive quarters of decline in real GDP are not how it is defined anymore. The NBER defines a recession as a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.

Refinance

A refinance, or "refi" for short, refers to the process of revising and replacing the terms of an existing credit agreement, usually as it relates to a loan or mortgage. When a business or an individual decides to refinance a credit obligation, they effectively seek to make favorable changes to their interest rate, payment schedule, and/or other terms outlined in their contract. If approved, the borrower gets a new contract that takes the place of the original agreement.

Borrowers often choose to refinance when the interest-rate environment changes substantially, causing potential savings on debt payments from a new agreement.

Return on Investment (ROI)

A performance measure used to evaluate the efficiency or profitability of an investment or compare the efficiency of a number of different investments. ROI tries to directly measure the amount of return on a particular investment, relative to the investment's cost.

To calculate ROI, the benefit (or return) of an investment is divided by the cost of the investment. The result is expressed as a percentage or a ratio.

Revolving Credit

Revolving credit is an agreement that permits an account holder to borrow money repeatedly up to a set dollar limit while repaying a portion of the current balance due in regular payments. Each payment, minus the interest and fees charged, replenishes the amount available to the account holder.

Credit cards and lines of credit both work on the principle of revolving credit.

Risk Tolerance

The degree of variability in investment returns that an investor is willing to withstand in their financial planning. Risk tolerance is an important component in investing. You should have a realistic understanding of your ability and willingness to stomach large swings in the value of your investments; if you take on too much risk, you might panic and sell at the wrong time.

Risk tolerance is often associated with age, although that is not the only determining factor. However, in a general sense, people who are younger and have a longer time horizon are often able to and are encouraged to take on greater risk than people older with a shorter-term horizon.

Rollover

A rollover may entail a number of actions, most popularly the transfer of the holdings of one retirement plan to another without creating a taxable event.

SBA Loan

The Small Business Administration (SBA) is an autonomous U.S. government agency established in 1953 to bolster and promote the economy in general by providing assistance to small businesses. One of the largest functions of the SBA is the provision of counseling to aid individuals trying to start and grow businesses.

The loan programs offered by the SBA are among the most visible elements the agency provides. The organization does not offer grants or direct loans, with the exception of disaster relief loans, but instead, guarantees against default pieces of business loans extended by banks and other official lenders that meet the agency's guidelines. The number one function of these loan programs is to make loans with longer repayment periods available to small businesses.

Social Security

Social Security is the term used for the Old-Age, Survivors, and Disability Insurance (OASDI) program in the U.S., run by the Social Security Administration (SSA), which is a federal agency. Though it is best known for retirement benefits, it also provides survivor benefits and disability income.

Stock

A stock (also known as equity) is a security that represents the ownership of a fraction of a corporation. This entitles the owner of the stock to a proportion of the corporation's assets and profits equal to how much stock they own. Units of stock are called "shares."

Tax Credit

An amount of money that taxpayers can subtract directly from taxes owed to their government. Unlike deductions, which reduce the amount of taxable income, tax credits reduce the actual amount of tax owed. The value of a tax credit depends on the nature of the credit; certain types of tax credits are granted to individuals or businesses in specific locations, classifications, or industries.

Tax Deduction

A tax deduction is a deduction that lowers a person's or an organization's tax liability by lowering their taxable income. Deductions are typically expenses that the taxpayer incurs during the year that can be applied against or subtracted from their gross income to figure out how much tax is owed.

Tax-Deferred

Tax-deferred status refers to investment earnings—such as interest, dividends, or capital gains—that accumulate tax-free until the investor takes constructive receipt of the profits. Some common examples of tax-deferred investments include individual retirement accounts (IRAs) and deferred annuities.

Taxable Account

A brokerage account is an example of a taxable account. These accounts don't have any tax benefits but they offer fewer restrictions and more flexibility than tax-advantaged accounts such as individual retirement accounts (IRAs) and 401(k)s. Unlike an IRA or a 401(k), with a brokerage account, you can withdraw your money at any time, for any reason, with no tax or penalty.

Tax-Advantaged Account

Tax-advantaged accounts are generally either tax-deferred or tax-exempt. Tax-deferred accounts, such as traditional IRAs and 401(k) plans, provide an upfront tax break. You may be able to deduct your contributions to these plans, which provides an immediate tax benefit. You pay taxes when you withdraw your money in retirement, which means the tax is deferred.

Time-Value of Money

The time value of money (TVM) is the concept that a sum of money is worth more now than the same sum will be at a future date due to its earnings potential in the interim.

This is a core principle of finance. A sum of money in the hand has greater value than the same sum to be paid in the future.

The time value of money is also referred to as present discounted value.

Top-Down Investing

Top-down investing prioritizes macroeconomic, national, or market-level factors. It can be contrasted with the bottom-up approach.

When looking at the bigger picture, investors use macroeconomic variables, such as GDP, trade balances, currency movements, inflation, interest rates, and other aspects of the economy. After looking at the big-picture conditions around the world, analysts next examine the general market conditions to identify high-performing sectors, industries, or regions within the macroeconomy. The goal is to find particular industrial sectors that are forecast to outperform the market.

Trust

A trust is a fiduciary relationship in which one party, known as a trustor, gives another party, the trustee, the right to hold title to property or assets for the benefit of a third party, the beneficiary. Trusts are established to provide legal protection for the trustor's assets, to make sure those assets are distributed according to the wishes of the trustor, and to save time, reduce paperwork and, in some cases, avoid or reduce inheritance or estate taxes. In finance, a trust can also be a type of closed-end fund built as a public limited company.

W-2 Form

Form W-2, also known as the Wage and Tax Statement, is the document an employer is required to send to each employee and the Internal Revenue Service (IRS) at the end of the year. A W-2 reports employees' annual wages and the amount of taxes withheld from their paychecks. A W-2 employee is someone whose employer deducts taxes from their paychecks and submits this information to the government.

W-4 Form

Form W-4 is an Internal Revenue Service (IRS) tax form that is filled out by employees to indicate their tax situation to their employer. The W-4 form tells the employer the amount of tax to withhold from an employee's paycheck based on their marital status, number of allowances and dependents, and other factors. The W-4 is also called an Employee's Withholding Allowance Certificate.

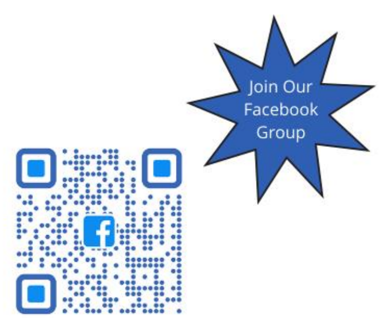
W-9 Form

A W-9 form is an Internal Revenue Service (IRS) tax form that is used to confirm a person's name, address, and taxpayer identification number (TIN) for employment or other income-generating purposes. The confirmation can be requested for either an individual defined as a U.S. citizen, or a person defined as a resident alien.

Notes

An investment in knowledge pays the best interest.

-Benjamin Franklin



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