

N-to-Z: Financial Definitions

N

Net Worth: The total value of an individual's or company's assets minus liabilities.

Nominal Interest Rate: The stated interest rate on a loan or investment, not accounting for inflation or compounding.

O

Opportunity Cost: The potential benefit lost when choosing one option over another, often used in financial decision-making.

Options: Financial contracts that give the buyer the right, but not the obligation, to buy or sell an asset at a specific price before a certain date.

P

Portfolio: A collection of financial investments such as stocks, bonds, and cash held by an individual or institution.

Principal: The original amount of money invested or borrowed, excluding interest or earnings.

Q

Qualified Dividend: A type of dividend that is taxed at the lower long-term capital gains tax rate rather than the higher ordinary income tax rate.

Quantitative Easing: A monetary policy used by central banks to increase money supply by purchasing government securities or other financial assets.

R

Return on Investment (ROI): A measure of the profitability of an investment, calculated as a percentage of the initial investment.

Roth IRA: A retirement savings account that allows for tax-free withdrawals in retirement, funded with after-tax contributions.

S

Stock: A type of security that represents ownership in a corporation and a claim on part of its assets and earnings.

Short Selling: A strategy where an investor borrows shares to sell them, aiming to buy them back later at a lower price to make a profit.

T

Tax-Deferred: Investments where taxes on earnings are postponed until withdrawals, such as in a 401(k) or IRA.

Treasury Bonds: Long-term debt securities issued by the U.S. government with maturities exceeding 10 years.

U

Umbrella Insurance: A liability insurance policy that provides additional coverage beyond the limits of other policies, such as auto or home insurance.

Underwriting: The process by which financial institutions assess the risk of insuring or lending to a borrower.

V

Volatility: A statistical measure of the dispersion of returns for a given security or market index, often used as an indicator of risk.

Venture Capital: Financing provided to startups or small businesses with high growth potential, typically in exchange for equity.

W

Wealth Management: A comprehensive service combining financial planning, investment management, and other financial services to grow and protect wealth.

Withholding Tax: The portion of income withheld by an employer or institution and sent directly to the government as a prepayment of taxes.

X

XIRR (Extended Internal Rate of Return): A method of calculating returns for investments with irregular cash flows, commonly used in private equity.

Ex-Dividend Date: The date when a stock begins trading without the value of its next dividend payment included in its price.

Y

Yield: The income generated by an investment, usually expressed as an annual percentage of the investment's cost or market value.

Year-to-Date (YTD): A period starting from the beginning of the calendar year up to the current date, often used for performance tracking.

Z

Zero-Based Budgeting: A budgeting method where every dollar is assigned a purpose, ensuring expenses match income exactly.

Zero-Coupon Bond: A bond that does not pay periodic interest but is sold at a deep discount to its face value.