

Financial Glossary

THOMAS KRALOW

Basic Concepts

Financial literacy is the ability to effectively manage your finances, including understanding financial products, taxes, investments and credit.

Financial goal is a specific result that a person seeks to achieve within a set period of time at a certain monetary time and cost.

Personal financial plan is a document that clearly outlines financial goals and a step-by-step plan to achieve them.

Budgeting is the process of planning monthly income and expenses and managing savings to help control current finances.

Zero-Based Budgeting (ZBB) is a method in which planned expenditures are determined from zero for each period, without taking previous budgets into account.

Cash envelope system is a method in which money is distributed into envelopes for different categories of expenses.

The 50/30/20 Rule is an approach that divides monthly income into three main categories: 50% – Needs, 30% – Wants, and 20% – Savings and Debt.

Financial cushion is a cash reserve fund for emergencies.

Savings is money you set aside for future use without risking it. It generates almost no income, but only covers inflation.

Accumulations are the use of various low-risk financial instruments to multiply money.

Inflation is the process of increasing the general price level of goods and services.

Deflation is the process of lowering the general price level.

Consumer Price Index (CPI) reflects changes in the cost of consumer goods and services.

Revenues and Expenses

Passive income is income from activities in which you are not actively involved (e.g., renting real estate).

Investment (portfolio) income is money generated from investments, such as dividends and interest.

Fixed costs are predictable expenses such as rent or loan repayments. They form the basis of the budget strategy.

Variable expenses are expenses that can change, such as utilities, entertainment, and food.

Current expenses are regular expenses such as transportation or groceries.

Capital expenses are expenditures that have a long-term effect, such as the purchase of large machinery.

Emergency expenses are unforeseen costs for which you cannot prepare, such as vehicle repairs.

Assets are resources that generate income.

Liabilities are 1) debts or obligations that a company or individual owes to others; 2) items that do not increase your income and require expenditures.

Net worth is the difference between what a person or company owns (assets) and what they owe (liabilities).

Credits and Loans

Credit is the ability to borrow money or access goods or services with the promise to pay later.

Consumer loan is money borrowed by an individual to purchase personal goods or services, which is repaid with interest over time.

Vehicle loan is money borrowed to purchase a car, which is repaid with interest over a set period.

Personal loan is money borrowed by an individual for various personal expenses, repaid with interest over a set period.

Mortgage is a loan used to purchase real estate, where the property serves as collateral, repaid with interest over a long term.

Credit card is a financial instrument that facilitates short-term borrowing and transactions, allowing users to make purchases or withdraw cash on credit.

Student loan is a type of financial aid that helps students pay for higher education expenses, typically repaid with interest after graduation or leaving school.

Federal Student Loans are loans provided to students by the government.

Grace period is a set amount of time after a payment is due during which no late fees or penalties are charged.

Loan forgiveness is a release of the borrower from the obligation to repay all or part of the loan.

Collateral is an asset provided as security for a loan.

Simple interest is interest accrued on the principal amount of the debt.

Compound interest is interest accrued on the principal and on accumulated interest.

Debt consolidation is combining multiple debts into one to simplify debt management.

Credit score is a numerical expression of a person's creditworthiness.

Credit history is the history of all credit transactions and payments of the borrower.

Credit limit is the maximum amount of money the lender allows the borrower to use.

Credit report is a detailed document that contains information about a person's credit activity.

Credit bureau is an agency that collects information on consumers' credit activity.

Guarantor is a person who agrees to take responsibility for another person's credit.

Penalty interest, or **penalty annual percentage rate (penalty APR)**, is punitive interest charged by a lender to a borrower if instalments are not paid according to the loan terms.

Insurance

Insurance is a formal document that is a contract between the policyholder and the insurance company that details the terms and situations in which the insurance company agrees to make insurance payments.

Insurance premium is the amount of money an individual or business pays for coverage of an insurance policy.

Term Life Insurance is a policy that provides coverage for a specified period, paying a benefit only if the insured person dies during that term.

Whole Life Insurance is a policy that provides coverage for the entire life of the insured person, combining a death benefit with a savings component that accumulates cash value over time.

Health Insurance is a type of coverage that pays for medical expenses incurred by the insured person, offering financial protection against healthcare costs.

Health Maintenance Organization (HMO) is a plan that requires you to choose a primary care provider and a referral from that provider to see specialists.

Preferred Provider Organization (PPO) is a plan that offers more flexibility in choosing physicians and does not require referrals.

Liability Car Insurance is a type of auto insurance that helps cover the costs of injuries or property damage to others if you're at fault in an accident.

Comprehensive Insurance is a type of auto insurance coverage that helps pay for damage to your car that is not caused by a collision, such as theft, vandalism, fire, or natural disasters.

Standard Home Insurance is a type of coverage that protects your home and belongings from risks like fire, theft, and certain natural disasters. It covers both the structure of the home and personal items inside.

Insurance for particular events is a separate policy to protect against losses due to floods, fires or earthquakes, which is often required in certain areas and is not covered by standard insurance.

Renters Insurance is designed to protect personal property in rented accommodation, including liability for damage to third parties and loss of property due to theft or natural disasters.

Disability Insurance is a type of coverage that provides financial benefits to replace a portion of your income if you become unable to work due to illness or injury.

Long-Term Care Insurance is a type of coverage that helps cover the costs of care services needed over an extended period, typically for chronic illnesses, disabilities, or conditions that require assistance with daily activities.

Insurance broker is an intermediary who sells, solicits, or negotiates insurance on behalf of a client for compensation.

Insurance agent is a representative of an insurance company who helps consumers choose the right insurance coverage for their needs.

Deductible is the amount of money that the insured person must pay out of pocket before their insurance policy starts paying for covered expenses associated with a claim..

Medicare is health insurance for the following people: adults 65 and older, adults with disabilities, adults with end-stage renal disease and adults with amyotrophic lateral sclerosis, also called Lou Gehrig's disease.

Accumulation and Investment

Savings account is an account for storing money with a minimum number of transactions.

Checking account is an account for day-to-day financial transactions.

Debit card is a card for accessing funds in an account.

Deposit is money kept or held in any bank account, particularly for the accumulation of interest.

Bank capitalization is the total value of a bank in economic terms.

Problem assets are debts for which borrowers are in arrears or are not expected to be paid properly.

Financial regulators are organisations that control financial institutions.

Credit rating agencies are agencies that assess the financial health of banks and assign ratings based on their capital adequacy and risk levels.

High-Yield Savings Accounts are bank accounts with a higher interest rate (4–5%).

Credit Union is a financial institution that provides a variety of financial services to its members.

Certificate of Deposit (CD) is a type of deposit with a fixed interest rate and maturity date.

Early withdrawal penalty is assessed when a depositor withdraws funds from or closes out a time deposit before its maturity date.

A bond is a debt obligation of a company or government.

Treasury Bonds are long-term interest-bearing debt obligations issued by the U.S. government.

Treasury Bills are short-term bonds with maturities of up to one year.

Treasury Notes are medium-term bonds with fixed interest rates.

Inflation-Linked Savings Bonds (I-Bonds) are bonds with inflation-linked yields.

Money Market Funds are funds that invest in short-term debt obligations.

Individual Retirement Account (IRA) is a tax-advantaged retirement savings account.

Traditional IRA is a tax-advantaged personal savings plan where contributions may be tax deductible.

Roth IRA is an Individual Retirement Account to which you contribute after-tax dollars.

Professional certification is a document that certifies knowledge and skills in a particular field.

Freelancing is a work format in which a person chooses projects and assignments independently.

Investing is the process of putting money into assets or projects with the aim of making a profit.

Diversification is allocation of investments between different assets to reduce risks.

Investment strategy is a plan that takes investment objectives, investment timing and decision-making criteria into account.

Investment portfolio is a set of financial assets owned by an investor.

Bond's par value, or **Bond face value**, is the value of the bond specified at the time of its issuance.

Coupon rate is the interest rate on the face value of the bond.

Yield to Maturity (YTM) is the total expected return to an investor if they purchase a bond at the current market price and hold it to maturity.

Discount is the difference between the face value of the bond and its purchase price.

Automatic reinvestment is the process of automatically investing income back into assets.

The stock market is a platform for trading shares of publicly traded companies.

A share is a security representing a stake in a company.

A shareholder is an owner of shares in a company.

IPO is an initial public offering on the stock exchange.

Exchange is a platform for buying and selling stocks.

Broker is an intermediary in trading operations.

Dividend is a portion of a company's profits paid to shareholders.

Ordinary stock is shares with voting rights and variable dividends.

Preferred stock is shares with fixed dividends.

Growth stocks are stocks of promising companies with dynamically growing revenues.

Value stocks are shares in large, stable companies with high dividends.

Fundamental analysis is assessment of the company's financial condition and market prospects.

Technical analysis is the study of price charts and trading volumes to predict future price movements.

Liquidity is the ability of an asset to turn into money quickly.

Venture capital investment is investing in startups and young companies with high growth potential.

Accredited investor is investor who meets certain criteria regarding income, net worth, and qualifications. They are wealthy individuals who are allowed access to investments that many people are not allowed.

Venture capital syndicates are groups of investors that pool funds for venture capital investments.

An investment club is a group of people who pool their money together to make investments, usually through a legal partnership.

Venture capital fund is a fund that invests in startups and young companies.

Mutual Fund is a fund that pools money from many investors and invests the money in securities such as stocks, bonds, and short-term debt.

Hedge Fund is a limited partnership of private investors whose money is pooled and managed by professional fund managers that use a wide range of strategies, including leverage and the trading of non-traditional assets, to earn above-average investment returns.

Exchange-Traded Funds (ETFs) are funds traded on an exchange e.g. common stocks.

Growth Funds are funds that invest in stocks of companies with expected rapid growth.

Income Funds are funds that generate regular income through dividends or interest.

Balanced Funds are funds that combine stocks and bonds for balanced growth and income.

Dollar-Cost Averaging (DCA) is an investment tactic of regularly investing equal amounts of money.

Leverage is the use of various financial instruments or borrowed capital (in other words, debt) to increase the potential return on an investment.

Cryptocurrencies

Cryptocurrency is a type of digital currency without physical representation, based on blockchain technology.

Blockchain is a decentralised database that stores data on multiple computers.

Coin is a unit of digital currency on a specific blockchain network

Stablecoin is a type of cryptocurrency whose value is tied to another asset, such as fiat currency or gold, to maintain a stable price.

A cryptocurrency exchange is an online platform for buying, selling, and trading digital currencies.

A cryptocurrency wallet is a digital tool that allows users to securely store, send, and receive digital currencies.

Real Estate

Capitalization rate (Cap rate) is the rate of return on an investment property calculated based on the income the property is expected to generate.

Internal rate of return (IRR) is the projected profit it can generate over the time you own the property.

Due diligence is a thorough research and evaluation done before buying a property to ensure it meets expectations and is a sound investment.

Real Estate Investment Trusts (REITs) are funds that invest in real estate and are publicly traded.

Taxes

Taxes are compulsory contributions collected by the government to finance public expenditures.

Individual income tax, or **personal income tax**, is levied on the wages, salaries, investments, or other forms of income an individual or household earns.

Progressive tax is a type of taxation where the tax rate increases as the taxable amount (income or wealth) increases.

Payroll taxes are taxes levied on employers or employees, usually calculated as a percentage of the wages employers pay their employees.

Self-employment tax is the tax that a sole proprietor or freelancer must pay to the federal government to fund Medicare and Social Security.

Corporate tax is a tax on corporate profits.

Sales tax is a tax on the sale of certain goods and services.

Property tax is a tax on movable and immovable property based on the assessed value of the property.

Tax brackets are ranges of income to which different tax rates apply.

Taxable income is the income that is taxable after all deductions.

Tax return is a document that shows taxable income and calculates taxes.

Taxpayer Identification Number (TIN) is a number assigned to taxpayers to keep track of their taxes.

Tax liability optimization is the process of planning to reduce taxes.

Standard deductions are fixed amounts that reduce taxable income.

Itemised deductions are specific expenses that reduce taxable income.

The American Opportunity Tax Credit (AOTC) is a credit for qualified educational expenses paid to an eligible student during the first four years of higher education.

Lifetime Learning Credit (LLC) is a tax credit designed to pay for eligible tuition and related expenses paid to eligible students enrolled at an eligible institution.

Child Tax Credit is a tax credit for families with children that provides a credit of up to \$2,000 per child under age 17.

Child and Dependent Care Tax Credit is a tax credit for child or elderly family care expenses.

Tax audit, or Internal Revenue Service (IRS) audit, is the process of conducting a formal investigation of financial information to verify that an individual or entity has properly reported and paid taxes.