# Key Personal Finance Terms

**Inflation:** The rate at which the general level of prices for goods and services rises, eroding purchasing power.

**Compound Interest:** Interest earned on both the initial principal and the accumulated interest from previous periods.

**Budget:** A financial plan that outlines income and expenses over a specific period.

**Credit Score:** A numerical representation of a person's creditworthiness, based on credit history and other financial behaviors.

**Interest Rate:** The cost of borrowing money or the return on investment, expressed as a percentage.

**Emergency Fund:** A savings account set aside for unexpected expenses or emergencies.

**Net Worth:** The difference between a person's assets (what they own) and liabilities (what they owe).

**Risk Tolerance:** An individual's ability to endure fluctuations in the value of investments without selling in a panic.

**401(k):** A retirement savings plan offered by employers, allowing employees to contribute a portion of their salary on a pre-tax basis.

**Roth 401(k):** A retirement savings plan that combines features of a Roth IRA and a traditional 401(k), offering tax-free withdrawals in retirement.

**IRA (Individual Retirement Account):** A tax-advantaged retirement savings account for individuals.

**Roth IRA:** An individual retirement account where contributions are made after-tax, and qualified withdrawals are tax-free.

**HSA (Health Savings Account):** A tax-advantaged savings account for medical expenses, usually paired with a high-deductible health insurance plan.

**Asset Allocation:** Distribution of investments across different asset classes to manage risk and optimize returns.

**Diversification:** Spreading investments across different assets to reduce risk.

**Dollar Cost Averaging:** An investment strategy where an investor regularly buys a fixed dollar amount of a particular investment regardless of the share price.

**Risk Management:** The identification, assessment, and prioritization of risks, followed by coordinated efforts to minimize, control, and monitor the impact of these risks.

**Insurance:** A financial arrangement that provides protection against potential financial loss or risk, typically through the payment of premiums to an insurance company. Types of insurance include life insurance, health insurance, auto insurance, and homeowners insurance, among others.

**Equities (Stocks):** Ownership shares in a company, representing a claim on part of the company's assets and earnings.

**Bonds:** Debt securities where an investor loans money to an entity, typically a government or corporation, for a specified period at a fixed interest rate.

**Commodity:** A raw material or primary agricultural product that can be bought and sold, such as gold, oil, or agricultural goods.

**Digital Assets:** Assets represented in electronic form, often referring to cryptocurrencies like Bitcoin, Ethereum, and other blockchain-based tokens.

**FICO Score:** A credit score developed by the Fair Isaac Corporation, widely used by lenders to assess credit risk.

**Mutual Fund:** An investment vehicle that pools money from multiple investors to invest in a diversified portfolio of stocks, bonds, or other securities.

**Liquid Assets:** Assets that can be quickly converted into cash, such as savings accounts or stocks.

**Principal:** The initial amount of money invested or borrowed.

**Depreciation:** A decrease in the value of an asset over time.

**Liability:** Financial obligations or debts owed to others.

**Credit Report:** A detailed record of a person's credit history, including credit accounts, payment history, and outstanding debts.

**Tax Deduction:** An expense that can be subtracted from a person's total taxable income to reduce the amount of income subject to taxation.

**Tax Credit:** A direct reduction in the amount of income tax owed by an individual or business. Tax credits are typically offered as incentives to encourage specific behaviors, such as energy efficiency or education expenses.

**Opportunity Cost:** The potential value of the best alternative forgone when a decision is made to allocate resources (such as time, money, or effort) to a particular option.

**Sunk Cost:** Costs that have been incurred and cannot be recovered. Sunk costs should not influence future decisions since they are irrelevant to the current situation.

**Down Payment:** A initial payment made when purchasing a big-ticket item, usually a home or car.

**529 Plan:** A tax-advantaged savings plan designed to encourage saving for future education costs.

**Amortization:** The process of gradually paying off debt through regular payments, which include both principal and interest.

**APR (Annual Percentage Rate):** The annualized interest rate that includes both the interest and certain fees associated with a loan or credit card.

**CPI (Consumer Price Index):** A measure that examines the average change in prices paid by consumers for goods and services, reflecting inflation.

**401(k) Match:** Employer contributions to an employee's 401(k) account, often based on a percentage of the employee's contributions.

**Dividend:** A payment made by a company to its shareholders, usually as a share of profits.

**Equity:** The ownership interest in an asset, calculated as the value of the asset minus any liabilities.

**Mutual Fund Expense Ratio:** The percentage of a mutual fund's assets used to cover operating expenses, including management fees.

**Index Fund:** A type of mutual fund or exchange-traded fund (ETF) that tracks a specific market index.

**Certificate of Deposit (CD):** A time deposit with a fixed term and interest rate, usually issued by banks.

**Net Income:** The total income earned by an individual or company after deducting expenses and taxes.

**Bear Market:** A market condition characterized by a prolonged decline in investment prices, typically 20% or more from recent highs.

**Bull Market:** A market condition characterized by a sustained rise in investment prices.

**Home Equity:** The market value of a homeowner's unencumbered interest in their property, calculated as the home's value minus outstanding mortgage debt.

**Liquidity:** The ease with which an asset can be converted into cash without affecting its market price.

**ROE (Return on Equity):** A financial metric that measures a company's profitability by calculating the return generated on shareholders' equity.

**Covenant:** A condition or agreement included in a loan or bond that requires the borrower to fulfill certain obligations.

**Recession:** A significant decline in economic activity, often measured by GDP contraction, lasting for an extended period (typically 2 consecutive quarters).

**529 Prepaid Tuition Plan:** A type of 529 plan that allows parents to prepay tuition at today's rates for use in the future.

**Homeowners Insurance:** Insurance that provides financial protection against damage to one's home, as well as liability coverage.

**Lien:** A legal right or interest that a lender has in the borrower's property, granted until the debt is repaid.

**Debt-to-Income Ratio (DTI):** A measure of an individual's debt compared to their income, used to assess financial health.

**Mortgage:** A loan used to finance the purchase of real estate, with the property itself serving as collateral for the loan. The borrower makes regular payments over time, including both principal and interest, until the loan is fully repaid.