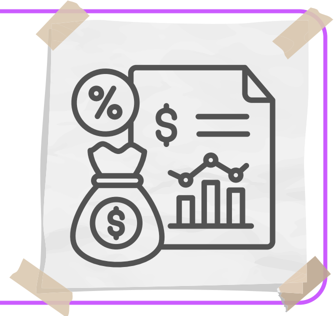
Investing Vocab

Security

- A security is a financial investment that can be bought, sold, or traded and holds monetary value.
- The value can change over time and may go down, and short-term losses are common, which is why long-term investing and diversification matter.

Capital Gains

- It is an increase in the value of an asset or security when you sell it for more than you paid.
  - Capital gain = selling price - purchase price
- You usually owe taxes on capital gains unless the investment is in a tax-advantaged account.
  - If you held your security for less than 1 year it's taxed as regular income.
  - If you held your security more than 1 year it's taxed at long-term capital gains rates.



Bear Market

- When market prices fall broadly across a sector or the overall market.
  - It causes a downward trend, like a bear swiping downward.
- The loss of value may also lead to sell-offs as investors fear further losses.

Bull Market

- When market prices rise broadly across a sector or the overall market.
  - It causes an upward trend, like a bull's horns.
- The increase in value may encourage investors to buy more, expecting prices to continue rising.

Market Index

- A hypothetical portfolio that represents a segment of the financial market.
- Popular indexes include the Dow Jones, S&P 500, and Nasdaq.
  - The S&P 500 has historically averaged about 10% per year over the long term, but returns vary year to year, so time in the market helps manage risk.

Index Fund

- A mutual fund or ETF that tries to mimic the performance of a market index.
- These funds hold many investments, which increases diversification.
- They are generally considered lower risk than investing in individual stocks.

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Dividends

- A payment to shareholders of a company's profits that may be taken as cash or reinvested.
- Dividends are NOT guaranteed and can change over time.

Liquidity

- How quickly an investment can be turned into cash without losing value.
  - Cash is very liquid, while real estate is less liquid.
- Liquidity provides a safety net in case of emergencies.

Volatility

- How much an investment's price moves up and down over time.
- High volatility means larger and more frequent price changes.
  - Volatility is typically higher in the short term but tends to smooth out over the long run.

Compound Interest

- The interest you earn on both your principal (original money) AND the interest already earned.
- Money invested earlier grows more than money invested later, even if the amounts are the same.
  - The earlier you invest, the more 'free' money (interest) you earn.

Principal

- The original amount of money invested or borrowed.
- Interest and returns are calculated based on this amount.

Inflation

- The gradual increase in prices over time that reduces purchasing power.
  - $10 today won't buy as much in the future.
- Investing helps money grow faster than inflation over time.

Diversification

- Spreading your money across different investments types, industry sectors, and companies
- Helps reduce risk because not all investments perform the same at the same time.