A-to-M: Financial Definitions

A

Asset Allocation: The process of dividing your investments among different asset classes, such as stocks, bonds, and cash, to minimize risk and maximize returns.

Amortization: The gradual repayment of a loan over time through regular principal and interest payments.

B

Budgeting: Creating a financial plan that tracks income and expenses to manage money effectively.

Bear Market: A period in which stock prices decline by 20% or more from recent highs, often reflecting investor pessimism.

C

Compound Interest: Interest calculated on the initial principal and the accumulated interest from previous periods.

Capital Gains: The profit from selling an investment, such as stocks or real estate, for more than its purchase price.

D

Diversification: Spreading investments across different asset classes or sectors to reduce risk.

Dividend: A portion of a company's earnings distributed to shareholders, typically in cash or additional shares.

E

Equity: The ownership value of an asset after subtracting any debts, such as the value of a home minus the mortgage.

Expense Ratio: The annual fee that investment funds charge investors, expressed as a percentage of assets under management.

F

Fiduciary: A financial advisor or entity legally required to act in the best interests of their clients.

Forex (Foreign Exchange): The global market for trading currencies, where participants buy and sell currencies to make a profit.

G

Gross Income: The total income earned before taxes and other deductions.

Growth Stocks: Shares in companies expected to grow earnings at an above-average rate compared to their industry or the overall market.

H

Hedging: A strategy to reduce or offset the risk of adverse price movements in an asset, often using financial instruments like options.

High-Yield Savings Account: A savings account that offers a higher interest rate than traditional savings accounts.

I

Index Fund: A type of mutual fund or ETF designed to replicate the performance of a specific market index, such as the S&P 500.

Inflation: The rate at which the general level of prices for goods and services rises, eroding purchasing power over time.

J

Joint Account: A bank or investment account shared by two or more individuals, often used by couples or business partners.

Junk Bonds: High-risk, high-yield corporate bonds issued by companies with lower credit ratings.

K

KPI (Key Performance Indicator): A measurable value that indicates how effectively an individual or business achieves financial or strategic goals.

Keogh Plan: A tax-deferred retirement plan for self-employed individuals or small business owners.

L

Liquidity: The ease with which an asset can be converted into cash without significantly affecting its value.

Liability: A financial obligation or debt that an individual or business owes to another party.

M

Market Capitalization (Market Cap): The total value of a company's outstanding shares, calculated by multiplying the share price by the number of shares.

Mutual Fund: A pooled investment vehicle that collects money from multiple investors to invest in stocks, bonds, or other securities.