Glossary of Terms (Alphabetical Order)

SANTA CLARA COUNTY COURSE -- **Smart Investing: Reference Strategies and Resources**

Nebraska Project team made these edits to Santa Clara's version—buff colored highlights.

If you need to skim, check out the yellow highlights for the high points.

http://www.investopedia.com/dictionary/ (This is a link to Investopedia, an on-line financial dictionary)

OA = Order of Appearance in Reading assignments. Week 1 Week 2 Week 3 Week 4

Week	OA	Term & Definition
4	76	**401(k)**: A qualified plan established by employers to which eligible employees may make salary deferral (salary reduction) contributions on a post-tax and/or pre-tax basis. Employers offering a 401(k) plan may make matching or non-elective contributions to the plan on behalf of eligible employees and may also add a profit-sharing feature to the plan. Earnings accrue on a tax-deferred basis (unless it is a "ROTH 401(k). (source: *Investopedia Dictionary*)
1	17	**Adjustable rate mortgage**: (Same as Variable Rate Mortgage) A type of home loan in which the interest rate is NOT fixed. The two most common types of mortgages in the United States are fixed rate and variable rate (also called adjustable rate). *With an adjustable rate mortgage, the interest rate will be adjusted periodically by an index of interest rates as specified in the loan agreement.* (source: *Investopedia*)
1	27	**Appraisal**: An expert judgment or estimate of the quality or value of real estate, made by an appraiser, as of a given date. Most states require licenses for appraisers. Various lenders have their own lists of approved appraisers. (source: *Washington Post Glossary of Business Terms*
3	55	**Appreciation**: An increase in the value of an asset over time. The increase can occur for a number of reasons, including increased demand or weakening supply, or as a result of changes in inflation or interest rates. This is the opposite of depreciation, which is a decrease over time. (source: *Investopedia Dictionary*)
3	74	**Ask price**: (See also Bid Price) **Ask price**, also called **offer price**, **offer**, **asking price**, or simply **ask,** is the price a seller states she or he will accept for a good/security. (Wikipedia) The opposite is Bid Price which is the price a buyer is willing to pay for a security. (source: *Investopedia Dictionary*)
1	21	**Balloon payment**: An oversized payment due at the end of a mortgage, commercial loan, or other amortized loan. A balloon payment occurs when the entire loan amount is not amortized over the life of the loan, the remaining balance is due as a final repayment to the lender. *(Typically home loans do NOT have a Balloon payment. A good example of a balloon payment would be the purchase option at the end of a vehicle lease agreement.)* Balloon payments are often prepackaged into what are called "two-step mortgages." In this type of mortgage, the balloon payment is rolled into a new or continuing amortized mortgage at the prevailing market rates. (source:*Washington Post Glossary of Business Terms*)

1	5	**Bankruptcy**: A provision of Federal Law whereby a debtor surrenders his assets to the bankruptcy court and is relieved of the future obligation to repay his unsecured debts. A trustee in bankruptcy administers the assets, selling them to pay as much of the debt as possible. If your seller is in bankruptcy, the trustee in bankruptcy owns the property and is the party to sign the contract and make decisions. After bankruptcy, the debtor is discharged and his unsecured creditors may not pursue further collection efforts against him. Secured creditors, those holding deeds of trust or judgment liens, continue to be secured by the property, but they may not take other action to collect from the debtor. (source: *Washington Post Glossary of Business Terms*)
2	33	**Bear market**: A market condition in which the prices of securities are falling and widespread pessimism causes the negative sentiment to be self-sustaining. As investors anticipate losses in a bear market and selling continues, pessimism only grows. Although figures can vary, for many, a downturn of 20% or more in multiple broad market indexes, such as the Dow Jones Industrial Average (DJIA) or Standard & Poor's 500 Index (S&P 500), over at least a two-month period, is considered an entry into a bear market. (source: *Investopedia Dictionary*)
3	73	**Bid price**: (See also Ask Price for the opposite example) The price a buyer is willing to pay for a security. This is one part of the bid, with the other being the bid size, which details the number of shares the investor is willing to purchase at the bid price. The opposite of the bid price is the ask price, which is the price a seller is looking to get for his or her shares. (source: *Investopedia Dictionary*)
3	63	**Bond**: A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Bonds are used by companies, municipalities, states, and U.S. and foreign governments to finance a variety of projects and activities. Bonds are commonly referred to as fixed-income securities and are one of the three main asset classes (other asset classes are stocks and cash equivalents). (source: *Investopedia Dictionary*)
3	57	**Bond market**: The environment in which the issuance and trading of debt securities occurs. The bond market primarily includes government-issued debt securities and corporate debt securities, and facilitates the transfer of capital from savers to the issuers or organizations requiring capital for government projects, business expansions, and ongoing operations. (source: *Investopedia Dictionary*)
3	51	**Bond rating**: A grade given to bonds that indicates their credit quality. Private independent rating services such as Standard & Poor's, Moody's, and Fitch provide these evaluations of a bond issuer's financial strength, or ability to pay a bond's principal and interest in a timely fashion. Bond ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'C' ("junk"), which is the lowest grade. Different rating services use the same letter grades, but use various combinations of upper- and lower-case letters to differentiate themselves. To illustrate the bond ratings and their meaning, we'll use the Standard & Poor's format: AAA and AA: High credit-quality investment grade AA and BBB: Medium credit-quality investment grade BB, B, CCC, CC, C: Low credit-quality (non-investment grade), or "junk bonds" D: Bonds in default for non-payment of principal and/or interest (source: *Investopedia*)

1	12	**Budget**: An estimation of the income and expenses expected over a specified future period of time. A budget can be made for a person, family, group of people, business, government, country, multinational organization, or just about anything else that makes and spends money. A budget is a microeconomic concept that shows the tradeoff made when one good is exchanged for another. In a personal budget, both fixed and variable expenses are included. (source: *Investopedia Dictionary*) *Following a budget may help you not overspend.*
2	34	**Bull market**: A financial market of a group of securities in which prices are rising or are expected to rise. The term "bull market" is most often used to refer to the stock market, but it can be applied to anything that is traded, such as bonds, currencies, and commodities. (source: *Investopedia Dictionary*)
4	85	**Capital gain**: 1. An increase in the value of a capital asset (investment or real estate) that gives it a higher worth than the purchase price. The gain is not realized until the asset is sold. A capital gain may be short term (one year or less) or long term (more than one year) and must be claimed on income taxes. A capital loss is incurred when there is a decrease in the capital asset value compared to an asset's purchase price. 2. Profit that results when the price of a security held by a mutual fund rises above its purchase price and the security is sold (realized gain). If the security continues to be held, the gain is unrealized. A capital loss would occur when the opposite takes place.(source: *Investopedia Dictionary*)
4	86	**Capital gains tax**: A type of tax levied on capital gains incurred by individuals and corporations. Capital gains are the profits that an investor realizes when he or she sells the capital asset for a price that is higher than the purchase price. Capital gains taxes are only triggered when an asset is sold, not while it is held by an investor. An investor can own shares that appreciate every year, but the investor does not incur a capital gains tax on the shares until they are sold. (source: *Investopedia Dictionary*)
1	11	**Certificate of deposit**: (or CD) A certificate of deposit (CD) is a promissory note issued by a bank or credit union. It is a time deposit that restricts holders from withdrawing funds on demand. Although it is still possible to withdraw the money, this action will often incur a penalty. (source: *Investopedia Dictionary*) *(Money that is deposited for a specific amount of time—generally for a specific rate of return.)*
1	8	**Checking account**: A transactional deposit account held at a financial institution that allows for withdrawals and deposits. Money held in a checking account is very liquid, and can be withdrawn using checks, automated cash machines, and electronic debits, among other methods. A checking account differs from a savings account in that it often allows for numerous withdrawals and unlimited deposits, whereas savings accounts sometimes may limit both. Checking accounts can include business accounts, student accounts, and joint accounts, along with many other types of accounts which offer similar features. In exchange for the liquidity, checking accounts typically do not offer a high interest rate *(typically no or very low),* but if held at a chartered banking institution the deposit will be FDIC guaranteed up to *$250,000* per individual depositor. A checking account may also be called a "demand account" or "transactional account." (source: *Investopedia Dictionary*)

3	69	**Closed-end fund**: A closed-end fund is a publicly-traded investment company that raises a fixed amount of capital (fixed number of shares) through an initial public offering (IPO). The fund is then structured, listed, and traded like a stock on a stock exchange. (source: *Investopedia Dictionary*)
1	25	**Closing costs**: The expenses over and above the price of the property that buyers and sellers normally incur to complete a real estate transaction. Costs incurred include loan origination fees, discount points, appraisal fees, title searches, title insurance, surveys, taxes, deed-recording fees and credit report charges. (Source: *Washington Post Glossary of Business Terms*) *(Closing costs are traditionally paid by the buyer but could be paid by the seller or split.)*
1	3	**Credit**: A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company. The amount of money available to be borrowed by an individual or a company is referred to as credit because it must be paid back to the lender at some point in the future. For example, when you make a purchase at your local mall with your VISA card it is considered a form of credit because you are buying goods with the understanding that you'll need to pay for them later. (source: *Investopedia Dictionary*)
1	4	**Credit score**: A statistically derived numeric expression of a person's creditworthiness that is used by lenders to access the likelihood that a person will repay his or her debts. A credit score is based on, among other things, a person's past credit history. It is a number between 300 and 850—the higher the number, the more creditworthy the person is deemed to be. A FICO score is the most widely used credit scoring system. FICO is an acronym for Fair Isaac Corporation, the company that provides the credit score model to financial institutions. There are other providers of credit scoring systems, as well. Consumers can typically keep their credit scores high by maintaining a long history of always paying their bills on time and not having too much debt. A credit score plays a large role in a lender's decision to extend credit and under what terms (such as interest rate level). For example, borrowers with a credit score that is under 600 will be unable to receive a prime mortgage and will typically need to go to a subprime lender for a subprime mortgage, which will typically have a higher interest rate. (source: *Investopedia Dictionary*) Credit scores could also affect insurance rates and may be used by employers when looking at new hires.
1	14	**Credit union**: Member-owned financial co-operative. These not for profit institutions are created and operated by its members, and profits are shared amongst the owners. As soon as you deposit funds into a credit union account, you become a partial owner and participate in the union's profitability. Credit unions are formed by large corporations and organizations for their employees and members. (source: *Investopedia Dictionary*)
2	43	**Debt/equity ratio**: A capitalization ratio comparing a company's total liabilities (current liabilities plus long-term debt) to shareholders' equity. A high debt/equity ratio generally means that a company has been aggressive in financing its growth with debt. This can result in volatile earnings as a result of the additional interest expense.

		If a lot of debt is used to finance increased operations (high debt to equity), the company could potentially generate more earnings than it would have without this outside financing. If this were to increase earnings by a greater amount than the debt cost (interest), then the shareholders benefit as more earnings are being spread among the same amount of shareholders. However, the cost of this debt financing may outweigh the return that the company generates on the debt through investment and business activities and become too much for the company to handle. This can lead to bankruptcy, which would leave shareholders with nothing. The debt/equity ratio also depends on the industry in which the company operates. For example, capital-intensive industries, such as auto manufacturing, tend to have a debt/equity ratio above 2, while personal computer companies have a debt/equity of under 0.5. (source: *Washington Post Glossary of Business Terms*)
4	81	**Deductible**: 1. The amount you have to pay out-of-pocket for expenses before the insurance company will cover the remaining costs. (*Policies with a higher deductible amounts will have lower monthly premiums.*) 2. An amount subtracted from an individual's adjusted gross income to reduce the amount of taxable income.(source: *Investopedia Dictionary*)
1	23	**Deed**: A formal, written instrument by which title to real property *(real estate)* is transferred from one owner to another. The deed should contain an accurate legal description of the property being conveyed, should be signed and witnessed according to the laws of the State where the property is located, and should be delivered to the purchaser at closing day. There are two parties to a deed: the grantor and the grantee. (source: *Washington Post Glossary of Business Terms*)
1	8.5	**Deposit Insurance as provided by FDIC & NCUA:** *(Added by Nebraska staff)* If funds are held at a chartered bankd, FDIC guarantees them up to $250,000 per individual depositor. If funds are held by a federal credit union, NCUA guarantees them up to $250,000 per individual depositor
3	56	**Depreciation**: 1. A method of allocating the cost of a tangible asset over its useful life. Businesses depreciate long-term assets for both tax and accounting purposes. 2. A decrease in an asset's value caused by unfavorable market conditions.(source: *Investopedia Dictionary*)
1	2	**Disposable income**: (We choose to not include Investopedia's definition) Wikianswers DEFINITION: **Disposable** income is what is left over when all your bills are paid. Think of it as the money you spend at the bar, or movies or church or restaurant's. (source: Wikianswers.com) OUR DEFINITION: Amount of money left after taxes, bills are paid, and basic living expenses are allowed for.
2 & 3	35	**Diversification**: A risk management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio.

		Diversification strives to smooth out unsystematic risk events in a portfolio so that the positive performance of some investments will neutralize the negative performance of others. Therefore, the benefits of diversification will hold only if the securities in the portfolio are not perfectly correlated. (source: *Investopedia Dictionary*)
2	39	**Dividend**: A dividend is a portion of a company's profit paid to common and preferred shareholders. A stock selling for $20 a share with an annual dividend of $1 a share yields the investor 5%. (source: *Washington Post Glossary of Business Terms*)
2	37	**Dow Jones Industrial Average**: A price-weighted average of 30 actively traded stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896. Often referred to as "the Dow," the DJIA is the oldest and single most-watched index in the world. The DJIA includes companies like General Electric, Disney, Exxon, and Microsoft. When the TV networks say "the market is up today," they are generally referring to the Dow. (source: *Investopedia Dictionary*)
1	29	**Escrow**: Funds paid by one party to another (the escrow agent) to hold until the occurrence of a specified event, after which the funds are released to a designated individual. In FHA mortgage transactions an escrow account usually refers to the funds a mortgagor pays the lender at the time of the periodic mortgage payments. The money is held in a trust fund, provided by the lender for the buyer. Such funds should be adequate to cover yearly anticipated expenditures for mortgage insurance premiums, taxes, hazard insurance premiums, and special assessments. (source: *Washington Post Glossary of Business Terms*) *Recognizable examples would be….If you make an offer on a house and pay an earnest deposit, that money will be held in Escrow (in an Escrow account). When you make your mortgage payments, the part of that payment that is for house insurance and taxes will be held in Escrow until your taxes and insurance premiums are due.*
3	70	**Exchange-traded fund (ETF)**: A security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. ETFs experience price changes throughout the day as they are bought and sold. (source: *Investopedia Dictionary*) An investment fund traded on stock exchanges much like stocks. An ETF holds assets such as stocks, commodities, or bonds, and trades close to its net asset value over the course of the trading day. Most ETFs track an index, such as a stock index or bond index. ETFs may be attractive as investments because of their low costs, tax efficiency, and stock-like features. ETFs are the most popular type of exchange-traded product. Only *authorized participants*, which are large broker-dealers that have entered into agreements with the ETF's distributor, actually buy or sell shares (in large blocks) of an ETF directly from or to the ETF. Other investors, such as individuals using a retail broker, trade ETF shares on a secondary market. (source: Wikipedia) *Nebraska staff added this source definition*.
3	68	**Expected return**: (Replaced with current definition at Investopedia Dictionary) The amount one would anticipate receiving on an investment that has various known or expected rates of return. For example, if one invested in a stock that had a 50% chance of producing a 10% profit and a 50% chance of producing a 5% loss, the expected return would be 2.5% (0.5 * 0.1 + 0.5 * -0.05). It is important to note, however, that the expected return is usually based on historical data and is not guaranteed. (source: *Investopedia Dictionary*)

1	13	**Federal credit union**: A credit union chartered and supervised by the National Credit Union Association (NCUA), a federal government agency that functions much like the FDIC. Federal credit unions operate like retail banks with one major exception: every credit union member is also a partial owner of the institution. Credit unions operating under the label "federal" are not directly run by the government or limited to government employees. Rather, they've simply opted to organize themselves under federal credit union regulations instead of state banking laws. (source: *Washington Post Glossary of Business Terms*)
3	60	**Fitch Ratings, Inc.**: *(Added by Nebraska staff)* A private independent BOND rating service that evaluates a bond issuer's financial strength, or ability to pay a bond's principal and interest in a timely fashion. (source: *Investopedia*)
3	62	**Fixed income security**: An investment that provides a return in the form of fixed periodic payments and the eventual return of principal at maturity. Unlike a variable-income security, where payments change based on some underlying measure such as short-term interest rates, the payments of a fixed-income security are known in advance. (source: *Investopedia Dictionary*) *Examples would include: fixed-income investments such as bonds & Treasury Bills.*
1	19	**Fixed rate**: (Fixed Interest Rate) A traditional approach to determining the finance charge payable on an extension of credit. A predetermined and certain rate of interest is applied to the principal. (source: *Washington Post Glossary of Business Terms*) An interest rate on a liability, such as a loan or mortgage, that remains fixed either for the entire term of the loan or for part of this term. A fixed interest rate may be attractive to a borrower who feels that the interest rate might rise over the term of the loan, which would increase his or her interest expense. A fixed interest rate, therefore, avoids the interest rate risk that comes with an adjustable or variable interest rate, wherein the interest rate payable on a debt obligation depends on a benchmark interest rate or index. (source: *Investopedia Dictionary*) Source added by Nebraska staff
1	30	**Foreclosure**: A legal term applied to any of the various methods of enforcing payment of the debt secured by a mortgage, or deed of trust, by taking and selling the mortgaged property, and depriving the mortgagor of possession. (source: *Washington Post Glossary of Business Terms*)
3	72	**Hedge funds**: Legally, hedge funds are most often set up as private investment partnerships that are open to a limited number of investors and require a very large initial minimum investment. Investments in hedge funds are illiquid, as they often require investors keep their money in the fund for at least one year. (source: *Investopedia Dictionary*) Definition of illiquid: That which cannot quickly and easily be converted into cash. (source: Bing)
	82	**Homeowner's insurance**: (Santa Clara's list left off this first important paragraph that is added here. A form of property insurance designed to protect an individual's home against damages to the house itself, and to possessions in the home. Homeowners insurance also provides liability coverage against accidents in the home or on the property. In the U.S. there are seven forms of homeowner's insurance that have become standardized in the industry; they range in name from HO-1 through HO-8 and offer various levels of

		protection depending on the needs of the homeowner. (source: *Investopedia Dictionary*) If you have a loan on your home, you will be required by the financial institution to have homeowner's insurance.
4	83	**Income tax**: A tax that governments impose on financial income generated by all entities within their jurisdiction. By law, businesses and individuals must file an income tax return every year to determine whether they owe any taxes or are eligible for a tax refund. Income tax is a key source of funds that the government uses to fund its activities and serve the public. (source: *Investopedia Dictionary*)
4	77 78	**Individual Retirement Account (IRA)**: (Roth & Traditional) An investing tool used by individuals to earn and earmark funds for retirement savings. Also referred to as "individual retirement arrangements." There are several types of IRAs: Traditional IRAs, Roth IRAs, SIMPLE IRAs and SEP IRAs. Traditional and Roth IRAs are established by individual taxpayers, who are allowed to contribute 100% of compensation (self-employment income for sole proprietors and partners) up to a set maximum dollar amount. Contributions to the Traditional IRA may be tax deductible, depending on the taxpayer's income, tax filing status, and coverage by an employer-sponsored retirement plan. Roth IRA contributions are not tax-deductible. SEP (Simplified Employee Pension) and SIMPLE (Savings Incentive Match Plan for Employees) IRAs are for small businesses and self-employed individuals. Individual participant contributions can be made to SEP IRAs and SIMPLE IRAs. What makes a SIMPLE IRA unique is that the employer is required to make a contribution on the employee's behalf, regardless of whether the employee contributes to the account. (source: *Investopedia Dictionary*) **More on the comparisons of the Traditional vs. Roth IRAs:** **Both:** There are annual contribution limits (for 2014: $5,500 or $6,500 if you are over 50, but not more than you or your spouse's income), and your earned income is not over a certain amount depending on your filing status, married filing jointly, single, etc. Contribution and income limits change annually. **Traditional:** 1) your contribution reduces your tax liability on the year of the contribution/pre-taxed earnings; 2) when you withdraw the contribution/earnings, the withdrawal WILL be subject to income tax at the time of withdrawal; 3) required withdrawals after age 70 ½; 4) generally early withdrawal penalties of both original contributions and gains, 5) cannot contribute to after age 70 ½, 6) can be converted to a Roth IRA if you pay the income taxes on the entire amount converted as income for that taxable year. **Roth:** 1) your contribution does not reduce your current year's taxes, it is post-taxed earnings; 2) when you withdraw the contribution/earnings, the withdrawal will NOT be subject to income tax at the time of withdrawal (other than <u>earnings</u> withdrawn before age 59 ½ that will be subject to penalty and tax); 3) no required withdrawals at any age, you can pass the Roth IRA's to your heirs at the time of your death (inheritance tax may apply depending on laws at the time of transfer); 4) early withdrawal penalties apply on the gains but not on the original contributions; 5) can contribute to at any age if you or your spouse has an income; involves a 5-year rule that affects your withdrawal of the earnings. **Five-Year Rule on Roth IRA:** In order to withdraw your earnings from a Roth IRA tax and penalty free, you must be over 59 ½ AND your <u>initial contribution</u> to the Roth must have been roughly **MORE** than 5 years earlier. In the case of a Roth IRA conversion, each converted account has its own five-year clock starting from the date of its conversion. **Converting a Traditional IRA to a Roth IRA:** When you convert funds, you need to pay income taxes on the amount converted. If you converted funds from a Traditional to a Roth IRA you can "recharacterize" (or switch it back to a Traditional IRA) generally before October 15. A reason why you might want to "recharacterize" is when the value of your converted funds has decreased. Say you converted $10,000 to a Roth. Then before October 15th the current value

		of that account is only $7,000. You may not want to pay taxes on the $10,000 when it is now only worth $7,000. When you do recharacterize your account, those assets cannot be reconverted back to a Roth IRA before the beginning of the calendar year following the calendar year of the conversion, OR the end of the 30-day period beginning on the day of the recharacterization, whichever is later. There is obviously a lot to know, and rules could change each year. Always check with a tax professional concerning current rules and implications
2	45	**Initial public offering (IPO)**: A company's first sale of stock to the public. Securities offered in an IPO are often, but not always, those of young, small companies seeking outside equity capital and a public market for their stock. Investors purchasing stock in IPOs generally must be prepared to accept very large risks for the possibility of large gains. IPOs by investment companies (closed-end funds) usually contain underwriting fees which represent a load to buyers. (source: *Washington Post Glossary of Business Terms*)
1	6	**Interest rate**: (Plus for additional information for Compound, Fixed, and Variable Interest) The amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets. Interest rates are typically noted on an annual basis, known as the annual percentage rate (APR). The assets borrowed could include, cash, consumer goods, large assets, such as a vehicle or building. Interest is essentially a rental, or leasing charge to the borrower, for the asset's use. When the borrower is a low-risk party, they will usually be charged a low interest rate; if the borrower is considered high risk, the interest rate that they are charged will be higher. (See Credit Score definition) (source: *Investopedia Dictionary*) When you borrow money—you will also pay interest. When you deposit money, depending on the account, you may earn interest. (Added by Nebraska staff) **Compound Interest**: There is simple interest and compound interest. Simple interest is rarely used in loans or savings instruments. Compound interest arises when interest if added to the principal of a deposit or loan, so that, from that moment on, the interest that has been added also earns interest. This addition of interest to principal is called compounding. The frequency of the compounding will affect the amount earned/owed. The interest on the loan/deposit might be compounded daily, weekly or annually or at some other interval. The frequency will affect the amount of interest you are paying/earning. In order to compare interest rates that might be compounded at different frequencies, look for the annual percentage rate (APR) For instance a 12% interest rate that is compounded monthly is actually 12.68% per annum. (Nebraska staff added after reading Wikipedia.org) **Fixed Interest Rate**: A fixed interest rate is one that remains unchanged typically for the duration of the loan (unless specified in the loan agreement). **Variable/Adjustable Rate**: A variable interest rate is one that after a specified period of time, the rate will be adjusted typically to a rate that depends on the Prime interest rate at the time of the adjustment. A variable rate could expose you to higher monthly payments in the future should interest rates rise before you are able to pay off your loan.
3	52	**Junk bond**: (See also Bond Rating definition) A bond rated "BB" or lower because of its high default risk. Also known as a "high-yield bond" or "speculative bond." These are usually purchased for speculative purposes. Junk bonds typically offer interest rates three to four percentage points higher than safer government issues. (source: *Investopedia Dictionary*)

4	80	**Life insurance**: A protection against the loss of income that would result if the insured passed away. The named beneficiary receives the proceeds and is thereby safeguarded from the financial impact of the death of the insured. There are two types of life insurance. 1) ***Term Life*** provides coverage for a specified period of time. When term life insurance expires, it is up to the policy owner to decide whether to renew the policy or to let the coverage end. 2) ***Whole Life*** is a life insurance contract with level premiums that has both insurance and investment components. The insurance component pays a stated amount upon death of the insured. The investment component accumulates a cash value that the policyholder can withdraw or borrow against. (source: *Investopedia Dictionary*)
2	41	**Limit order**: An order to buy a stock at or below a specified price or to sell a stock at or above a specified price. For instance, you could tell a broker "Buy me 100 shares of XYZ Corporation at $8 or less" or to "sell 100 shares of XYZ at $10 or better." The customer specifies a price, and the order can be executed only if the market reaches or betters that price. (source: *Washington Post Glossary of Business Terms*)
2	48	**Liquidity**: 1) The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid assets. 2) The ability to convert an asset to cash quickly. Also known as "marketability." (source: *Investopedia Dictionary)* *The speed and ease with which an asset can be converted to cash—generally without losing value of the product (due to penalties or selling assets prematurely that have lost value)*
2 & 3	66.5	**Marginal Tax Rate:** (Added by Nebraska staff) The rate at which the last dollar of income is taxed. The percentage of the last dollar earned that goes to taxes. (This is something important to watch if you are contemplating if it is a good year to convert a traditional IRA to a Roth IRA for instance.)
2	47	**Market capitalization**: The total dollar market value of all of a company's outstanding shares. Market capitalization is calculated by multiplying a company's shares outstanding by the current market price of one share. The investment community uses this figure to determining a company's size, as opposed to sales or total asset figures. Frequently referred to as "market cap." (source: *Investopedia Dictionary*)
3	54	**Maturity**: 1. The length of time until the principal amount of a bond must be repaid. 2. The end of the life of a security. (source: *Investopedia Dictionary*)
3	66	**Money market**: The money market deals in fixed-income securities, not unlike the bond market. The major difference is that the money market deals in short-term debt and monetary instruments. In other words, money market instruments are forms of debt that mature in less than one year and are very liquid. (source: *Investopedia Dictionary*)

1	9	**Money market account**: A savings account that offers the competitive rate of interest (real rate) in exchange for larger-than-normal deposits. Many money market accounts place restrictions on the amount of transactions you can make in a month (such as five or less). Furthermore, you usually have to maintain a certain balance in the account to receive the higher rate of interest. Some banks require at least $500; others require a much higher balance. (source: *Investopedia Dictionary*) In our current economy, the interest money market accounts are earning is not very attractive.
3	59	**Moody's Investor Service**: *(Added by Nebraska staff)* *See also Bond Rating definition* A private independent BOND rating service that evaluates a bond issuer's financial strength, or ability to pay a bond's principal and interest in a timely fashion. (source: *Investopedia Dictionary*)
1	15	**Mortgage**: (See also Adjustable/Variable Rate Mortgage & Fixed Rate) A loan secured by the collateral of some specified real estate property which obliges the borrower to make a predetermined series of payments. Under government-insured or loan-guarantee provisions, the payments may include escrow amounts covering taxes and hazard insurance. Mortgages generally run from 10 to 30 years, during which the loan is to be paid off. (source: *Investopedia Dictionary*)
1	31	**Mortgage broker**: An intermediary who brings mortgage borrowers and mortgage lenders together but does not use its own funds to originate mortgages. A mortgage broker gathers paperwork from a borrower and passes that paperwork along to a mortgage lender for underwriting and approval. The mortgage funds are then lent in the name of the mortgage lender. A mortgage broker collects an origination fee and/or a yield spread premium from the lender as compensation for its services. (source: *Washington Post Glossary of Business Terms*) About 90 percent of home loans are accomplished WITHOUT using a Mortgage Broker.
3	53	**Municipal bond**: A debt security issued by a state, municipality, or county government or agency to finance its capital expenditures. Interest earned by municipal bonds is exempt from federal taxes and in general from most state and county and municipal taxes if you live in the state, county, or municipality in which the bonds are issued. (source: *Investopedia Dictionary*)
3	64	**Mutual Funds**: An investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments, and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus. (source: *Investopedia Dictionary*)
2	38	**NASDAQ**: (Nebraska staff added the Investopedia definition) Originally stood for "National Association of Security Dealers Automatic Quotation System." An electronic quotation system that provides price quotations to market participants about the more actively traded common stock issues in the OTC market. About 4,000 common stock issues are included in the NASDAQ system. (source: *Washington Post Glossary of Business Terms*) (OTC is Over the Counter) A global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks. Nasdaq was created by the National Association of Securities

		Dealers (NASD) to enable investors to trade securities on a computerized, speedy and transparent system, and commenced operations on February 8, 1971. The term “Nasdaq” is also used to refer to the Nasdaq Composite, an index of more than 3,000 stocks listed on the Nasdaq exchange that includes the world’s foremost technology and biotech giants such as Apple, Google, Microsoft, Oracle, Amazon, Intel and Amgen. (source: *Investopedia Dictionary*) There are other exchange companies but Nasdaq is the largest.
3	65	**Net asset value**: A mutual fund's price per share or exchange-traded fund's (ETF) per-share value. In both cases, the per-share dollar amount of the fund is calculated by dividing the total value of all the securities in its portfolio, less any liabilities, by the number of fund shares outstanding. In the context of mutual funds, NAV per share is computed once a day based on the closing market prices of the securities in the fund's portfolio. All mutual funds' buy and sell orders are processed at the NAV of the trade date. However, investors must wait until the following day to get the trade price. Mutual funds pay out virtually all of their income and capital gains. As a result, changes in NAV are not the best gauge of mutual fund performance, which is best measured by annual total return. Because ETFs and closed-end funds trade like stocks, their shares trade at market value, which can be a dollar value above (trading at a premium) or below (trading at a discount) NAV. (source: *Investopedia Dictionary*)
1	1	**Net income (for individual—not business)**: An individual's income after deductions, credits and taxes are factored into gross income. Deductions and credits are subtracted from gross income to arrive at taxable income, which is used to calculate income tax. Net income is income tax subtracted from taxable income. (source: *Investopedia Dictionary*)
2	42	**Penny stock**: A stock that trades at a relatively low price and market capitalization, usually outside of the major market exchanges. These types of stocks are generally considered to be highly speculative and high risk because of their lack of liquidity, large bid-ask spreads, small capitalization, and limited following and disclosure. They will often trade over the counter through the Over-the-counter Bulletin Board (OTCBB) and pink sheets. (source: *Investopedia*)
4	75	**Pension**: A fund established by an employer to facilitate and organize the investment of employees' retirement funds contributed by the employer and employees. The pension fund is a common asset pool, meant to generate stable growth over the long term and provide defined pensions for employees when they reach the end of their working years and commence retirement. (source: *Investopedia Dictionary*) Employers have been moving steadily away from traditional defined benfit pensions to defined contributions and case balance plans.
1	10	**Personal finance**: All financial decisions and activities of an individual, this could include budgeting, insurance, savings, investing, debt servicing, mortgages and more. Financial planning generally involves analyzing your current financial position and predicting short-term and long-term needs. (source: *Investopedia Dictionary*)

1	20	**Prime rate**: The interest rate that commercial banks charge their most credit-worthy customers. Generally a bank's best customers consist of large corporations or other financial institutions The prime interest rate, or prime lending rate, is largely determined by the federal funds rate, which is the overnight rate which banks lend to one another. The prime rate is also important for retail customers, as the prime rate directly affects the lending rates which are available for mortgage, small business, and personal loans. (source: *Investopedia Dictionary*)
1	26	**Private mortgage insurance (PMI)**: A policy provided by private mortgage insurers to protect lenders against loss if a borrower defaults. Most lenders require PMI for loans with loan-to-value (LTV) percentages in excess of 80%. This allows the borrower to make a smaller down payment of as low as 3%, instead of about 20%, and usually requires an initial premium payment and possibly an additional monthly fee depending on the loan's structure. (source: *Investopedia Dictionary*)
4	84	**Property tax**: A tax assessed on real estate by the local government. The tax is usually based on the value of the property, including the land. (source: *Investopedia Dictionary*)
3	67	**Rate of return**: Increase over the initial investment cost. Gains on investments are considered to be any income received from the security plus realized capital gains. A rate of return measurement can be used to measure virtually any investment vehicle, from real estate to bonds, and stocks to fine art, provided the asset is purchased at one point in time and then produces cash flow at some time in the future. Financial securities are commonly judged based on their past rates of return, which can be compared against assets of the same type to determine which investments are the most attractive. (source: *Investopedia Dictionary*)
2 & 3	67.5	**Real Rate of Return:** (Added by Nebraska staff) Quoted rate of return minus marginal tax rare minus inflation rate. For example, an investment shows a 10 percent gain. If your marginal tax rate is 25 percent and inflation is 3 percent, the real rate of return if 4.5 percent.
1	28	**Refinance**: To obtain a new mortgage loan on a property already owned. Often to replace existing loans on the property. (source: *Washington Post Glossary of Business Terms*) Replacing an older loan with a new loan offering better terms—such as a lower interest rate. (source: *Investopedia Dictionary*) (New source definition added by Nebraska staff)
2	46	**Return on investment (ROI)**: A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. The return on investment **formula**: ROI = (Gain of Investment MINUS Cost of Investment) DIVIDED by Cost of investment In the above formula "gains from investment" refers to the proceeds obtained from selling the investment of interest. Return on investment is a very popular metric because of its versatility and simplicity. That is, if an investment does not have a positive ROI, or if there are other opportunities with a higher ROI, then the investment should be not be undertaken. Keep in mind that the calculation for return on investment and, therefore the definition, can be modified to suit the situation -it all depends on what you include as returns and costs. The definition of

		the term in the broadest sense just attempts to measure the profitability of an investment and, as such, there is no one "right" calculation. (source: *Investopedia Dictionary*)
1	22	**Reverse mortgage**: A type of mortgage in which a homeowner can borrow money against the value of his or her home. No repayment of the mortgage (principal or interest) is required until the borrower dies or the home is sold. After accounting for the initial mortgage amount, the rate at which interest accrues, the length of the loan and rate of home price appreciation, the transaction is structured so that the loan amount will not exceed the value of the home over the life of the loan. Often, the lender will require that there can be no other liens against the home. Any existing liens must be paid off with the proceeds of the reverse mortgage. (source: *Investopedia Dictionary*) So if you own your home you can get a monthly payment through a reverse mortgage if you qualify (62 or older). But with each monthly payment, the equity you have in your home is reduced until eventually you will no longer have any equity in your home. You must continue to pay real estate taxes, homeowners insurance, and maintenance fees.
2	36	**Risk**: In investing, "risk" is the chance that an investment's actual return will be different than expected. Technically, this is measured in statistics by standard deviation (beta). Risk means you have the possibility of losing some, or even all, of your original investment. Low levels of uncertainty (low risk) are associated with low potential returns. High levels of uncertainty (high risk) are associated with high potential returns. The risk/return tradeoff is the balance between the desire for the lowest possible risk and the highest possible return. A higher standard deviation means a higher risk and higher possible return. (source: *Investopedia Dictionary*)
1	7	**Savings account**: A deposit account held at a financial institution that provides principal security and a modest interest rate. Depending on the specific type of savings account, the account holder may not be able to write checks from the account (without incurring extra fees or expenses), and the account is likely to have a limited number of free transfers/transactions. Savings account funds are considered one of the most liquid investments outside of demand accounts and cash. In contrast to savings accounts, checking accounts allow you to write checks and use electronic debit to access your funds inside the account. Savings accounts are generally for money that you don't intend to use for daily expenses. (source: *Investopedia Dictionary*)
2	44	**Securities and Exchange Commission**: A government commission created by Congress to regulate investment advisors, the securities markets and to protect investors. In addition to regulation and protection, it also monitors corporate takeovers in the U.S. The SEC is composed of five commissioners appointed by the U.S. President and approved by the Senate. The statutes administered by the SEC are designed to promote full public disclosure and to protect the investing public against fraudulent and manipulative practices in the securities markets. Generally, most issues of securities offered in interstate commerce, through the mail, or on the Internet must be registered with the SEC. (source: *Investopedia Dictionary*)
1	16	**Short sale**: (As it relates to mortgages) Any sale of real estate that generates proceeds that are less than the amount owed on the property. A real estate short sale occurs when the lender and borrower decide that selling the property and absorbing a moderate loss is preferable to having the borrower default on the loan. It is therefore an alternative to foreclosure. (source: *Washington Post Glossary of Business Terms*)

4	79	**Social Security**: A United States federal program of social insurance and benefits developed in 1935. The Social Security program's benefits include retirement income, disability income, Medicare and Medicaid, and death and survivorship benefits. Social Security is one of the largest government programs in the world, paying out hundreds of billions of dollars per year. Based on the year someone was born, full retirement benefits may begin as early as age 62 and as late as age ~~67~~ 70. The amount of income received is based on the average wages earned over the worker's lifetime. Spouses are also eligible to receive Social Security benefits, even if they have limited or non-existent work histories. (source: *Investopedia Dictionary*) The benefits you receive from Social Security are based on the earnings your employer (or you if you are self-employed) reported using your Social Security number. Your employer withholds Social Security and Medicare taxes from your paycheck and sends those taxes to the IRS. Your employer also sends the IRS a matching amount equal to what was withheld from your paycheck. The Social Security and Medicare taxes you pay are NOT put in a special account for you, but are used to pay benefits for people getting benefits today. Generally, your Social Security benefit is a percentage of your average lifetime earnings. Low-income workers receive a higher percentage of their average lifetime earnings than those in the upper income brackets. A worker with average earnings can expect a retirement benefit that replaces about 40 percent of their average lifetime earnings. Social Security taxes pay for three kinds of benefits: retirements, disability and survivors. Benefits can start as early as 62 or as late as 70. The longer you wait to apply for SS benefits the larger your monthly payment will be. No matter when you retire, you are eligible for Medicare at age 65. There are also spousal benefits and ex-spousal benefits. (Source: Socialsecurity.gov) Source added
3	58	**Standard & Poor's**: *(Added by Nebraska staff)* *Also see Bond rating definition* Standard & Poor's Financial Services LLC (S&P) is an American financial services company. It publishes financial research and analysis on stocks and bonds. S&P is known for its stock market indices such as the U.S.-based S&P 500. S&P is considered one of the Big Three credit-rating agencies along with Moody's Investor Service and Fitch Ratings. (Source Wikipedia.org)
2	49	**Standard deviation (beta)**: 1) A measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. Standard deviation is calculated as the square root of variance. 2) In finance, standard deviation (or beta) is applied to the annual rate of return of an investment to measure the investment's volatility. Standard deviation is also known as historical volatility and is used by investors as a gauge for the amount of expected volatility. (source: *Investopedia Dictionary*)
2	32	**Stock market**: The market in which shares are issued and traded either through exchanges or over-the-counter markets. Also known as the "equity market," it is one of the most vital areas of a market economy, as it provides companies with access to capital and investors with a slice of ownership in the company and the potential of gains based on the company's future performance. This market can be split into two main sections: the primary and secondary market. The primary market is where new issues are first offered, with any subsequent trading going on in the secondary market. (source: *Investopedia Dictionary*)
2	32.5	**Stock Market Index:** (Added by Nebraska staff) List of predetermined securities used to develop a composite picture of their changes in value as represented by one numerical figure. Examples include the Dow Jones Industrial Average, the Standard & Poor's 500 Stock Index, the Russell 1000, and the Wiltshire 5000.

2	50	**Stockholder equity**: Balance sheet item that includes the book value of ownership in the corporation. It includes capital stock, paid in surplus and related earnings. (source: *Washington Post Glossary of Business Terms*)
2	40	**Stop-loss order**: An order placed with a broker to sell a security when it reaches a certain price. A stop-loss order is designed to limit an investor's loss on a security position. Also known as a "stop order" or "stop-market order." Setting a stop-loss order for 10% below the price you paid for the stock will limit your loss to 10%. This strategy allows investors to determine their loss limit in advance, preventing emotional decision-making. (source: *Investopedia Dictionary*)
1	24	**Title**: (as in the case of real estate) As generally used, the rights of ownership and possession of real property. In real estate usage, title may refer to the instruments or documents by which a right of ownership is established (title documents), or it may refer to the ownership interest one has in the real estate. (source: *Washington Post Glossary of Business Terms*)
3	71	**Unit investment trust (UIT)**: An SEC-registered investment company which purchases a fixed, unmanaged portfolio of income-producing securities and then sells shares in the trust to investors. The major difference between a UIT and a mutual fund is that a mutual fund is actively managed, while a UIT is not managed at all (buy and hold). A UIT is generally considered a low-risk, low-return investment. Some investors prefer UITs to mutual funds because UITs typically incur lower annual operating expenses; however, UITs often have sales charges and entrance/exit fees. Unit investment trusts are one of three types of investment companies; the other two are mutual funds and closed-end funds. (sources: *InvestorWords.com* and *Investopedia Dictionary*)
1	18	**Variable rate mortgage**: (Same as Adjustable Rate Mortgage) A type of home loan in which the interest rate is NOT fixed. The two most common types of mortgages in the United States are fixed rate and variable rate (also called adjustable rate). With a variable rate mortgage, the interest rate adjusts periodically. Monthly principal and interest payments change according to a predetermined schedule throughout the life of the loan. (source: Investopedia Dictionary) (If you believe interest rates will go up, a fixed rate is preferable)
3	61	**Yield curve**: A line that plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year, and 30-year U.S. Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth. (source: *Investopedia Dictionary*)