Glossary of Financial Terms in "Plain English"

1/N heuristic: A rule of thumb followed by many investors. It states that when given N choices, investors will equally weight each choice. For example, when faced with a menu of 10 investment options, investors subject to the 1/N heuristic bias would place 10% of their capital in each of the 10 investments.

10-K: An annual report required of all publicly traded companies. It is submitted to the Securities Exchange Commission (SEC) and is available to the public. It contains audited financial statements, certified by senior management under the penalty prison if they submitted false information.

10-Q: Quarterly reports required of all publicly traded companies. They are submitted to the Securities Exchange Commission (SEC) and are available to the public. Financial statements in a 10-Q are not required to be audited. 10-Q is easy to remember since the Q stands for quarterly.

401(k): A retirement plan common in large for-profit organizations. Currently, individuals under the age of 50 may contribute $19,500 each year to the plan on a pre-tax basis. Anyone over the age of 50 may contribute an additional $6,500 annually in "catch up" funds.

403(b): The non-profit analog of the 401(k) plan. Currently, individuals under the age of 50 may contribute $19,500 each year to the plan on a pre-tax basis. Anyone over the age of 50 may contribute an additional $6,500 annually in "catch up" funds.

501(c)(3) organization: A type of charitable organization that is subject to stringent record keeping and operational standards. Donations to 501(c)(3) organizations are tax deductible, an extremely important feature for donors.

529 plans: Tax-advantaged investment vehicles used for qualified educational expenses from kindergarten through college years. The name comes from Section 529 of the IRS tax code.

1031 exchange: A provision in the tax code that permits the seller of a home to roll any profit into a new home on a tax-free basis.

1040: The primary personal income tax return completed each year by individuals in the US.

Accounts payable: Money owed by a business to suppliers, due within one year. Payment for a utility bill or for office supplies are two examples of accounts payable. Accounts payable is the flipside of accounts receivable.

Accounts receivable: Money owed to a firm, usually due to a sale based on credit. For example, if a customer buys a laptop at Best Buy with a credit card, it may take a few days for Best Buy to receive the money from the credit card company. Accounts receivable is the flipside of accounts payable.

Accrued interest: Interest earned but not yet paid, between coupon payment dates. For example, if the annual coupon payment of a bond is 2% and six months have passed since the last coupon was paid, the accrued interest would be 1%.

After-hours trading: Trading outside the regular market hours of 9:30 a.m.–4:00 p.m. After-hours trading may occur before the market opens (4:00 a.m.–9:30 a.m. EST) and after it closes (4:00 p.m.–8:00 p.m. EST). It is also known as extended hours trading.

Alpha: A measure of investment performance. It is computed as the difference between the return on a portfolio and the return of a comparable market index. Positive alpha funds have outperformed, while negative alpha funds have underperformed. In an efficient market, the average alpha of all funds is 0, before any fees and transaction costs.

Alternate A (Alt-A) borrowers: Customers with good credit ratings but not the strongest. They fall below prime borrowers and above sub-prime borrowers in creditworthiness and the corresponding borrowing rates. The typical FICO range for the Alt-A category is 670 to 739.

Amortization: A non-cash expense that accounts for the loss in value of an intangible asset. For example, a patent gradually expires, so the amortization process accounts for its eventual loss of exclusivity.

Amortization schedule: A table that shows the payment of principal and interest of a mortgage or other type of loan. The amortization schedule of most conventional mortgages shows the bulk of the early payments are related to interest expense, while the bulk of the later payments are allocated to principal repayments.

American Banking Association (ABA) routing transit number: A fancy name/number for identifying the bank holding a customer's checking account funds. Some large banks may have more than one ABA routing transit number. For most wire transfers, the ABA number and a second number identifying the customer's specific checking account are required.

American Stock Exchange (AMEX): The previous name for the NYSE American stock exchange, a small stock exchange located in lower Manhattan.

Apprenticeship: A job where someone learns a craft by working side by side with an expert for a period of time, usually several years.

Annual report: A document produced by publicly traded firms that lists their financial statements, risks, and management's commentary on the business.

Some firms produce their annual report in a glossy, magazine-type document. Others simply use the dry, required 10-K document that must be filed with the Securities Exchange Commission (SEC).

Assembly line techniques: A manufacturing process where each worker, or robot, is responsible for working on one segment of a product. For example, Henry Ford made his Model-T car more affordable to the public with the aid of assembly line techniques.

Asset: Something of value. In an accounting context, assets are usually classified as either current or long-term. Current assets are cash or something that is expected to be turned into cash within one year, such as a sale on a credit card. Long-term assets may include real estate, machines, stores, website infrastructure, or something intangible, such as a patent or brand name.

Asset-backed securities: Bonds backed by specific items, such as auto loans, student loans, music royalties, or comic book characters.

Associate's degree: A two-year college degree provided by community or junior colleges. Some students choose to begin their career after completing their associate's degree, while others will seek to transfer their course credits to a college or university and pursue a bachelor's degree.

Audited: Verified by an objective third party. For example, the financial statements in a firm's annual report or 10-K are audited by certified public accountants (CPAs).

Automated teller machine (ATM): A machine that dispenses cash and accepts deposits. A debit or credit card is almost always required to access the ATM.

Available funds: The maximum amount of money a customer may use for a check while safely assuming that it will not bounce.

Balance: The unpaid amount on a credit card or loan.

Balance sheet: One of the three primary financial statements of publicly traded firms. Assets are on the left-hand side of the balance sheet, and claims to assets are on the right-hand side. Claims to assets consist of liabilities and equity. The balance sheet is also known as the statement of financial condition or position.

Bank real estate owned (REO): As the name indicates, REO is real estate owned by a bank after it's foreclosed on a property. Banks tend to not want tangible real estate on their balance sheets, so they often sell REOs at a 10% or more discount to market prices.

Bankruptcy: A legal process that may absolve borrowers of some debt or restructure the debt in some manner. Individuals or firms pursuing bankruptcy usually have liabilities that well exceed their assets. It is challenging for both individuals and companies to obtain future credit at reasonable interest rates for several years after a bankruptcy filing.

Baron: A rich businessperson. Synonymous with tycoon.

Barter: To trade products or services without cash changing hands.

Basis points: A measure of unit that is a one hundredth of 1%. That is, 100 basis points equals 1%.

Beating the market: Outperforming the market. For example, if an investor's portfolio is up 12% and the S&P 500 increased 10% over the same period, the investor beat the market by 2%.

Beauty contest / bakeoff: The competition among investment banking firms for taking a firm public or providing some other type of financial service.

Benefit: A non-cash form of compensation provided to employees. For example, health care or life insurance are common benefits. Benefits are informally known as perks.

Benjamin(s): Slang for money, especially when referring to a $100 bill. The name comes from Benjamin Franklin, whose portrait appears on the US $100 bill.

Best ideas approach: An investment philosophy that involves putting the bulk of one's assets in a relatively small number of investments. A best ideas approach results in highly concentrated portfolios, as opposed to a broadly diversified index fund. A best ideas approach is also known as a high conviction approach to investing.

Beta: A measure of market risk that gauges the sensitivity of an asset, such as a stock, to changes in aggregate market prices. For example, Berkshire Hathaway's beta is less than the market average, which by definition is 1; therefore, it generally loses less on down days for the market but also earns less on up days. Many academics believe market risk, or beta, is the main driver of the expected return for any risky asset, but Warren Buffett vehemently disagrees.

Big Four: The four largest certified public accounting firms in the world. The Big Four are Deloitte, Ernst & Young, KPMG, and PricewaterhouseCoopers. They conduct audits for most large publicly traded firms.

Big Board: The nickname for the New York Stock Exchange. Before computers were invented, stock prices were often written on a large chalkboard. Historically, the requirements to be listed on the NYSE were stricter than other exchanges, providing another reason for the nickname.

Bills: Payment due for a purchased product or service. Examples include a phone bill or electric bill.

Bitcoin: The first purely digital currency or cryptocurrency. Bitcoin operates independently of any central bank, and its transactions are recorded in a blockchain, which is a real-time, immutable public ledger of transactions.

Black market: A market outside of governmental control and taxation that is often used for illegal transactions.

Blue chip: The highest quality of a specified asset class. For example, Microsoft is a blue-chip stock. Traditionally, stocks in the Dow Jones Industrial Average are considered blue chip. The name comes from what was historically the highest-valued chip at Monte Carlo casinos.

Board of directors (BOD): The group of individuals that is ultimately in charge of managing a company. The term usually refers to firms that are publicly traded, but it may also apply to private firms. The BOD of publicly traded firms are elected by their stockholders.

Bond: A loan taken out by a company, government, or other institution with the money provided from investors. Bonds usually pay interest and return its face value, or principal, upon maturity.

Bonus: The variable part of a person's compensation, often tied to the profits generated by the individual and/or the firm.

Bounced check: When there is not enough money in the checking account to pay the amount on the check.

Borrower: Someone that takes out a loan, usually from a bank. Institutions sometimes borrow by issuing debt securities.

Bubble: An asset price that is substantially overvalued relative to its true or intrinsic value. For example, real estate prices were likely in a bubble in 2007, and Bitcoin was likely in a bubble near the end of 2018.

Budget: A plan that describes spending and savings over a period of time for a person or institution.

Bullion: Gold bars or gold coins.

Business model: The way a firm tries to make money. For example, most movie theaters make the bulk of their profits from selling concessions.

Business to business (B2B) model: A business that primarily sells to other businesses, as opposed to consumers (B2C). For example, Google's search engine is free for consumers, but businesses pay Google for advertising and search placement services.

Buying long: Purchasing an asset with the expectation that it will increase in the future. The traditional way an investor tries to make money, buying low and selling high, is perhaps the most common way of buying long.

Calendar year: The year spanning from January to December. It may differ from the fiscal year, which is a 12-month time span used for financial reporting purposes.

Capital allocation: Investing money with the goal of achieving high returns. For example, Warren Buffett takes the money earned by Berkshire Hathaway's subsidiary businesses and reinvests it in the areas that have the highest potential for future profits.

Capital Asset Pricing Model (CAPM): A Nobel Prize–winning theory that tries to explain the relationship between expected return and risk. The formula that underlies the CAPM includes the risk-free rate of interest, a measure of market risk (beta), and a factor of market psychology (the market risk premium). CAPM may also be used to compute the discount rate on equity and other risky investments.

Capital gain: The profit earned on an investment, measured as the difference between the total sale price and total purchase price. For example, if an investor buys a stock for $1,000 and eventually sells it for $1,500, the capital gain would be $500.

Capital loss: The loss realized on an investment measured as the difference between the total sale price and total purchase price. For example, if you buy a stock for $1,000 and eventually sell it for $500 the capital loss would be $500.

Capitalism: A set of beliefs related to the optimal way to run an economy, based on the private ownership of resources and pursuit of profit.

Capitalist: A person who believes in capitalism as the best way to generate economic prosperity.

Capitalized cost reduction: A down payment on the purchase of a new vehicle.

Card verification value (CVV) code: A three- or four-digit number, usually on the back of a credit card, that provides an extra level of security for online transactions.

Carpooling: Commuting to and from work with more than one person. Carpooling saves its participants on gas money and provides a traveling companion to make a commute more interesting.

Cash equivalent investments: Cash or very safe, liquid investments. For example, savings accounts, Treasury bill securities, and commercial paper are considered to be cash equivalent investments.

Cash flow from investing activities (CFI): Cash generated by a firm's long-term investments. For example, Berkshire Hathaway's investment in Coca-Cola generates cash whenever Berkshire receives dividends or sells any stock from Coke. Investments in property, plant, and equipment (PP&E) also fall under CFI.

Cash flow from financing activities (CFF): Cash generated or lost due the issuance/payment of debt, stock, or dividends.

Cash flow from operating activities (CFO): Cash generated from the firm's regular course of operations. CFO usually consists of net income plus non-cash expenses (e.g., depreciation, amortization, or depletion) and changes in net working capital.

Cash out: Selling an illiquid asset and turning it into cash. A common example of cashing out is to sell stock in a privately held investment around the time it first goes public.

Central bank: The "banker's bank" for a specific country or region. Well-known central banks include the Federal Reserve (US), European Central Bank (Euro region), People's Bank of China (China), Bank of Japan (Japan), and Bank of England (United Kingdom).

Certificate of deposit (CD): A financial product offered by a bank that usually has a lockup ranging from 6 months to 5 years. CDs usually pay higher interest rates than checking and savings accounts.

Certified check: A check where the bank verifies or certifies that the funds are available to cover the amount of the check. Certified checks are usually used for important purchases, such as for the down payment on a home. They eliminate the risk that the check will bounce (except in case of a fraudulent certified check).

Certified pre-owned (CPO) vehicle: Newer used cars or trucks that are in good condition with relatively low mileage. They often come with extended manufacturer warranties, tend to be less than 5 years old, and have fewer than 50,000 miles.

Certified public accountants (CPAs): The only accountants permitted to conduct audits in the US. CPAs must attain specific educational credentials and pass a series of exams in order to earn the credential.

Chapter 7 bankruptcy: A type of corporate bankruptcy where the firm's assets are sold, creditors are paid with the proceeds, and the firm ceases to exist afterward.

Chapter 11 bankruptcy: A type of corporate bankruptcy that allows the firm to restructure its debt, while still operating. Many well-known companies, such as General Motors, Kodak, and Macy's, have been through the Chapter 11 process.

Chapter 13 bankruptcy: The most common form of bankruptcy for individuals. The individual must submit a reorganization plan to the court, which involves a listing of all assets, liabilities, and repayment plan. Some debts, such as those from credit cards, are usually forgiven.

Charge card: A credit card–type product where payment in full must occur each month for the account to remain in good standing. In contrast, a credit card only requires its holder make a minimum payment each month for the card to remain in good standing.

Charity: The voluntary giving of help, often of an urgent nature (e.g., hurricane relief efforts). Charity also refers to organizations involved in charitable activities, such as the Salvation Army.

Chartered Financial Analyst (CFA): A professional designation for those working in the fields of security analysis and investment management. CFA candidates must pass three detailed exams and have the requisite work experience in order to receive the CFA charter.

Checking account: A savings account with a checkbook attached to it. It may be used to send cash, after the check clearing process, to a person, company, government, or other organization.

Circular: A newspaper or magazine advertisement sent to consumers, usually through the mail. Circulars often include coupons, providing an incentive to shop for a firm's products or services.

Curriculum vitae (CV): An expanded version of a resume often used in the academic profession. CVs often span dozens of pages unlike resumes, which are often one or two pages.

Classic cars: Vehicles that are generally at least 25 years old *and* also in demand by collectors. Thus, an older Ferrari or Corvette may be considered a classic, but a 25-year-old Camry probably would not be.

Classified (ad): An advertisement designed to sell a product or service. Classified ads originally appeared in newspapers, but they are increasingly found online.

Clearing process: The procedure(s) and amount of time a check or security undergoes in order to be converted to cash. The process may occur virtually instantly in the case of a wire transfer to up to a week for some personal checks.

Closing costs: Expenses incurred on the official sale date of a home. Closing costs include items such as paying for the first month's mortgage, attorney's fees, and property taxes.

Commercial paper: Short-term, investment grade debt issued by companies.

Commission: A fee paid to a salesperson for the sale of a product or service. For example, real estate agents often receive a 6% commission, usually split with their employer and another agent, for the sale of a home they help broker.

Common sizing: A technique to analyze financial statements that enables easier comparisons across firms or for the same firm over time. Items on the income statement are common-sized by dividing by sales. Items on the balance sheet are common-sized by dividing by total assets.

Community college: A post graduate educational institution that offers a two-year degree program, usually called an associate's degree, at a fairly low cost. Also known as junior college, or JUCO.

Comparable firms: Peer firms often used as a basis for comparison, such as in estimating the price of a stock. Often abbreviated as comps.

Conglomerate: A company that is comprised of many unrelated businesses. Berkshire Hathaway is a conglomerate that has business interests in insurance, utilities, railroads, furniture, jewelry, and many other industries.

Consensus estimate: The average estimate of professional securities analysts related to a specific data point. Consensus estimates are commonly generated for earnings estimates, revenue estimates, and price targets of publicly traded stocks.

Consumer Price Index (CPI): A measure of inflation computed by tracking a basket of goods and services purchased by the typical household. In America, the CPI is computed by the Bureau of Labor and Statistics (BLS).

Controlling interest: When one company owns more than 50% of the voting shares of another company.

Cooperative education (co-op): A part-time job for a student while taking courses during the school year, usually resulting in academic course credit. For example, a co-op student may work 20 hours a week at a firm, such as Johnson & Johnson, while carrying a full load of courses during the school year. The student may be awarded 6 credits in a college course (e.g., Co-op 101) for their efforts, as well as payment for their work. As with internships, co-op jobs are often a tryout for permanent, full-time positions.

Co-pay: The partial payment of a bill. For example, a doctor's visit may require a person to pay a $10 co-pay. The remainder of the doctor's bill will be paid by the patient's health insurance provider.

Co-sign: An agreement to pay a loan if the other borrower does not. For example, some parents co-sign a mortgage taken out by children to purchase a home.

Copyright: Legal protection for a work of intellectual property that may only be reproduced with permission of the copyright holder. Examples include books, music, movies, and art.

Correlation: A term that measures how two assets move or don't move together. Mathematically, it's a number that ranges between positive one and negative one. The lower the number, the better the diversification of the portfolio. Similarly, the higher the number, the worse the diversification of the portfolio.

Cost of goods sold (COGS): The cost of producing a product. For example, it costs Apple several hundred dollars to produce an iPhone and Ford tens of thousands of dollars to produce a Ford Mustang.

Coupon: The amount of interest paid on a bond. Most government and corporate bonds pay coupons twice a year, or semi-annually. Decades ago, coupons were attached to bond certificates that were then handed to brokers in order to receive interest payments; hence the name. Outside of the fixed income world, a coupon is a printed or electronic item that provides a discount on a product or service.

Coupon rate: An interest rate calculated as the annual coupon of a bond divided by its face value. For example, if a bond has an annual coupon of $50 and a face value of $1,000, the coupon rate would be 5%.

Cover letter: A letter that often accompanies a resume explaining the applicant's qualifications, fit, and desire for the job.

Crash of 1987: The largest one-day percentage drop in stock prices in US history, which occurred on October 19, 1987, informally known as Black Monday. The Dow Jones Industrial Average fell 22.6% on that *single* day.

Creative destruction: A theory created by Joseph Schumpeter, a Harvard economist during the first half of the 20th century, to explain the tendency of certain new industries to supplant or destroy old industries. For example, the widespread use of the automobile destroyed demand for the buggy whip, a type of horse-drawn carriage.

Credit card: A financial product that allows its holder purchase things in advance of having the money leave their checking or savings account. It is essentially an advance or loan from the credit card company. At least a partial payment of the amount charged to your credit card, the required minimum payment, is due each month.

Credit score: A quantitative measurement of how responsible a person is when they borrow money or pay bills. The range of a credit score is typically between 300 and 850.

Creditor: A person or institution that is owed money. For example, bondholders are creditors of firms that issue corporate bonds.

Cross-selling: A marketing approach that involves selling the customer another product once they have obtained their current product. For example, most credit cards charge no annual fee, but the banks offering them make money by charging interest to their customers that don't pay their bill in full each month. Banks also hope to sell the customer other financial products, such as checking account, mortgages, and wealth management products.

Cryptocurrency: A digital currency that falls outside the boundaries of any country or monetary authority. Bitcoin was the first popular cryptocurrency.

Current assets: Cash or something that is expected to be turned into cash within one year, such as sales on credit (i.e., accounts receivable), inventory, and marketable securities.

Current liabilities: Money owed for a product or service or another financial obligation that is due within one year. For example, employee payroll, rent, or a bond that is about to mature are current liabilities.

Cyclical firms: Companies with sales and profits that vary widely with the economic cycle. The amplitude or volatility of changes in sales and earnings are higher for cyclical firms than for the average firm. For example, the auto and airline industries historically are considered very cyclical.

Debit cards: A financial product tied to either a savings or checking account that allows its owner to access their money without having to carry around physical cash. Cash from a debit card is usually obtained through an automated teller machine (ATM).

Debtors' prison: A prison for people that cannot pay legal financial obligations. Debtors' prisons were abolished at the US federal level in 1833 but still may occur in some form at the state level.

Deductible: The amount that must be paid before insurance benefits will kick in. For example, if a medical plan had a $2,000 deductible, the employee would have to pay $2,000 in out-of-pocket funds before the health care plan paid for amounts over $2,000.

Default: The missing of a full or partial payment of interest or principal on a bond or other type of loan. Technically, a borrower is in default if they are at least a day late or a penny short with their payment.

Default risk: The chance a borrower doesn't pay on time or in full.

Default rate: The percentage of bonds that default over a specified time period, such as one year.

Deflation: Falling prices; the opposite of inflation.

Demand: The amount wanted for a product or service by consumers.

Demand deposit: A financial account offered by a bank, such as a checking account or savings account. The owner can withdraw or demand the full amount of the account at any time.

Democratization of knowledge: A merit-based economic system, espoused by Andrew Carnegie and others, that suggests someone who works hard and becomes educated has an increased chance of being successful.

Dental insurance plans: A benefit provided to employees related to dental needs. Most plans cover basic maintenance treatment, such as bi-annual cleanings and x-rays. However, they usually result in substantial out-of-pocket expenses for complex procedures, such as a dental crown to repair a chipped tooth.

Dental Plan Organizations (DPO): An insurance plan for dental services. The cost of needed procedures is cheaper to be treated by dentists within the network of the DPO.

Depletion: A non-cash expense for natural resource assets, such as an oil well or gold mine. As the oil is removed from the well or gold from the mine, the value of the remaining well or mine goes down in value. Depletion aims to account for this drop in value. It is analogous to depreciation or amortization expense for firms operating in industries that sell natural resources.

Depreciation: A non-cash expense that accounts for wear and tear on a tangible asset. For example, a new car gradually breaks down, so its price generally falls or depreciates over time.

Deposit: An addition to a bank account or other financial account.

Direct PLUS loans: Student loans for parents and graduate/professional students sponsored by the US government.

Direct subsidized loans: Student loans based strictly on financial need sponsored by the US government.

Direct unsubsidized loans: Student loans not based strictly on financial need sponsored by the US government. Colleges will determine how much students can borrow, based on the cost of attendance and how much other financial aid they are receiving.

Disability insurance: Insurance that pays a portion of an employee’s salary if they are unable to complete their work responsibilities due to illness or injury.

Discount bond: A bond with a market price less than its face value (e.g., $900 vs. $1,000). Discount bonds usually exist when the coupon rate is lower than the yield on bonds of similar risk.

Discount rate: The discount rate reduces the value of the future payments by a specified percentage. A dollar received in the future is worth less than a dollar received today due to inflation, risk, and the opportunity to put the dollar in the bank and earn interest. The higher discount rate, the higher the risk of the investment, and vice versa.

Discounted Cash Flow (DCF): An approach to valuing an asset that involves taking the present value of future cash flows.

Disinflation: An increase in prices but at a decreasing rate. For example, a Consumer Price Index (CPI) of 3% in 2018, 2% in 2019, and 1% in 2020.

Disruptive innovation: A phrase used to describe better, faster, or cheaper products or services that make it likely a firm will overtake the current market leader. For example, the iPhone, the first smartphone, was a product that negatively affected other cell phones makers on the market.

Distribution: The process of selling a product or service. For example, Coca-Cola distributes its beverages in more than 200 countries. Distribution involves having a relationship with stores, restaurants, websites, and other ways that enable the sale of a company's product(s).

Diversification: An approach to reducing risk that involves spreading one's assets across a number of unrelated securities. It's the application of the expression "Don't put all your eggs in one basket."

Diversified portfolio: A basket of investments, usually spread across several asset classes, such as stocks, bonds, and cash equivalents.

Dividend yield: the annual dividend of a stock divided by its current price. For example, if a firm paid an annual dividend of $1 and has a current price of $20, its dividend yield would be 5%.

Dividend reinvestment programs (DRIPs): A program where a company lets investors automatically reinvest their dividends to purchase more shares of its stock.

Dividends: A cash payment from a firm to stockholders.

Dollar cost averaging: An approach to investing money in stages rather than in one lump sum. For example, with $10,000 to invest, an investor may choose to invest $2,000 a month for the next 5 months. Dollar cost averaging avoids buying at the peak, but also buying at the low.

Double coincidence of wants: A situation in which both parties want something that the other has, such as in barter transactions.

Double-coupon: Combining discounts from both the manufacturer and retailer. For example, a customer may buy Friendly's ice cream on sale at Stop & Shop and combine it with a manufacturer's coupon from Friendly's.

Double-entry form of bookkeeping: A form of recordkeeping where every entry has an offsetting entry elsewhere in the financial ledger. For example, if a firm issues debt and raises cash, both debt would increase (a credit) and cash would increase (a debit). Double-entry bookkeeping is used in the balance sheet of most publicly traded firms around the world.

Dow Jones Industrial Average (DJIA): The oldest benchmark of US stocks, with a history dating back to 1896. It is a price-weighted average of 30 blue-chip US stocks.

Down payment: A deposit on a home, car, or some other asset that is financed in stages.

Dual mandate: The two primary goals of the Federal Reserve Bank of the US, which are maximum employment and stable prices.

Duplex: A home divided into two apartments or condominiums, with a separate entrance for each.

Early decision: A binding contract that involves applying to a single college or university early (usually in mid to late October of the applicant's senior year of high school). An acceptance, deferment, or rejection letter is usually sent to early decision applicants by mid-December.

Earned income tax credit. A federal tax credit that results in less taxes paid for people who work, as opposed to getting a direct cash payment from the government. The tax credits are generally larger for a person with children.

Earnings before interest and taxes (EBIT): The money a firm earns from its regular course of operations, before certain adjustments. Looking at earnings before interest and taxes allows for easier comparisons to other firms since they often differ by their taxes rates and debt, which is directly related to interest expense. EBIT is informally known as operating income.

Earnings guidance: Management's estimate for a firm's earnings. They often underpromise and overdeliver, resulting in a positive earnings surprise.

Earnings surprise: The difference between a firm's reported earnings and consensus earnings estimates. For example, if a firm reports earnings of $1.10 a share and the consensus estimate was $1.00, the earnings surprise would be $0.10 or 10%.

Efficient frontier: A graph of all of the possible efficient portfolios.

Efficient market: A market where prices adjust quickly *and* appropriately to new information.

Efficient market hypothesis (EMH): A theory that states asset prices quickly and appropriately react to all information and that it is impossible to *consistently* beat the market.

Efficient portfolio: A portfolio that maximizes expected return, given the risk an investor is willing to take. There are a range of efficient portfolios corresponding to the risk tolerances of the diverse range of investors.

Electronic communication network (ECN): An electronic stock exchange, such as Instinet or NYSE Arca. ECNs have no trading floor.

Electric vehicle tax credit: Tax incentives provided by the government to purchase electric vehicles.

Emergency fund: A financial reserve used to pay for unforeseen circumstances, such as the loss of a job or illness. A rule of thumb is an emergency fund should hold at least 6 months of living expenses. Also known as a rainy-day fund.

Emotional intelligence (EQ or EI): A term popularized by author Dan Goleman that measures the ability to recognize, understand, manage, and influence emotions.

Entrepreneur: A person who creates and runs their own business.

Environmental, social, and governance (ESG): An approach to managing a firm that considers all stakeholders (i.e., customers, suppliers, employees, shareholders, community), in contrast to a single-minded focus on maximizing stockholder wealth.

Equilibrium. A state of balance between those demanding a good and those supplying it. This state of balance determines the price of a good or service.

Equity/equities: The formal name for a stock in the singular or plural, respectively. Equity entails an ownership position in a business.

Escrow: Money held by a third party, such as a mortgage servicer, and given to the appropriate firm or person by the due date. For example, a mortgage servicer may hold property taxes in escrow and pay them to the local government on a quarterly basis.

Estate tax: A tax on inherited assets paid before the assets are distributed to heirs.

Exchange traded funds (ETFs): Index-type investment funds that trade intraday like stocks. For example, the SPDR S&P 500 trust (SPY) is a popular ETF that aims to replicate the performance of the S&P 500.

Expansion: The growth phase of an economic cycle. The opposite of contraction.

Extended hours trading: Trading outside the regular market hours of 9:30 a.m.–4:00 p.m. Extended-hours trading may occur before the market opens (4:00 a.m.–9:30 a.m. EST) and after it closes (4:00 p.m.–8:00 p.m. EST). Also known as after-hours trading.

Fair, **I**saac and **Co**mpany: A data analytics firm that computes individual credit scores used by many financial institutions to make credit or loan decisions. Their proprietary model is known as a FICO score.

Face value: The value of a bond at maturity, assuming it doesn’t default. Face value is also known as principal or par value.

Federal Deposit Insurance Company (FDIC): A US government insurance program for bank deposits valued up to $250,000 per account.

Federal discount rate: The interest rate charged when banks borrow from the Federal Reserve.

Federal Housing Authority (FHA): A unit of the Department of Housing and Urban Development (HUD) that insures loans made by private lenders. If the borrower fails to pay the loan, the FHA (backed by the credit of the US government) will ensure the loan is paid.

Federal Insurance Contributions Act (FICA): A payroll tax paid by employees and employers used to fund the Social Security and Medicare programs in the US.

Federal Reserve, or “The Fed”: The central bank of the US. Their two primary goals are to maximize employment and to stabilize prices. They also supervise and regulate most large banks in the US.

Federal Reserve Board of Governors (BOG): The leadership of the Federal Reserve. The BOG consists of seven members who each serve fourteen-year terms. The chairperson is appointed to a 4-year term and may be reappointed by the current US president several times.

Fellowship: An academic scholarship provided to graduate students. Typically, no work is required for fellows, unlike financial support provided by teaching or research assistantships.

Fiat currency: Money declared by a government or some monetary authority to have value. It is not backed by a physical asset, such as gold.

FICO score: A measure of a person’s credit score calculated by **F**air, **I**saac and **Co**mpany, a leading data analytics firm.

Financial ratio: One item on a financial statement divided by another. For example, the current ratio is computed as current assets divided by current liabilities.

Financial statements: Books and records for a firm that are prepared by management and audited by certified public accountants (CPAs). The primary financial statements of a firm are its balance sheet, income statement, and statement of cash flows.

Firm commitment offering: When investment banks guarantee a firm that they will sell a specified amount (e.g., $100 million) of a firm’s securities. For example, Goldman Sachs and Morgan Stanley may guarantee Airbnb that they will raise $5 billion for the firm if they take it public though the initial public offering (IPO) process.

Fiscal year: The year corresponding to the financial statements produced by a firm. It does not have to coincide with the calendar year (January–December). For example, some firms may choose to have a July 1–June 30 fiscal year.

Fixed income securities: A formal name for bonds. The name comes from the observation that that the amount and timing of the cash or income received from owning most bonds are fixed.

Flea market: A place, often outdoors, where dozens, if not hundreds, of vendors sell goods. Each vendor typically sets up a table and places their items on the table for potential customers to examine.

Flexible Spending Account (FSA): A pre-tax account that may be used for health care and childcare expenses. FSA money is "use it or lose it." For example, if an individual declares they will incur $2,000 in eligible FSA expenses and uses only $1,500 over the calendar year, they will lose the remaining $500.

Flight to quality: The gravitation toward safe securities, such as US government bonds, when fear is prevalent due to some financial crisis or shock to the economic system.

Flipper: Someone who sells an asset over a relatively short period of time hoping to earn a profit. Two common examples include selling stock of a firm shortly after its initial public offering (IPO) date or selling a house after purchasing it at a distressed price.

Float: Money earned on the difference between money received and money owed. For example, Berkshire Hathaway's insurance unit collects and invests insurance premiums but eventually must pay out a least a portion of these funds to cover insurance claims.

For sale by owners (FSBO): Real estate, or some other product, listed for sale by the owner. The owner hopes to save money by avoiding the commission paid to a salesperson.

Foreclosed home: A home taken back by the lender after the prior homeowner stops paying the mortgage.

Form 13-F: A form required to be submitted to the Securities Exchange Commission (SEC) on a quarterly basis by all investment managers that have at least $100 million in assets under management. Form 13-F lists all long stock and option positions of the firm. It must be filed 45 days after the end of each quarter. For example, the Form is due approximately February 15, after the end of the fourth quarter (December 31).

Forbes 400: An annual list of the richest people in America published by *Forbes*.

Fractional jet ownership: Partial ownership in a jet or fleet of jets. NetJets, a Berkshire Hathaway company, is one of the largest firms providing fractional jet ownership to its clients. Since the cost of owning an individual jet is extremely expensive, fractional ownership offers the mass affluent customer the opportunity to travel by private jet.

Franchise: An individual or firm authorized to provide a product or service owned by another firm. For example, a McDonald's franchisee may run a McDonald's store. The independent owner, or franchisee, follows the business practices set up by McDonald's and pays McDonald's a percentage of its sales, as well as other fees.

Free application for federal student aid (FAFSA): A form that helps determine student eligibility for financial aid at a college or university.

Free cash flow (FCF): Cash flow after needed (re)investments in a firm. One approximation of FCF equals net income plus non-cash expenses (e.g., depreciation and amortization) minus long-term investments (e.g., capital expenditures) and short-term investments (e.g., changes in net working capital).

Frequent flyer program: A rewards program that provides benefits each time members fly on a specific airline or its affiliates. For example, Delta SkyMiles is the frequent flyer program of Delta Airlines and its affiliates. SkyMiles may be used to obtain free plane tickets, seat upgrades, or to purchase other goods and services.

Fund manager: A person who manages an investment fund, such as a mutual fund, pension fund, or hedge fund.

Future value: A formula that describes the amount at which an investment or loan grows. For a single investment, future value = starting value × (1 + rate of growth)^T. T refers to the number of years in the prior equation.

Garage sale: A sale of pre-owned or used items held by a homeowner on their property. Also known as a yard sale.

Generally accepted accounting principles (GAAP): The set of rules that management must follow when preparing financial statements of publicly traded companies listed on US exchanges. GAAP rules are created and modified by the Financial Accounting Standards Board (FASB).

Generic: When a company places its own label on a product manufactured by an outside firm. For example, many Kirkland Signature products sold by Costco are made by third-party firms. Generic items are sometimes referred to as private label.

Giving Pledge: A philanthropic organization set up by Bill Gates and Warren Buffett where signatories agree in a "handshake agreement" to give away at least 50% of their net worth within their lifetimes or shortly after passing. (Website: https://givingpledge.org/.)

Global portfolio: A portfolio consisting of both domestic and international securities.

Gold Reserve Act: A law passed by Congress in 1934, which required that all gold and gold certificates held by the Federal Reserve be surrendered to the US Department of the Treasury in exchange for currency. Individuals were also expected to exchange their gold for currency. Until the Act, currency held by individuals could be exchanged for gold.

Gordon growth model: A stock valuation model that relies on a simplification of the discounted cash flow approach. The model computes the price target of a stock as next year's dividend divided by the difference between its discount rate and perpetual, or steady state, growth rate. Also known as the constant growth dividend discount model (DDM).

Government-sponsored enterprise (GSE): Quasi-governmental, privately held institutions backed directly or indirectly by the US government. For example, Student Loan Marketing Association provides student loans backed by the credit of the US government. The Student Loan Marketing Association is often referred to by its nickname, Sallie Mae.

Grant: Payment for expenses from some type of governmental organization. College grants do not have to be paid back, unlike money received from a student loan.

Great Recession. The recession that occurred in the United States over the December 2007–June 2009 time period. It was one of the most significant recessions in the US since World War II. The initial effect of the Great Recession was on the US real estate and banking industries, but the damage eventually spread to much of the global economy.

Great Depression: The recession that occurred in the United States over the August 1929–March 1933 time period. It was the steepest downturn in recorded US economic history.

Gross domestic product (GDP). A measure of the economic output of a country over a period of time, such as one year. GDP consists of the sum of consumption, investment spending, government spending, and net exports.

Gross income: Income before any deductions or taxes are taken out. Mortgage lenders often use gross income as one measure of the ability of a borrower to afford a home.

Gross margin ratio: A measure of a firm's profitability computed as gross profit divided by sales. Ratios allow for easier comparisons across companies or over time for the same firm.

Gross profit: Sales or revenue minus cost of goods sold (COGS).

Growth stock: A stock trading at a premium to the market based on a valuation metric, such as price/book or price/earnings. The market expects these firms to grow quickly; hence the premium valuation.

Health maintenance organization (HMO): A medical insurance group that is part of a healthcare plan offered by employers that provides limited choices of doctors and hospitals. Normally, the HMO costs less money than traditional plans since the firm negotiates with health care providers, passing along some of the savings to the employee.

Health savings account (HSA): A pre-tax account that may be used to pay for medical expenses. The amount an individual may put in an HSA increases with inflation. It's currently $3,550 annually for individuals and $7,100 for a family. Any unused dollars in the HSA may be rolled over for use in following years, unlike with a flexible spending account.

High conviction approach: An investment philosophy that involves putting the bulk of one's assets in a relatively small number of investments. The high conviction approach results in highly concentrated portfolios, as opposed to a broadly diversified index fund. The high conviction approach is also known as a best ideas approach to investing.

High net worth (HNW) investors: Rich investors. The most common numerical cutoff for HNW investors is that they have a net worth of $1 million or more, excluding their primary residence.

High yield bond: A bond with a high risk of default, typically rated BB+ or below by S&P or some other ratings agency. The informal name for high yield bonds is junk bonds.

Home equity loan: A loan against the difference between the market value of a home and its mortgage (i.e., the home equity). Generally, home equity loans may be possible if there is more than 20% equity in the home. A home equity loan would then result in two mortgage payments for the borrower—the original mortgage and the home equity loan, often called a second mortgage.

Homeowners insurance: Insurance that covers damage to a home, such as by fire, vandalism, lightning, wind, and hail. Most mortgage companies require homeowners to purchase homeowners insurance as a way to protect the value of their loan.

Income: The amount of money someone makes from their job and other sources. For a company, income refers to the amount it earns, after all expenses.

Income statement: One of the required financial statements of publicly traded firms. It measures profit and loss over a specified period of time, such as one quarter or one year. The income statement is also known as the profit and loss (P&L) statement.

Index fund: A portfolio that tries to replicate the performance of a specified index, such as the S&P 500. Index funds tend to charge low fees and are usually very tax efficient.

Indifference curve: A concept from economics that measures the willingness of a person to trade off things, such as money and free time. For example, a person may be willing to earn $2,000 less per year if they had an extra week of vacation. All points on the indifference curve offer equal happiness or satisfaction. In investments, indifference curves are often used to measure a trade-off between risk and return. The prospect of higher returns usually comes with higher levels of risk.

Individual retirement account (IRA): A common type of retirement account for individuals and those working for small businesses. IRAs may also be used as a vehicle to hold other retirement assets "rolled over" when switching jobs. With traditional IRAs taxes are paid upon withdrawal of the funds, usually at age 59 ½ or later, without incurring penalties.

Industry: A group of companies that compete in related business activities and are similarly affected by government regulations and the macroeconomic environment. For example, Visa, Mastercard, Discover, and American Express compete in the credit services industry.

Inflation: A measure of how much prices increase each year. Inflation is usually measured by the Consumer Price Index (CPI).

Initial public offering (IPO): The first time a company's stock trades on a public exchange. Anyone with enough money can buy shares after the IPO occurs.

Inner Scorecard. An approach Warren Buffett follows that involves living one's life on one's terms, according to one's own self-judgment.

Insurance: A financial product that provides payment in the event of an adverse event. For example, life insurance provides a payment to beneficiaries upon the death of the policyholder. Car insurance provides payment in the event of an auto-related accident.

Insurance premium: An insurance bill, such as payment for car insurance.

Intangible assets: Non-physical assets such as intellectual property but also non-protected items such as trade secrets and publicity.

Intellectual property (IP): Non-physical assets, such as patents, trademarks, copyrights, and brand names. IP usually has some form of legal protection attached to it.

Intelligence quotient (IQ): A measure of cognitive ability, or how a person reasons, calculates, comprehends, and solves problems. IQ is usually measured with a standardized test and has an average value of 100 across the population. According to Warren Buffett, a superhigh IQ (e.g., 150) may actually be a detriment to successful investing.

Interest expense: Money a firm pays investors who hold its debt instruments. It equals the coupon rate times the face value of the firm's debt. For example, if the firm has $100 million of debt outstanding with an average coupon rate of 5%, the interest expense for the year would be $5 million.

Interest income: Money a firm earns from its cash and other interest-bearing investments.

Interest rate: The rate at which one's money grows if saving. The term is usually discussed in the context of a bond or bank product. Alternatively, the rate at which one's debt grows borrowing money, often in the form of a loan or credit card balance.

Internal Revenue Service (IRS): A unit of the US Treasury that is responsible for collecting taxes and enforcing the tax code.

International Financial Reporting Standards (IFRS): The set of rules many international publicly traded companies use to produce their financial statements. IFRS differs in some respects from the rules used by companies trading on American stock exchanges (Generally Accepted Accounting Principles).

Internship: A temporary job held by a student that is often a tryout for a permanent position. Internships are commonly held over the summer but may occur at any time.

Intrinsic value: A reasoned measure of what something is worth. It is often computed with the aid of a discounted cash flow or relative valuation financial model, resulting in a price target.

Inventory: Goods or materials a business intends to sell. It may be a finished product or work in progress, such as a partially built Ford F-150 truck.

Investing domestically: Investing within your home country. For example, an American investor would invest in American stocks.

Investing internationally: Investing outside your home country. For example, an American investor may choose to invest in Chinese stocks.

Investment bankers: People that who work for investment banking firms and engage in investment banking–related activities, such as taking firms public, trading securities, and providing advice related to mergers and acquisitions.

Investment banking firms: Financial firms that help institutions raise capital, trade securities, make investments, and engage in mergers and acquisitions.

Investment grade bonds: Bonds issued by firms with a high probability of meeting their promised payments. They are often rated BBB- and higher by rating agencies, such as S&P. The opposite of investment grade bonds are high yield, or junk, bonds.

Itemize: The process of listing tax deductible expenses on a tax return.

Jumbo mortgage: A large mortgage of at least $484,850 in value that conforms to standards of government-sponsored housing. Jumbo mortgages may be as high as $726,525 in expensive areas, such as New York, Los Angeles, Miami, and San Francisco.

Junior college (JUCO): A higher educational institution that offers two-year degree programs, usually called an associate's degree, at a fairly low cost. Also known as a community college.

Junk bond: A bond with a high risk of default, typically rated BB+ or below by S&P or some other ratings agency. The formal name for junk bonds is high yield bonds.

Landlord: The owner of a rental property or properties.

Large cap: Stocks with a market capitalization greater than $1 billion.

Lawsuit: A dispute brought to a court of law that usually has financial ramifications for both parties. For example, Samsung was subjected to many lawsuits by consumers when its Galaxy Note 7 phone caught fire in several instances.

Lease obligation: Money owed for the use, but not ownership, of a long-term asset. For example, lease obligations may be incurred by companies operating stores in a mall or for an individual leasing a car.

Legacy admissions: Having a familial relationship when seeking admission at a college or university. The most common legacy example occurs when an applicant has a parent who has graduated from the college or university. The rules vary by school, but legacy may also relate to having grandparents, siblings, or other relatives having attended the college or university. Having a legacy relationship often increases the admissions chances of an applicant.

Lenders mortgage insurance (LMI): Insurance that protects the lender in the event the borrower fails to pay the mortgage. LMI is often required on home purchases where the borrower puts less than a 20% down payment. LMI typically results in an extra expense of 0.5% to 1.0% per year on the amount of the mortgage. Also known as private mortgage insurance (PMI).

Liabilities: A financial obligation, often segmented in two categories on a balance sheet. Current liabilities are financial obligations due within one year. Long-term liabilities are financial obligations due at least one year from now.

Life insurance: A financial product that provides payment to beneficiaries in the event of the death of the policyholder.

LinkedIn: A job-oriented social media website that serves as sort of an online resume. It is also one tool to maintain a formal business network. LinkedIn has been owned by Microsoft since December 2016.

Liquidation: The process of selling assets and turning the proceeds into cash. For example, a liquidation process occurs for firms going through the Chapter 7 bankruptcy process.

Liquid asset: An asset that may be sold quickly *and* at fair market value. For example, a Treasury bill is a liquid asset, while real estate is not.

Litigation: The process of taking legal action against a person or institution.

Loan-to-value ratio (LTV): A calculation often used in real estate transactions that examines the size of a loan relative to the value of the property. For example, a $200,000 mortgage loan on a $250,000 home has an LTV ratio of ($200,000/$250,000 =) 80%.

London Inter-bank Offered Rate (LIBOR): An interest rate used as a benchmark for many floating rate loans. LIBOR is computed as an average of short-term interest rates regularly submitted by a group of banks in London.

Long-term assets: Assets that are expected to last or be held at least one year. Examples of long-term assets on a balance sheet include real estate, land, machines, vehicles, and computer equipment.

Long-term investments: Securities that have at least one year to maturity. For example, a 10-year corporate bond or common stock in Coca-Cola on a firm’s balance sheet are considered long-term investments.

Long-term care insurance: Insurance that pays the cost of care after federal insurance for those with chronic conditions. For example, long-term care insurance may pay for the cost of an elderly person, unable to care for themselves, to reside in a nursing home.

Long-term liabilities: Financial obligations due at least one year from today. For example, if a company issues a ten-year corporate bond, the principal repayment and most of the coupon payments are due at least one year from today.

In addition, some companies have pension or health care obligations for retired employees, which are long-term liabilities.

Loss: When the expenses of an organization are greater than its revenues. Financial statements typically measure gains and losses quarterly or annually.

Loss leader: A product that a firm leads with (e.g., a free sample of food) that gives it a loss. However, if the customer purchases another item at full cost (e.g., a regular meal), then the business may ultimately turn a profit. In other words, a product that generates a small loss, with the expectation of a larger gain in the future.

Low-cost producer: A firm that produces a product or service at the lowest cost on a per unit basis.

M1: A narrow measure of the money supply, consisting of physical currency, demand deposits, traveler's checks, and other checkable deposits.

Market capitalization: The price of a stock times the number of its shares outstanding. In other words, the market value of all of a company's stock. It is often simplified as market cap.

Market capitalization weighted index: An index where high market value assets have a bigger effect than low market value assets. For example, if Apple has a market capitalization of $1 trillion and Disney has a market capitalization of $200 billion, a 1% move in Apple would have five times the effect on the index than a 1% change in Disney's price. The S&P 500 is perhaps the best-known market capitalization weighted index. Also known as a value weighted index.

Market makers: Traders on an exchange that are always willing to buy or sell shares in a specific stock. Their role ensures that each buyer can find a seller and each seller can find a buyer.

Market risk premium: A measure of investor psychology and risk tolerance. Formally, it is measured as the difference between the expected return on the (stock) market and risk-free rate of interest. Historically, the market risk premium has been in the 6–7% per annum range, but it varies widely during periods of fear and greed in the market.

Market share: The revenues of a firm divided by the total revenues of its product market or industry.

Medicare: The primary health insurance program for the elderly in the US. Most Medicare recipients are age 65 and older, but the program also provides services to some younger people with disabilities.

Mega cap: A stock with a market capitalization greater than $100 billion.

Micro cap: A stock with a market capitalization of less than $100 million.

Mid cap: A stock with a market capitalization between $1 billion and $10 billion.

Moat: A barrier around a business that reduces or eliminates competition. For example, a patent is a legal barrier to competition that may last up to 20 years.

Momentum: A strategy that involves buying what has gone up in the recent past and avoiding, or selling short, what has gone down in the recent past. Some academic studies find that momentum investing strategies outperform the market over short periods of time (e.g., less than 1 year).

Money factor: A term used in vehicle lease calculators that is related to interest rates. The money factor may be estimated by taking the interest rate applied to the lease and dividing it by 2400. The lower the money factor, the lower the lease payment.

Money orders: A method of sending money if one does not have a checking account. The US post office and Walmart are two places that commonly provide money order services for a small fee.

Money supply: The aggregate amount of money in an economy. There several measures of the money supply, ranging from something as narrow as cash to cash plus various forms of savings deposits and money market funds, among other assets.

Mortgage: A loan to help buy a home in one of its many forms, including an apartment, condominium, single family home, or multi-family home.

Mortgage servicer: A financial firm that collects and processes a homeowner’s monthly mortgage payment.

Mr. Market: A fictional character created by Benjamin Graham to describe the volatile nature of the stock market.

Multiple Listing Service (MLS): The most common database showing real estate for sale used by real estate professionals. Realtor.com, Zillow.com, and Redfin.com are free websites that provide similar information.

Multiple streams of income: Receiving income from several sources, including a full-time job, an investment portfolio, real estate rental income, or other sources.

Municipal bonds (munis): Bonds issued by state and local governments as well as other non-profit institutions, such as schools. Interest income earned from municipal bonds are generally free of federal income taxes.

Mutual fund: An investment product where investors pool their money together and have it invested by a fund manager. Mutual funds are usually purchased in brokerage accounts or through retirement plans.

Nano cap: A stock with a market capitalization less than $50 million.

National Association of Security Dealers Automated Quotation System (NASDAQ): A stock exchange located in Times Square in Manhattan. Unlike the New York Stock Exchange, there is no physical trading floor at NASDAQ. Trades on NASDAQ are completed via interlinked trading systems around the country.

Natural monopoly: A market where there is one seller of a product and the advantage happened naturally (i.e., through the quality of a company's product(s) and its business acumen) or through powerful economies of scale, as opposed to government regulation. For example, Google isn't the only search engine, but it has roughly 80% market share in the US, resulting in it being close to a natural monopoly in search engines.

Net income: Revenue minus all expenses on an income statement. Sometimes net income is referred to as "the bottom line."

Net receivables: Accounts receivable minus an amount estimated by management that is not likely to be collected. For example, many uninsured individuals that go to the emergency room at a hospital may be unable to afford the services they receive and are unlikely to pay in full.

Net sales: Sales minus returns, discounts, and perhaps other allowances.

Net working capital: The difference between current assets and current liabilities. Net working capital is a measure of a firm's short-term liquidity condition.

Net worth: The amount of money one would have after paying off all debts.

New York Stock Exchange (NYSE): One of the primary stock exchanges in the US, located at 11 Wall Street, in Manhattan.

Normalized earnings: Average earnings over a full business cycle, usually a 5- to 10-year period. Normalizing earnings removes some of its cyclicality, especially for economically sensitive firms.

NYSE American: A small stock exchange located in lower Manhattan, primarily known today as a venue for trading exchange traded funds (ETFs). It was previously known as the American Stock Exchange (AMEX).

Odd lot: A trade of less than 100 shares of a stock. Historically, transaction costs were higher if an investor purchased less than 100 shares, but the threshold is not very meaningful in today's markets dominated by electronic trading.

Odd lot trading desk: The place odd lot orders, those with less than 100 shares, are routed to for trading. Today most trading is done through purely electronic venues, so the distinction is not very meaningful anymore.

Open market operations: A tool of the Federal Reserve that refers to its ability to buy and sell securities, which indirectly influence interest rates across the entire maturity spectrum. Open market operations are usually conducted by the New York branch of the Federal Reserve.

Operating income: The money a firm earns from its regular course of operations, before interest, taxes, and other one-time items. Operating income is more formally known as earnings before interest and taxes (EBIT).

Optimal portfolio: The basket of investments custom-tailored to a specific investor that maximizes the portfolio's risk-adjusted expected return. Mathematically, the optimal portfolio is the point of tangency between the efficient frontier and an investor's indifference curve.

Outer scorecard. An approach discussed by Warren Buffett that involves living one's life concerned to a great extent about what others think about one's actions.

Outsourcing: The process of having an external firm produce a product or service. For example, Apple outsources the production of the iPhone to Foxconn, a multi-national electronics manufacturer.

Overdraft protection: Insurance protection for a checking account that will cover the amount of a bounced check up to a limit, such as $500.

Overhead: An informal name for selling, general, and administrative (SG&A) expenses. Overhead primarily relates to the cost of paying employees and real estate. Overhead, or SG&A, is in contrast to the cost of producing a product, formally known as cost of goods sold (COGS).

Outlet store: Discount stores, at least relative to the full prices charged by the parent's primary store concept. For example, Nordstrom Rack is the outlet brand of Nordstrom, Inc., a luxury department store. The outlet stores frequently offer older items or clearance items in order to keep prices down.

Over the counter (OTC): A decentralized market, in contrast to transactions completed on an exchange with a physical location. Originally, customers would walk up to a counter at a brokerage firm and request a trade; hence the name.

Par bond: A bond with a market price equal to its face value, usually $1,000.

Parent loans: Loans offered to parents from private banks to help their child pay for college. Private student loans are generally more expensive than federally sponsored student loans.

Passbook savings account: A financial product offered by most banks. Historically, a physical book accompanied the account. Today most account information is stored electronically, so they are usually referred to simply as savings accounts.

Patent: A form of intellectual property that prevents competitors from producing the same product or service for a period of time lasting up to 20 years upon issuance. Firms may license their patents for payments, generally known as royalties.

Pawn shop: A place to sell items of value with the option to repurchase them at a higher price within 1 to 4 months. Consumers may also buy items at pawn shops without having to sell anything. Consumers who sell items to a pawn shop are essentially taking out a loan, collateralized by the item(s) they sell.

Paying it forward: A concept or belief that involves helping others if one has benefited from someone else's generosity in the past.

Payout ratio: The percentage of earnings paid out each year as dividends. For example, if a firm has earnings of $10 a share and pays a dividend of $4 a share, its payout ratio would be 40%.

P/E relative valuation model: A model that values a firm as the product of its one-year ahead earnings estimate and its industry-adjusted P/E. For example, if AT&T is projected to earn $4 a share next year and the appropriate industry P/E multiple is 10 times earnings, then the P/E relative valuation model would value AT&T at ($4 × 10 =) $40 a share.

Pension plan: A retirement plan for individuals, usually tied to years of service and annual salary shortly before retirement. For example, a policewoman who worked 30 years for a town may receive a fraction (e.g., 70%) of the average of her last 3 years of annual salaries before retirement. The pension plan is managed by the company, or a representative firm, rather than the individual.

Perk: A benefit provided to employees, usually in the form of non-cash compensation. For example, health insurance and life insurance are two common perks provided to full-time employees. Perk is more formally known as perquisite.

Personal financial literacy: The ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being.

Personal identification number (PIN): A 4- to 6-digit passcode often tied to a debit or credit card for security reasons. It is often required to access an automated teller machine (ATM).

Philanthropy: Volunteer efforts that usually focus on long-term solutions and active engagement. For example, the Bill and Melinda Gates Foundation is a philanthropic organization.

Plowback ratio: The proportion of earnings a firm retains. For example, if a firm earns $10 a share, retains $6 a share, and pays out $4 a share in dividends, its plowback ratio would be 60%. The plowback ratio is also known as the retention ratio.

Point: A dollar change, or a change in the unit of currency being used. If a stock went up 2 points, in the US it means 2 dollars. In Germany, it would mean 2 euros. In Great Britain, 2 pounds. The term “point” also applies to a market index, such as the Dow Jones Industrial Average (DJIA) or S&P 500.

Poor borrowers: The lowest possible credit rating for an individual. The term “poor borrowers” often applies to individuals with a credit score in the 300 to 580 range. Individuals with poor credit scores usually have missed several payments on prior credit accounts and, in some cases, have previously declared bankruptcy.

Portfolio: A basket of investments.

Preceptor: Usually an upper-class student (i.e., a junior or senior) who acts as a sort of counselor and administrator on a college dormitory floor. The preceptor usually does not have to pay for their housing and sometimes receives some additional pay.

Pre-foreclosure: A property where the current owner has missed payments and one that the lender is likely in the process of taking back.

Preferred provider organization (PPO): A healthcare organization that offers a hybrid plan between a traditional health care plan that permits wide choices among doctors and hospitals and a health maintenance organization (HMO) plan that restricts choices. Costs are lower for staying in the health plan’s network, but the flexibility exists to be treated by doctors and hospitals out of network at a higher cost.

Premium bond: A bond with a market price greater than its face value (e.g., $1,100 vs. $1,000). Premium bonds usually exist when the coupon rate on a bond is higher than the yield on bonds of similar risk.

Prescription drug benefit plan: A benefit provided to some employees that allows them to purchase prescription pharmaceutical products at attractive prices. Usually, the plan holder is responsible for a co-pay of $3 to $10 per prescription.

Present value (PV): A formula that describes the amount one would be willing to pay today for receiving a specified amount money in the future. Present value = future value / $(1 + \text{rate of growth})^T$. T refers to the number of years the investment is held.

Price target: An estimate of the value of a stock or some other asset.

Price-to-earnings (P/E) ratio: The price of a stock divided by its earnings per share. For example, if a stock is priced at $20 a share and the firm has earnings per share of $2, its P/E ratio would be 10.

Price weighted index: An index where high-price assets have a bigger effect than low-price assets. For example, if Boeing had a price of $150 a share and

Coca-Cola had a price of $50 a share, a 1% move in Boeing would have triple the effect on the index than a 1% change in Coke's price. The Dow Jones Industrial Average (DJIA) is perhaps the best-known price weighted index.

Primary market transaction: The sale of securities (e.g., stock or bonds) by a company. The money received from the sale goes into the corporate treasury.

Prime borrowers: Customers that have the best credit ratings according to a FICO score, or some other measure of creditworthiness. The typical FICO range for individuals in the prime category is 740 to the (current) maximum of 850.

Prime rate of interest: The interest rate a bank charges its customers with the strongest credit ratings.

Principal: The face value or par value of a bond that is returned at maturity.

Private label: When a company places its own label on a product manufactured by an outside firm. For example, many Kirkland Signature products sold by Costco are made by third-party firms. Private label items are sometimes referred to as generic.

Private mortgage insurance (PMI): Insurance that protects the lender in the event the borrower does not pay the mortgage. PMI is often required on home purchases where the borrower puts less than a 20% down payment. PMI typically results in an extra expense of 0.5% to 1.0% a year on the amount of the mortgage. Also known as lenders mortgage insurance (LMI).

Private student loans: Loans taken out by a student, typically offered by a bank. They are often co-signed by a parent or another creditworthy individual. Private student loans generally have higher interest rates than those sponsored by federal loan programs.

Progressive tax rates: Tax rates that increase in percentage terms as income increases. For example, the tax rate may be 10% on the first $10,000 earned, then 15% for any amount greater than $10,000 and less than $40,000, and it keeps increasing until the highest tax bracket is reached. In the US there are currently 7 tax brackets at the federal level, with the highest (for a single filer) of 37% at income levels above $510,301.

Profit: The money received from selling a product, service, or asset after any expenses.

Profit and loss (P&L) statement: One of the required financial statements of publicly traded firms. It measures profit and loss over a specified period of time, such as one quarter or one year. The profit and loss statement is also known as the income statement.

Profit margin: A measure of a firm's profitability expressed as a percentage of sales. It is usually computed as net income divided by sales.

Property, plant, and equipment (PP&E): Long-term assets held by the firm related to land (property), buildings (plant), and machines (equipment). For example, Walmart’s stores, distribution centers, and trucks all count toward its PP&E.

Property taxes: Taxes paid by a homeowner or institution to a local government. The taxes collected are used to pay for the local government’s expenses, such as to support its schools, police department, and fire department.

Publicly traded stocks: Securities that trade on a stock exchange. Anyone with enough money may purchase them through a brokerage account.

Purchasing power: The ability to buy something, often adjusted by inflation.

Quantitative easing (QE): A tool of the Federal Reserve to lower intermediate and long-term interest rates when short-term interest rates are at or close to 0. The Fed aims to accomplish this task buy purchasing bonds backed by the US government, such as US Treasuries and government-sponsored mortgage-backed securities.

Quarterly reports: Financial statements that are produced on a quarterly basis by publicly traded companies. The primary reports are the income statement, balance sheet, and statement of cash flows. Private firms usually produce their own financial statements but aren’t required to disclose this information to the public.

Quota: A minimum sales hurdle that a salesperson must meet to stay employed in good standing.

Raise: A permanent increase in pay.

Rainy-day fund: Money put aside to pay for unexpected expenses, usually in a safe investment vehicle, such as cash equivalent investments. One rule of thumb for a rainy-day fund is that it should amount to at least six months of living expenses. Also known as an emergency fund.

Random walk hypothesis: A popular name for the efficient market hypothesis (EMH), which states that it is impossible to *consistently* beat the market.

Rating agencies: Firms that measure the ability of a company, or other institution, to meet its debt obligations. In the US, the largest rating agencies are S&P, Moody’s, and Fitch.

Ransomware: Software that hijacks someone’s computer, typically encrypting files without the owner’s permission. The writer of the ransomware often demands payment in Bitcoins or some other difficult-to-trace equivalent.

Recession: An economic downturn in a country often approximated by an economy experiencing two consecutive quarterly drops in its gross domestic product (GDP).

Recovery rate: The amount of money (e.g., 70 cents on the dollar) that bondholders, or other creditors, receive during bankruptcy proceedings.

Rent: Payment for use of a property or land, such as a home, office, or farm.

Refinance: Paying off an old loan and replacing it with a new loan, usually at lower rate. For example, if a homeowner had a mortgage with a 5% interest rate, they would save money if they refinanced the old mortgage and took on a new one with an interest rate of 3.5%. One rule of thumb is that the new interest rate should be at least 1% less than the existing interest rate on the loan for a refinancing transaction to make financial sense, net of fees.

Required minimum payment: The minimum amount that must be paid on a monthly credit card bill to keep it in good standing or “turned on.” The required minimum payment varies by credit card company, but typically amounts to 3% to 5% of the credit card balance.

Reserve requirements: The amount of money a bank has to keep in the vault, either literally or electronically, on reserve with the Federal Reserve. The reserve requirement in the US has been 10% in recent years for most banks but was temporarily changed to 0% in the recession that followed the COVID-19 pandemic.

Reverse (stock) split: An accounting transaction where the number of shares owned are reduced, and the price per share goes up. For example, if an investor owned 1000 shares of a stock trading at $1 a share, after a 1-for-10 reverse split, they would own 100 shares of a stock now trading at $10 a share. A reverse split is similar to trading two $5 bills for one $10 bill. Sometimes companies reverse-split their stock to remain on a stock exchange, which usually have a minimum price requirement of $1 a share.

Research and development (R&D): Funds invested to create new products or services. For example, funds spent by a pharmaceutical firm to develop a vaccine would be counted as part of a firm’s R&D.

Resume: A document listing one’s qualifications for a job. It often includes sections covering work experience, skills, and educational credentials.

Retail apocalypse: A theory that suggests many traditional brick-and-mortar businesses will not survive after competing with e-commerce giant Amazon.com and large hybrid firms, such as Walmart/Walmart.com, and Costco/Costco.com.

Retained earnings: The sum of the company’s profits since it started minus any dividend payments over its history.

Retention ratio: The proportion of earnings a firm keeps. For example, if a firm earns $10 a share, retains $6 a share, and pays out $4 a share in dividends, its retention ratio would be 60%. The retention ratio is also known as the plowback ratio.

Return on investment (ROI): The amount at which one's money grows, or falls when losing money. ROI is often calculated as the difference between the price at which you bought and sold the asset, plus any cash flows received from the investment, all divided by the initial cost of the investment. For example, if you purchase a stock for $10, receive $1 in dividends over the course of the year and then sell it for $12 exactly one year after purchase, the ROI is 30% (= $12 + $1 – $10)/($10). ROI is often annualized to enable easier comparison to other investments.

Reward(s) programs: Programs offered by companies that provide cash back, airline tickets, or some other type of benefit. The more one spends on the company's products and services, the greater the rewards. For example, Dunkin' Donuts' rewards program is called DD Perks and provides its members with free coffee, donuts, and other items. Rewards programs are also widely offered by credit card firms.

Revenue: The amount of money a firm earns over a specified time period, such as a quarter or year. Revenue may also be called sales, or turnover outside the US.

Risk: The possibility of loss or injury.

Roadshow: When an investment banking team takes the senior management of a firm to meet with potential investors, such as before an initial public offering (IPO).

Roth IRA: A type of retirement account for individuals and those working for small businesses. Taxes are paid up front with the Roth IRA and withdrawals are then tax free upon retirement. In contrast, with a traditional IRA, contributions are tax free, but taxes are paid upon withdrawal, usually at age 59 ½ or later.

Round lot: A trade of 100 shares or more of a stock. Historically, transaction costs were lower if an investor purchased at least 100 shares, but the threshold is not very meaningful in today's markets dominated by electronic trading.

Royalty: Payment to an artist or author for a sale of their work, such as a movie, book, song, or television show. In the business world, royalties may also apply to patents or other forms of intellectual property.

Run on the bank: When a large group of depositors demand to take their money out of the bank, overwhelming its liquidity.

Safe haven: Investments that usually perform well when the stock market or economy are having problems. Common examples of safe haven investments include US Treasury securities, gold, and Swiss government bonds.

Salary: The fixed part of a person's compensation, usually paid bi-weekly or monthly.

Sales: The amount of money a firm earns over a specified time period, such as a quarter or year. Sales may also be called revenue, or turnover outside the US.

Sales tax: A tax that goes to the government for sales of goods or services. Sales taxes vary widely by state, currently ranging from 0% to more than 11%.

Savings Accounts: A financial account offered by most banks. Savings accounts are considered "demand deposit" instruments, so the customer may withdraw the full balance anytime. Amounts up to $250,000 are usually guaranteed by the Federal Deposit Insurance Company (FDIC).

Scholarship: Payment for college expenses from the college, its alumni, corporations, or nonprofit organizations. Scholarships do not have to be paid back, unlike a student loan.

Secondary or seasoned offering: The sale of securities by a firm that is already publicly traded.

Secondary market transactions: The purchase or sale of securities that were previously issued. For example, a transaction where an investor buys 100 shares of Apple stock on NASDAQ. The firm, Apple in this case, gets no money from these trades. Outside investors are simply exchanging shares for money.

Sector: A way of categorizing investments that comprises a group of industries. For example, the technology sector consists of a number of industries, including software, semiconductor, and information technology services.

Securities Exchange Commission (SEC): A unit of the US Justice Department that is regarded as the watchdog of American financial markets. The SEC requires public companies to produce audited financial statements and pursues allegations of insider trading and market manipulation activities, among its many other responsibilities.

Security market line (SML): The main equation that underlies the Capital Asset Pricing Model (CAPM). It theorizes a straight-line relationship between expected return and risk. The SML includes the risk-free rate of interest, a measure of market risk (beta), and a factor of market psychology (the market risk premium).

Self-employment tax: Tax paid by self-employed individuals to fund Social Security and Medicare. It is analogous to Federal Insurance Contributions Act (FICA) payments from those workers who are not self-employed.

Selling, general, and administrative (SG&A): The costs a firm incurs primarily related to paying employees, use of real estate, utilities, computers, and other items. SG&A is informally known as overhead. SG&A differs from the cost of producing a product, formally known as cost of goods sold (COGS).

Selling short: A way to profit from the decline in the price of an asset, such as a stock. Selling short involves selling *first* and then buying at a later date. For example, if an investor sells short a stock for $100 and it later falls to $70, the investor will have earned a profit of $30 per share if they closed the position.

Sensitivity analysis errors: The wide variation in price targets that often occur due to a small change in the inputs, such as the discount rate or terminal growth rate.

Shareholders: Individuals or institutions that own stock in a business. Also known as stockholders.

Shareholders' equity: Total assets minus total liabilities on a firm's balance sheet. Also known as stockholders' equity, owners' equity, net worth, or book value (of equity).

Shares outstanding: The amount of shares held by all investors in a firm.

Short sale (real estate): The sale of a property for a price less than the current mortgage. Purchasing a short sale property is often a good deal for the buyer. The seller usually needs approval from mortgage company to finalize the sale of the property.

Short squeeze: When an investor is forced to cover a short position by their broker, often against their preference.

Simplified Employee Pension (SEP) or SEP IRA: A common retirement plan used by small businesses. The SEP IRA requires less paperwork than a traditional pension plan. The amount contributed is often tied to the profitability of the business, generally offering higher contribution limits relative to traditional IRAs.

Slumlord: A landlord that spends little money on maintenance and repairs on a rental home and who often rents properties to low-income people.

Small cap stocks: Stocks with a market capitalization less than $1 billion.

Special dividend: A one-time or non-recurring dividend, often paid because of a temporary large gain, or for tax-related reasons.

Stakeholders: Any person or entity affected by the operations of a firm. For example, stakeholders include employees, stockholders, suppliers, and the community at large.

Standard and Poor's 500 (S&P 500): A group of 500 large, high-quality exchange-traded American stocks. The S&P 500 is the most popular US stock benchmark for investment professionals.

Standard deduction: The amount that may be subtracted from gross income for income tax purposes. The current standard deduction for single filers in the US is currently $12,400. If tax-deductible expenses exceed the standard deduction threshold, then a taxpayer could reduce their tax bill by itemizing their deductions.

Standard deviation: A quantitative measure of dispersion of a variable that is computed as the square root of the variance. Standard deviation is often used as a measure of risk by academics and is more intuitive to work with than variance.

Starter home: A first home often sold at a relatively low price. Over time many people trade up to a nicer home; hence the starter name.

Statement of cash flows: One of the three primary financial statements of publicly traded firms. It provides a measure of cash that flows into and out of a business. The statement of cash flows has three sections: cash flow from operating activities (CFO), cash flow from investing activities (CFI), and cash flow from financing activities (CFF).

Statement of financial condition: One of the three primary financial statements of publicly traded firms. Assets are on the left-hand side of the statement of financial condition, and claims to assets are on the right-hand side. Claims to assets consists of liabilities and equity. The statement of financial condition is more commonly known as the balance sheet. It is also known as the statement of financial position.

Statement of financial position: One of the three primary financial statements of publicly traded firms. Assets are on the left-hand side of the statement of financial position, and claims to assets are on the right-hand side. Claims to assets consists of liabilities and equity. The statement of financial position is more commonly known as the balance sheet. It is also known as the statement of financial condition.

Stop payment: An attempt to cancel a payment, usually from a check that has been previously sent.

Stock: A financial security that represents part ownership of a business.

Stock split: An accounting transaction that changes the number of shares outstanding, and also the stock price. For example, before a 2-for-1 split, assume a stock is trading at $50 a share and there are 1 million shares outstanding. After the split, there would be 2 million shares outstanding, but the price would initially adjust to $25. A stock split is analogous to changing a $10 bill for two $5 bills. The total amount of money, $10, is still the same.

Stockholders: Individuals or institutions that own stock in a business. Stockholders are also known as shareholders.

Style box: A graphical representation of two dimensions of a stock, its valuation and size. Valuation ranges along the value–growth spectrum, and size is represented by market capitalization.

Subprime borrowers: Customers with weak credit ratings. They fall below Alt-A borrowers in creditworthiness and the corresponding borrowing rates. The typical FICO score for a sub-prime borrower falls under 670, although under some scales, the FICO score is below 620.

Super-prime borrowers: Customers that have the very best credit ratings according to a FICO score, or some other measure of creditworthiness. The typical FICO range for super-prime category is from 780 to the (current) maximum of 850.

Survival of the fittest: A theory proposed by biologist Charles Darwin that attempts to explain how organisms evolve over time. In the context of capitalism, the theory may refer to strong firms gaining market share and, in some cases, putting weaker ones out of business.

Supply: The amount of a product or service created by producers.

SWIFT code: SWIFT is the acronym for the Society for Worldwide Interbank Financial Telecommunication. The SWIFT code is a number that corresponds to select international financial transactions of a bank, such as a wire transfer.

Syndicate: A group of investment banks that combine efforts to sell securities to the public, such as during an initial public offering (IPO).

Tax brackets: Ranges that have different tax rates. For example, the tax rate may be 10% on the first $10,000 earned, then 15% for any amount greater than $10,000 and less than $40,000, and so on until the highest tax bracket is reached. In the US there are currently seven tax brackets at the federal level, with the highest (for a single filer) of 37% at income levels above $510,301. Most states charge additional income taxes as well.

Tax rate: The percentage of income, or sometimes sales, owed to the government. For example, the federal corporate tax rate is 21% at the highest levels, for most large, profitable companies in the US.

Tax tables / schedules: A table that displays the amount of tax owed for specific levels of income. There are often several tax brackets, so computing taxes owed is often more complex than simply multiplying total income by the relevant tax rate; hence the need for the tax table.

Teaser rate: A low, temporary interest rate offered by banks for credit cards or other financial products.

Term loan: Another name for a bank loan, especially when the borrower is an institution. Terms loans are usually paid before corporate bonds, so they tend to be safer from a credit risk perspective for the same issuer.

Term structure of interest rates: A table that shows the relationship between the time to maturity and yield to maturity of a bond. The term structure is often graphed as a yield curve.

The Wall Street Journal (WSJ): The most popular business periodical in the world, with a history dating back to 1889. Dow Jones & Company, publisher of "The Journal," also produces the Dow Jones Industrial Average (DJIA), the oldest stock market index in the US.

Thrift shop: A place that sells donated goods. Thrift shops are often run by charitable or nonprofit institutions. Goodwill Industries is one of the largest firms in the thrift shop industry. Thrift shops typically sell many items at low prices, including clothes, shoes, books, toys, sporting goods, electronics, and home furnishings.

Thrifty: Being careful, smart, and not wasteful with one's money. Frugal, but not cheap. Warren Buffett proudly claims to be a thrifty person.

Ticker tape machine: A machine that provided stock quotes before computers became widespread.

Ticker tape parade: A parade where ticker tape is thrown out the window to honor those responsible for a notable accomplishment, such as the New York Yankees winning the World Series. In Manhattan, ticker tape parades often occur down Broadway. Today, ticker tape parades use shredded paper or some other form of confetti.

Title insurance: Insurance designed to protect the buyer in the event that the seller didn't own the home "free and clear" before it was sold.

Tombstone: An advertisement in a business-oriented periodical noting securities that will soon be sold to the public, such as during an initial public offering (IPO).

Top line: A nickname for sales or revenue since it usually the first or top line in a firm's income statement.

Total assets: The sum of the left-hand side of the balance sheet. Total assets equals current assets plus long-term assets. Current assets are cash or something that is expected to be turned into cash within one year, such as a sale on credit. Long-term assets may include real estate, machines, stores, website infrastructure, or something intangible, such as a patent or brand name.

Total capital: The amount of debt plus equity in a firm.

Total liabilities: The sum of a firm's financial obligations on its balance sheet. Total liabilities consists of current liabilities plus long-term liabilities.

Trade or vocational school: A school focused on practical courses and the hands-on learning experience of a specific trade. For example, someone usually learns to become a mechanic at a trade school, rather than at a traditional college or university.

Trademark: A symbol or word(s) used to represent a company or product that has legal protection. For example, the Nike "swoosh" symbol is a trademark of Nike. Other firms are prohibited from creating shoes or athletic apparel with a similar design.

Traditional health care insurance plan: A health care plan provided to employees that allows for wide choices among doctors and hospitals. It is usually the most expensive health care plan offered by employers.

Transmitting money: The process of sending or receiving money, including wire transfers, money orders, checks, traveler's checks, and cryptocurrency.

Traveler's checks. A substitute for cash when traveling internationally. The business was popularized by American Express. Traveler's checks are used less today due to the widespread availability of credit cards and other forms of electronic payment.

Treasury Inflation Protected Securities (TIPS): A type of bond issued by the US Treasury. The coupon received by investors increases with the Consumer Price Index (CPI), protecting them from inflation. TIPS are issued with maturities of 5, 10, and 30 years.

Triple-coupon: Combining three coupons in a single purchase. For example, a customer may buy Friendly's ice cream on sale at Stop & Shop and combine it with a manufacturer's coupon from Friendly's, while also submitting a coupon from Stop & Shop that provides $10 off on purchases of $25 or more.

Trust(s): A legal entity designed to protect or transfer assets, often across generations, and minimize taxes.

Tycoon: A rich businessperson. Tycoon is synonymous with baron.

Under the mattress: An expression for storing money in a safe place in one's home, or somewhere else that is readily accessible and perceived as safe. No interest is earned. In the aftermath of the Great Depression, many people lost trust in banks and stored money in their homes, often under their mattress; hence the moniker.

Underwriter: The investment bank that offers to buy shares from a company and sell them to the public. To reduce risk, there is often a group of underwriters with one or more firms acting as the lead underwriter(s).

Unemployment rate: The percentage of people in an economy that are not able to obtain work *and* are looking for a job.

US Department of Housing and Urban Development (HUD): A branch of the federal government that plays a key role in the real estate market, especially in the area of affordable housing.

US Department of Veterans Affairs (VA) Loan: A loan offered to veterans of the US armed forces that may be obtained with as little as nothing down.

US savings bonds: Bonds issued by the US Treasury to individuals. The most common types are Series EE and Series I. The maximum purchase amount each calendar year for a single social number is $10,000. US savings bonds may be purchased at TreasuryDirect.gov.

US Treasury: The branch of the US government that is responsible for managing its finances and collecting taxes.

U.S. Treasury bills (T-bills): Short-term income securities issued by the US government that are often viewed as “cash equivalents.” T-bills are safe, liquid investments but usually barely keep up with inflation over time, especially on an after-tax basis. The most common maturities upon issuance are 4, 8, 13, 26, and 52 weeks.

Value weighted index: An index where large market capitalization assets have a bigger effect than small market capitalization assets. For example, if Apple had a market capitalization of $1 trillion and Disney had a market capitalization of $200 billion, a 1% move in Apple would have five times the impact on the index than a 1% change in Disney’s price. The S&P 500 is perhaps the best-known market capitalization weighted index. A value-weighted index is also known as a market capitalization weighted index.

Vintage clothing: Pre-owned or used clothing.

Value stock: A stock trading at a discount to the market based on a valuation metric, such as price/book or price/earnings.

Value investing: An investment approach that tries to buy assets at a deep discount to their true prices or intrinsic values. Value investors often buy stocks with low P/E ratios, low price/book values, and high dividend yields.

Variance: A quantitative measure of the dispersion of a variable, such as the rate of return on an investment, from its average. Academics often use it to quantify risk. The square root of the variance is the standard deviation, another widely used measure of risk.

Voided check: A cancelled check. Sometimes a voided check is needed to set up a direct debit from a checking account to pay a bill. Usually the word "void" is written on the check to make one's intensions clear that it should not be cashed by anyone.

Wall Street: A street in lower Manhattan, but the term usually refers to large firms at the center of the American financial system, regardless of location.

W-2: A tax form that lists annual wages paid to employees and taxes withheld.

W-4: A tax form that provides instructions regarding the amount of money to be withheld from each paycheck.

Warranty: A contract that covers the repair of a product that develops problems within a specified period of time. For example, news cars often come with a warranty that fixes any problems for the first few years of ownership.

Wilshire 5000: A stock market index that aims to track all US publicly traded stocks. Originally, the Wilshire 5000 was comprised of approximately 5,000 stocks. Today, the index tracks roughly 3,500 stocks.

Wire transfer: Payment from one financial account to another where the funds are guaranteed. A wire transfer is often used for important purchases, such as for the down payment on a home. It is extremely difficulty to cancel a wire transfer after it has been sent, in contrast to a traditional check. There is often a fee, typically in the $25 to $50 range, to send a wire transfer.

Withdrawal: The removal of funds from a bank account or other financial account.

Whale: An expression for a very large investor. Warren Buffett is considered a whale investor.

Work study: On-campus jobs provided to a student by the college itself, often as part of a financial aid package. These jobs may include a variety of positions, such as working in a computer lab, library, or student housing.

Yard sale: A sale of pre-owned or used items held by a homeowner on their property. A yard sale is also known as a garage sale.

Yield: The cash flow expected to be received from a security divided by the value of the security. It is expressed as a percentage. For example, if a bond pays a 5% coupon and has a market price of $1,000, the yield would be 5% ($50/$1,000).

Yield curve: A graph of the relationship between the time to maturity and yield to maturity for a series of bonds with the same credit risk. For example, a graph of the yields of all US Treasury debt, ranging from those about to mature to bonds with 30 years until maturity.

Yield to maturity: The discount rate for a bond. It is the market's estimate of the average annual return that comes from holding the bond until it matures.