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100 Personal Finance Terms Everyone Should Know

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1099

The income tax form a business issues independent contractors at tax time. 1099s can also cover income from rental properties and dividends from investments.

401(k)

An employer-offered defined-contribution plan that allows you to contribute money directly from your paycheck, usually pretax but sometimes after tax, into a tax-advantaged account for retirement.

529 plan

A state-specific tax-advantaged savings account that allows you to save for college expenses.

Active management

A type of financial portfolio strategy that involves frequent hands-on strategic intervention — buying and selling assets — from a financial adviser.

Adjusted gross income

Adjusted gross income is your gross income minus certain adjustments, such as deducting student-loan interest, alimony payments, or contributions to some types of retirement accounts. AGI is part of the process of calculating your total taxable income.

Alternative minimum tax

A tax that applies to high-income individuals to ensure that they are paying a sufficient amount of tax. Earners above a certain threshold must calculate their income tax using a special formula, and if it's higher than their tax using the regular formula, they must pay the higher tax.

Amortization

The process by which the amount due on a loan is reduced over time. Generally a higher proportion of each payment goes toward interest when you begin paying off the loan, with an increasing proportion going toward principal over time.

Annual Percentage Rate

Annual percentage rate, APR, is the total amount it will cost you to borrow money, be it through a loan, credit card, or other instruments, each year. It takes the amount of interest you'll owe and adds it to any other relevant fees.

Annual Percentage Yield

Annual percentage yield, APY, represents the total amount of interest you'll earn on an investment or savings account in a year, including the effects of compound interest.

Annuity

A financial instrument, typically offered through an insurance company, that guarantees a certain payout, either in a lump sum or in increments.

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Appreciation

An increase in the value of a particular asset over time.

Arrears

A payment method where the payer pays the payee after the work they're being paid for has been completed. The term can also apply to a late payment.

Ask price

The lowest dollar amount the seller of a security will accept in exchange for that security.

Asset

An item a person or entity owns that has financial value or is expected to have financial value in the future.

Asset allocation

The mix of different financial vehicles (such as bonds, stocks, ETFs, cash, mutual funds) that an investor can spread their money across. It's important to maintain an asset allocation that's in line with your risk tolerance.

Balance sheet

A document that provides prospective investors with a summary of a company's financial standing by detailing its assets, liabilities, and shareholders' equity.

Bankruptcy

A legal proceeding that gives a person or business who can no longer pay their debts a chance to be released from the responsibility of paying those debts.

Bear market

A way of describing the state of the stock market that indicates that stocks are declining in value overall.

Beneficiary

The recipient of an item or asset, generally after its original owner has died.

Bid price

The highest amount a prospective buyer of a security will consider paying for that security.

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Blue chip

A term used to refer to companies whose stock is considered a solid investment. PepsiCo, General Electric, and Disney are blue-chip companies.

Bonds

A type of investment that is essentially a loan from the investor to the bond issuer (the US government or a corporation, for example). The bond issuer pays back the invested money, with interest, at specified intervals of time. Bonds carry less risk than stocks.

Book value

The value of a company's assets once its liabilities are subtracted. Book value is reported on a company's balance sheet.

Bottom-up investing

An investment strategy that focuses on the performance of individual companies and their stock rather than on market trends on the whole.

Broker

An individual or organization that facilitates the buying and selling of assets on someone else's behalf. Brokers often collect a fee or commission for these transactions.

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Bull market

A way of describing the state of the stock market that indicates stocks are increasing in value.

Capital gain

The profit that results from selling an asset that has grown in value. Capital gains are taxed at a more favorable rate than regular income.

Capital loss

The loss an investor experiences when they sell an asset that has lost value. Investors can claim these losses on their taxes, which can help them recover some of the money.

Capitalized interest

The interest periodically added to the total balance of a loan. For student loans, this often happens at the end of the initial grace period or after forbearance or deferment ends.

Cash flow

The movement of a person's, household's, or business's money—coming in as income and going out as expenses.

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Certificate of deposit (CD)

A financial instrument that locks away cash so that you can't use it for a certain time in exchange for a higher interest rate. Returns on CDs are guaranteed.

Certified Financial Planner

A financial professional who is certified by the Certified Financial Planner Board of Standards. The designation is highly regarded in the field and indicates that the planner is a fiduciary who has mastered financial concepts including insurance, taxes, retirement investing, estate planning, and more.

Chartered Financial Analyst (CFA)

A licensed financial expert who has passed the CFA Institute exams for financial analysts.

Closing date

The date that marks the end of a credit-card billing cycle. On the closing date, whatever the balance is on your card will be what you owe on your next bill.

Collateral

A borrower's item, property, or asset that a lender accepts as a guarantee of a loan. If the borrower fails to make loan payments, collateral can become the property of the lender.

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Collections

The state of a credit account that is far enough past due that the creditor sent it to a debt collector. Having accounts in collections can significantly lower your credit score.

Commission

The fee that a financial-services company pays a financial adviser when the adviser sells a product to a client. It's also the term for the fee that an investor pays a broker or other adviser to complete a financial transaction. Commissions are often assessed as a percentage of the cost of the product.

Commission-based financial planner

A financial planner who receives commissions based on the individual financial products they sell to their clients. It can create conflicts of interest that can compromise their ability to act as a fiduciary.

Commodities

An economic unit that can be bought or sold but has the same value regardless of who produced it. Oil, gold, and wheat are all examples of commodities.

Compound interest

A method of calculating interest where you earn a percentage not just of the principal amount but the principal plus any previously earned interest.

For example, say you have a balance of $1,000 and are earning an annual interest rate of 6%. At the end of the first year, you'll earn $60 in interest. The following year you'll earn your 6% interest on the total new balance of $1,060. At the end of the second year, you'll have a total of $1,123.60.

Cost basis

The amount an investor paid for a security, including broker commissions and other fees and adjustments. Cost basis will help you determine your capital gains or losses for tax purposes.

Credit history

The record of your credit usage habits over time that includes a list of all your credit accounts (student loans, credit cards, mortgages, etc.) as well as information on whether you make payments on time, the ages of your accounts, any recent credit inquiries, your credit utilization, and whether you have ever filed for bankruptcy.

Credit report

The annual reports performed by each of the three credit bureaus (TransUnion, Equifax, Experian) that show all your credit accounts in one place, including your account history and any new accounts.

Credit score

The three-digit score assigned to your credit profile based on your debt history. A high credit score demonstrates your trustworthiness to lenders, indicating that you are likely to repay your debts.

Credit utilization

The percentage of your available credit that you are using. In other words, your total outstanding credit-card balance divided by the total of all your credit cards' credit limits.

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Cryptocurrency

A form of decentralized digital currency not tied to any nation or standard.

Custodial account

A financial account that belongs to a minor but is run by a designated adult until the minor reaches an age set by the terms of the account.

Debt-to-income ratio

Your debt-to-income ratio is the total amount of your monthly liabilities (mortgage, credit card debt, student loans, and any other money you owe on a monthly basis) divided by the amount that you earn each month before taxes.

Deductible

The amount you must pay out of pocket before your insurance coverage kicks in and covers the rest.

Default

When you stop making payments on a loan, that loan can go into default. The exact definition of default depends on the type of loan and the loan servicer.

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Deferment

A loan status that allows you to pause payments on your student loans temporarily. Generally if you have a subsidized loan, interest will stop accruing on your balance until you resume making payments.

Defined-benefit plan

An employer-sponsored retirement plan where your employer pays you a set amount periodically once you retire. A pension is a defined-benefit plan.

Defined-contribution plan

A type of investment vehicle, such as a 401(k), that allows employees to contribute tax-advantaged money to an account to use during retirement.

Dependent

A person, like a child or a disabled or elderly relative, who lives with you and who you provide for financially.

Depreciation

A decline in the value of a particular asset over time.

Discretionary income

The earned money left over after taxes, health insurance, rent or a mortgage payment, and all other living expenses have been covered.

Diversification

The process of investing your money in various investment vehicles and asset classes. A diversified portfolio is less risky because if a certain type of asset loses value, your whole portfolio won't go downhill.

Dividends

The payouts companies make on a recurring basis to the investors who own their shares. Dividend payments typically come out of a company's earnings.

Dollar-cost averaging

An investment strategy where the investor puts the same dollar amount of money into the market at consistent intervals, buying and selling regardless of market conditions.

Down payment

The lump sum of money you pay toward buying a home when you take out a mortgage. Making a down payment of at least 20% of the price of the home prevents you from having to pay private mortgage insurance, an extra fee that protects the lender.

Emerging markets

National economies in the developing world that are becoming more productive on the global stage. Investing in emerging markets is a way to diversify your portfolio.

Employee stock options

The ability to buy a company's stock at cheaper-than-usual rates, normally offered as part of a job's compensation package.

Equity

Your ownership of an asset after you've accounted for the debt you owe on it. For example, if you bought a house with a mortgage, your equity in the home is the home's value minus your outstanding loan balance.

Escrow

An account used to set aside money for larger and/or periodic expenses, like property taxes. An intermediary between the saver who puts money in the account and the payee manages the account and makes the payments.

Estate planning

The process of preparing your finances for when you die. Includes drawing up a will, designating a power of attorney, revisiting life-insurance policies, and making decisions about the beneficiaries of your assets.

Exchange-traded fund

An [ETF] is a diversified group of securities often tied to an index, such as the [S&P 500]. These funds are traded like stocks.

Exemption

A qualification that relieves you from a certain amount of your tax burden.

Expense ratio

The fee charged to shareholders of mutual funds, exchange-traded funds, and other funds each year. Investors should be aware of the expense ratios of their investments to avoid their returns getting eaten up by fees.

Exposure

The portion of an investment portfolio that is held in a particular industry or asset class.

Federal loans

Loans backed by the US government that generally have better interest rates than other loans.

Federal Reserve

The US government's central bank, which is in charge of interest rates, keeping employment rates as high as possible, and controlling inflation.

Fee-only financial planner

A financial planner who is a fiduciary and whose compensation comes directly from their clients. They do not receive commissions based on individual financial products they sell to their clients.

Fiduciary

A person or organization, often acting in a financial-advisory or asset-management capacity, who is legally bound to be honest with you and act in your best interest.

Financial Industry Regulatory Authority (FINRA)

A nongovernmental but government-authorized organization that regulates brokers to protect investors from fraud and keep them from being taken advantage of.

Flexible spending account (FSA)

A savings account that allows you to contribute pre-tax money to use for qualified medical expenses. Unlike with an HSA, you may lose some or all of the money if you don't use it by the end of the year.

Forbearance

A loan status that allows you to pause payments on your student loans or mortgage temporarily. Generally, interest continues to accrue on your balance during forbearance, so you will end up paying more than you would have originally.

Full retirement age

The age at which you will receive the maximum amount of Social Security income when you begin to collect it.

Garnishment

A legal directive to reduce someone's wages in order to pay taxes, child support, or other debt.

Glide path

A description of the transition from a less conservative asset allocation to a more conservative one as a target-date retirement fund's retirement year approaches.

Gross income

The total amount of income you earn — both wages and any other income — before taxes, insurance, and retirement contributions are taken out.

Guarantor

A third party, engaged by a renter, who agrees to pay the landlord if the renter is unable to pay rent.

Health savings account (HSA)

A savings/investment account that you can contribute to pretax, which grows tax-free and from which the money can be withdrawn tax-free if it's used for qualified medical expenses. Unlike an FSA, the money rolls over each year. You generally need to have a high-deductible health-insurance plan to use an HSA.

Index

A tracker that measures the market performance of a particular sector, often by using a group of different securities to represent a theoretical investor portfolio. The S&P 500 and the Dow Jones Industrial Average are indices.

Index fund

A mutual fund made up of investments that reflect a market index, which gives investors built-in diversification. They are known for their low fees.

(Roth) Individual retirement account

A Roth IRA is a tax-advantaged retirement-savings plan that is not tied to an employer. A traditional IRA allows participants to contribute money pretax, which is then taxed upon withdrawal in retirement. Roth IRA participants contribute post-tax funds, which can be withdrawn tax-free in retirement.

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Inflation

The percentage by which the cost of goods and services increases and the value of money decreases over time.

Initial public offering (IPO)

The first time a private company offers shares of itself to investors at large.

Itemized deductions

If you take individual tax deductions, like deducting your mortgage interest or certain business expenses, rather than the standard deduction, it's known as itemizing.

Liabilities

Money that an individual or entity owes someone else.

Liquidity

A term that describes how quickly and easily you can pull cash out of a particular asset.

Living will

A legal document that explains the health measures you want to be taken if you are incapacitated and can no longer express your wishes.

Loan consolidation

Replacing two or more loans with one larger loan. Consolidation can simplify your debt situation and possibly reduce the interest rate or monthly payment.

Management fees

Money paid to investment managers and/or investment advisers in exchange for managing investments.

Margin

Buying investments with funds borrowed from your broker. In order to invest on margin, you must have a margin account, which essentially operates like a loan you pay back with your earnings.

Marginal tax system

A taxation system in which taxpayers pay the lowest tax rate on their first dollar of income and the highest rate on their last dollar of income.

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Market capitalization

The value in dollars of the total number of shares in a company. Often referred to as "market cap."

Money-market account

A high-interest-rate savings account that often requires a higher opening balance and monthly balance than typical savings accounts. Many money-market accounts allow debit-card and check-writing access.

Mortgage

A loan you take out to buy a piece of property, where the piece of property is the collateral. That means if you fail to make payments, the lender can seize the property.

Mutual fund

A financial instrument that uses a pot of money from many different investors to buy a diversified mix of stocks, bonds, and other securities.

Net income

The total income you end up with after all deductions.

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Net worth

The total value of all of your assets — wage income, investments, property — minus the total amount of your debt.

Overdraft

A deficit that occurs when you withdraw an amount of money from an account that exceeds the account balance. Doing this often triggers a penalty from the financial institution.

Passive management

A hands-off investment strategy where the investor sets up a portfolio to reflect a stock index, often through ETFs and mutual funds.

Penny Stocks

Small public companies' stock shares that are valued at less than $1 a piece. Trading in penny stocks is generally considered highly risky.

Post-tax contribution

A financial contribution to an account, like a Roth IRA or a Roth 401(k), where you have already paid taxes on the money before funding the account.

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Power of attorney (POA)

A designation you can give a trusted person that allows them to make major decisions, like financial and medical decisions, on your behalf if you are incapacitated.

Pre-tax contribution

A financial contribution to an account, like a traditional IRA or 401(k), where the money enters the account before you pay taxes on it.

Premium

The amount you pay monthly to maintain insurance coverage.

Price-to-earning (P/E) ratio

The measure of how a company's current stock price relates to its current earnings per share.

Principal

The dollar amount of money you deposited into an account or borrowed, not including interest.

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Private loans

These are loans from lenders other than the US government. Private loans generally have less favorable terms than federal loans.

Prospectus

A document that details the characteristics of a particular security with the purpose of educating investors. It is required by the SEC.

Proxy

A person who is allowed to represent someone else in legal or financial matters.

Rally

A consistent period of growth in stock prices.

Real Estate Investment Trust (REIT)

A public company that owns a series of properties that generate income. Investors can buy shares to gain exposure to real estate.

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Rebalancing

Periodically buying and selling assets to keep the proportion of stocks, bonds, and other assets in your investment portfolio in line with your preferred amount of risk.

Recession

A prolonged period — at least several months — of declining economic activity.

Refinance

To replace a loan, such as a mortgage, with a different loan that has a better interest rate or other more favorable terms.

Registered investment adviser (RIA)

A person or entity approved by the SEC to give financial advice to or manage portfolios for clients. RIAs are fiduciaries.

Required minimum distribution (RMD)

The amount that you must withdraw each year from your retirement accounts after you have reached age 70.5 (unless your 70th birthday is July 1, 2019, or later, in which case you don't have to make withdrawals until you are 72).

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Return on investment

ROI is a measurement of how much a particular asset has grown in value since you bought it relative to how much you paid for it.

Revolving credit

A type of credit line, such as a credit card, where you can spend up to a set limit. If you hit the limit, you can pay back some or all of the balance in order to free up more credit.

Risk tolerance

The measure of how much market fluctuation an investor is willing to take on in their investment portfolio. Risk tolerance depends on many factors, including how close a person is to retirement, what other goals they may use the money for, and their general disposition.

Robo-adviser

An online service that offers financial planning and automatic investing operated by algorithm, generally with a much lower fee than a human financial planner.

Rollover

The process of moving the funds in a retirement account, often a 401(k), into another retirement account, often another 401(k), like at a new job, or an IRA. Moving the money this way keeps you from incurring taxes.

Short selling

When an investor borrows shares from a lender and immediately sells them because they foresee the stock price going down. If the price does go down, the investor can buy shares at the lower price and pocket the difference.

Social Security

A federal program that Americans pay into with taxes and draw income from when they retire. Elderly retirees and disabled people who cannot work can collect Social Security funds.

Spread

The difference between the ask price and the bid price of a security.

Standard deduction

The portion of your income that is not subject to taxes if you choose not to itemize deductions. The standard deduction is often the best choice for people with simple tax situations.

Stock

A type of investment that, when purchased, gives you partial ownership of the company. Also known as a share.

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Subsidized loan

A US government-backed student loan for students at a certain threshold of financial need. Students are not required to pay interest on the subsidized loan balance while in school, during the grace period after graduating, and during any period of deferment.

Target-date fund

A type of mutual fund in which you can invest retirement money that automatically gradually shifts from riskier asset allocation to a more conservative allocation as your chosen retirement year grows nearer.

Tax credit

A factor that reduces your final tax bill directly.

Tax deduction

A factor that lowers the amount of income you pay taxes on, which in turn can reduce the amount of taxes you pay.

Tax-deferred

A tax treatment for certain types of accounts in which any earnings on the money are not subject to taxation until withdrawal. The money in some retirement accounts, like traditional IRAs and 401(k)s, grows tax-deferred.

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Taxable account

An investment account that doesn't enjoy the tax advantages of accounts like a 401(k) or IRA, which means you'll have to pay taxes on the account's investment earnings.

Time horizon

The period an investor holds/plans to hold an asset before selling it.

Time-value of money

The financial principle that states that money received or earned now is always worth more than money earned in the future, due to the nature of compound interest.

Top-down investing

An investment strategy that focuses on broad market trends and the economy as a whole rather than on individual companies or sectors.

Trust

A financial instrument that allows a trustor to designate a trustee to hold on to and/or manage assets for a beneficiary.

Unsubsidized loan
A US government-backed student loan for which no demonstration of financial need is necessary. Students with subsidized loans will be charged interest throughout the borrow and repayment periods.

Valuation
The amount of money a private company is said to be worth. It can be calculated in a variety of ways.

Vesting
Earning ownership of a present or future asset over time. Stock options and employer matches to retirement contributions often need to vest, meaning you have to stay with the company for a certain time before those assets become rightly yours.

Volatility
A measure of how quickly and how significantly the price of something, often a stock, changes over time. More volatility generally means more risk for investors.

Volume
The number of shares that were bought and sold in a particular period of time.

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W-2 form

The tax form that lists an employee's wage income from which taxes were withheld by the employer.

W-4 form

The tax form where an employee determines how much their employer should withhold from their paychecks for tax purposes.

W-9 form

The tax form an independent contractor fills out to share their taxpayer identification number with their clients.

Withholding

The amount of money withheld from your paycheck based on how many allowances you claim. Your marital status and whether you have children will affect your allowances. If too much is withheld from your paycheck, you'll get a tax refund. If too little is withheld, you'll owe.

Yield

The earnings an investment returns to its owner, expressed as a percentage. Yield can include interest and dividends.

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Always stay 10 steps ahead of the game