

1. Amortization - It is an accounting technique by which intangible assets are written off over a period of time.

For example provision for doubtful debts or preliminary expenses are written off over a certain period of time.

2. Annuity - It is an investment scheme under which investor makes recurring investments and lump sum payment is made to him at the end. Common example is Recurring deposit account at a post office where people makes small monthly deposits and gets their money back at the end of period. Benefit of Annuity is investor gets compound interest over a period of time.

3. Depreciation - Depreciation is reduction in value of an asset due wear and tear over a period of time.

For example a company purchased a machine in 2005 and planned to charge 20% depreciation. In 2010 the machine will be written off from the books of account.

4. Index - It is statistical measure used to find price variations in market. In stock markets most dominating stocks are grouped to make an index.

For example - Sensex.

5. Interest rate risk – Risk that value of financial assets will deteriorate because of fall in interest rate.

For example value of bonds decreases with decrease in interest rate.

6. Asset allocation is where you choose to put your money. The three major asset classes are stocks, bonds and cash (or cash equivalents). Each of these reacts differently to conditions in the market and economy, so be sure you choose those that line up best with your personal goals, risk tolerance and time horizon.

For example, investing in stocks could give you strong growth over time, but they can also be quite volatile. Thus, one of the most common pieces of investment advice out there is to diversify your portfolio — or put your money in several buckets to make sure you're risking as little as possible while still achieving your particular goals.

7. Rebalancing: Rebalancing is a standard practice in any portfolio. It is the process of bringing your stocks and bonds back to your desired percentages.

For example, let's say your target allocation is 60 percent stocks, 20 percent bonds and 20 percent cash. If the stock market has performed particularly well over the past year, your allocation may now have shifted to 70 percent stocks, 10 percent bonds and 20 percent cash.

To rebalance your portfolio, you could sell some of your stocks and reinvest that money in bonds, or invest new money in bonds to bring the portfolio back to the original balance.

8. Stock options can be offered by companies as management incentives. These options give you the right (but not the obligation) to buy your employer's stock at a pre-set price within a specified time period.

For example, if a manager helps boost the value of the company's stock above the price of his or her option, the manager can buy the stock at the lower price and pocket the gain if they sell. But all shareholders benefit from the increased value of the stock.

9. Hedging is a tool to minimize the risks. It is thus like an 'insurance' where one pays a premium but gets an assured amount in case of some uncertain event to the extent of the loss actually suffered on an equally opposite position for which the hedge was done. Thus, hedger is different from arbitrageur and speculators, as the intention here is not to maximize the profit but to minimize the loss.

E.g. In Capital Markets, suppose an investor has an equity portfolio of Rs. 2 lacs and the portfolio consist of all the major stocks of NIFTY. He thinks the market will improve in the long run but might go on a downside in the short run. NIFTY today stands at 4300. To minimize the risk of downfall, he enters into an option contract by buying NIFTY-PUT of strike 4300 at a premium of, say, Rs. 100. Thus, the actual amount paid is Rs. 5,000 (lot size of NIFTY is 50). Also, the number of NIFTY-PUTs to be bought will vary on the beta of the portfolio so as to completely hedge the position.

10. Blue chip - A high-quality, relatively low-risk investment; the term usually refers to stocks of large, well-established companies that have performed well over a long period. The term Blue Chip is borrowed from poker, where the blue chips are the most valuable.

11. Bond - A bond acts like a loan or an IOU that is issued by a corporation, municipality or the U.S. government. The issuer promises to repay the full amount of the loan on a specific date and pay a specified rate of return for the use of the money to the investor at specific time intervals.

12. Rupee cost averaging - Investing the same amount of money at regular intervals over an extended period of time, regardless of the share price. By investing a fixed amount, you purchase more shares when prices are low, and fewer shares when prices are high. This may reduce your overall average cost of investing.

13. Prospectus - Formal written offer to sell securities that sets forth the plan for proposed business enterprise or the facts concerning an existing one that an investor needs to make an informed decision. Prospectuses are also issued by mutual funds, containing information required by the SEC, such as history, background of managers, fund objectives and policies, financial statement, risks, services and fees.

14. Asset Allocation A method of investing by which investors include a range of different investment classes, such as stocks, bonds, and cash equivalents, in their portfolios. See Diversification.

15. Bond RatingA rating or grade that is intended to indicate the credit quality of a bond, considering the financial strength of its issuer and the likelihood that it will repay the debt. Agencies such as Standard & Poor's, Moody's Investors Service, and Fitch issue ratings for different bonds, ranging from AAA (highly unlikely to default) to D (in default).

16. Emerging MarketGenerally, economies that are in the process of growth and industrialization, such as in Africa, Asia, Eastern Europe, the Far East, Latin America, and the Middle East which, while relatively undeveloped, may hold significant growth potential in the future. Investing in these economies may provide significant rewards, and significant risks. May also be called developing markets.

17. Exchange Traded Fund (ETF)An investment company, such as a mutual fund, whose shares are traded throughout the day on stock exchanges at market-determined prices.

18. Financial StatementsThe written record of the financial status of a fund or company, usually published in the annual report. The financial statements generally include a balance sheet, income statement, and other financial statements and disclosures.

19. Growth FundA fund that invests primarily in the stocks of companies with above-average risk in return for potentially above-average gains. These companies often pay small or no dividends and their stock prices tend to have the most ups and downs from day to day.

20. Large Cap StocksStocks of companies with a large market capitalization. Large caps tend to be well-established companies, so their stocks typically entail less risk than smaller caps, but large-caps also offer less potential for dramatic growth.

21. Mid Cap StocksStocks of companies with a medium market capitalization. Mid-caps are often considered to offer more growth potential than larger caps (but less than small caps) and less risk than small caps (but more than large caps).

22. Money Market FundA mutual fund that invests in short-term, high-grade fixed-income securities, and seeks the highest level of income consistent with preservation of capital (i.e., maintaining a stable share price).

23. Mutual FundAn investment company registered with the SEC that buys a portfolio of securities selected by a professional investment adviser to meet a specified financial goal (investment objective). Mutual funds can have actively managed portfolios, where a professional investment adviser creates a unique mix of investments to meet a particular investment objective, or passively managed portfolios, in which the adviser seeks to parallel the performance of a selected benchmark or index.

24. Portfolio ManagerThe individual, team or firm who makes the investment decisions for an investment fund, including the selection of the individual investments.

25. Portfolio Turnover RateA measure of how frequently investments are bought and sold within an investment fund during a year. The portfolio turnover rate is usually expressed as a percentage of the total value of an investment fund.

26. VolatilityThe amount and frequency of fluctuations in the price of a security, commodity, or a market within a specified time period. Generally, an investment with high volatility is said to have higher risk since there is an increased chance that the price of the security will have fallen when an investor wants to sell.

27. Asset turnover ratio - This ratio can be explained as $\text{Net assets} / \text{Total turnover or sales}$. This ratio measures the operational efficiency of business assets. In simple terms this measures how many times total assets turned in a year and how efficiently the assets are used in a business.

28. Acid test ratio - This is one of the important ratios to measure business liquidity. Business liquidity is defined as ability of a business to pay its short-term debts. $\text{Acid test ratio} = \text{Highly liquid assets} / \text{current liabilities}$

29. Margin call - Margin call term is used in two situations. **First** - Whenever a lender gives a secured loan and loan value is a fixed percentage of loan then whenever the value of security decrease below the decided ratio then lender given a margin call to borrower to bring loan to security ratio to decided level. **Second** - in stock exchanges traders' trades in various securities by paying 20-30% of the value of securities. Whenever the value of security goes below that margin, broker gives margin call to trader to bring the margin to desired level.

30. Mark-to-market - As explained above while defining margin call, value of assets in case of securities is measured on daily basis. If the trader's asset value increased, increased value is transferred to his account. In case the value of assets decreased margin, call is made to adjust the margin.

31. Goodwill:

It is an intangible asset that is defined as the excess value of the purchase price over the fair market value (book value) of an acquired business.

For example, if a company is sold for Rs.100 billion with book value of Rs. 70 billion, then the goodwill paid for purchasing this company would be Rs. 30 billion--the total sales price (Rs. 100 billion) minus the book value (Assets-Liabilities) of Rs. 70 billion.

32. Revenue Expenditure:

Expenditure which are of recurring in nature and which are incurred for a short period (less than a year) are considered as a Revenue Expenditure.

For example, Salary, Stationary expenses, Wages etc. are of recurring in nature so they are considered as a Revenue Expenditure.

33. Capital Expenditure:

Unlike general expenses that provide benefit over a short period time (i.e., employee's work, taxes, etc.), capital expenditures provide benefit over a longer period of time. Due to the duration of their estimated benefit-usually several years-capital expenditures are capitalized on the balance sheet.

For example, Fixed Assets like Building, Furniture, Machinery etc. provide benefit over a longer period of time so they are considered as Capital Expenditure.

34. Bankruptcy:

Legal process, governed by federal statute, whereby the Debts of an insolvent person are liquidated after being satisfied to the greatest extent possible by the Debtor's assets. During bankruptcy, the debtor's assets are held and managed by a court appointed Trustee.

For Example Kingfisher Airlines are declared bankrupt.

35. Current Asset:

Assets that one can reasonably expect to convert into cash, sell, or consume in operations within a single operating cycle, or within a year if more than one cycle is completed each year.

Inventories, Cash, Debtors etc. are few examples of Current Assets.

36. Current Liability

Obligation whose liquidation is expected to require the use of existing resources classified as Current Assets, or the creation of other current liabilities.

Creditors, Bills Payable Bank Overdraft etc. are few examples of Current Liability.

37. Earnings per Share (EPS)

It is calculated by dividing the net earnings (PAT) of a company by the average number of shares outstanding during a period.

For example, The Net Profit of the company is Rs. 200000 and outstanding shares are 1000, then EPS of the company is Rs. 200.

38. Intangible Assets:

An intangible asset is an asset that is not physical in nature.

Goodwill, brand recognition and intellectual property, such as patents, trademarks, and copyrights, are all intangible assets.

38. Amortization:

Amortization is an accounting technique used to periodically lower the book value of a loan or intangible asset over a set period of time. The term "amortization" can refer to two situations.

First, amortization is used in the process of paying off debt through regular principal and interest payments over time. An amortization schedule is used to reduce the current balance on a loan, for example a mortgage or car loan, through instalment payments.

Second, amortization can also refer to the spreading out of capital expenses related to intangible assets over a specific duration – usually over the asset's useful life – for accounting and tax purposes.

39. Cash flow statement:

A cash flow statement is a financial statement that provides aggregate data regarding all cash inflows a company receives from its ongoing operations and external investment sources. It also includes all cash outflows that pay for business activities and investments during a given period. The overall cash flow statement is divided in three sections: Cash flow from Operating activity, Cash flow from financing activity and Cash flow from Investment activity.

40. Contingent Liability:

A contingent liability is a liability that may occur depending on the outcome of an uncertain future event. A contingent liability is recorded if the contingency is likely and the amount of the liability can be reasonably estimated. The liability may be disclosed in a footnote on the financial statements unless both conditions are not met.

Assume that a company is facing a lawsuit from a rival firm for patent infringement. The company's legal department thinks that the rival firm has a strong case, and the business estimates a \$2 million loss if the firm loses the case. Because the liability is both probable and easy to estimate, the firm posts an accounting entry on the balance sheet to debit (increase) legal expenses for \$2 million and to credit (increase) accrued expense for \$2 million.

41. Wealth:

Wealth relates to the total value of all assets: physical and financial assets a person owns or possesses.

For example, out of the income that we earn Rs. 100000 per month, we have to spend a Rs. 80000 regularly on our necessities including food, clothing, shelter, transport, and entertainment. After spending on our daily basic necessities, we have Rs. 20000 surplus income; it may be used to acquire some assets, such as a home, car, jewellery, stocks and bonds. These assets determine our wealth.

42. Financial Planning:

Financial planning is the process of meeting your life goals through the proper management of your finances.

For example, financial planning is planning which deals with money. In the hill station trip example, we did not consider only money aspect but all other related things. Financial planning is done both by the individuals for their own future life (PFP) and business people to know about the funds required for a future period and the sources of funds available. Whether an individual is in college getting ready to graduate, at the peak of his or her career, or close to retirement, everyone needs to think about their financial future.

43. Measurable goals:

Set specific targets of what you want to achieve with a specific time line.

For example, instead of saying that I want to be comfortable when I retire, or that I want to send my children to good schools, I should be able to quantify what “comfortable” and “good” means. I will have to be as specific as “I need Rs.100000 pm income post retirement for 25 years from the age of 60, considering the anticipated inflation rate at 5%. These plans may have to be changed keeping in view the market scenario or a changed need.

44. Net worth:

Net worth is the amount of actual wealth that an individual, family or company has. It is the net money value of the assets after meeting the liabilities. i.e. net worth = total assets – total liabilities.

For example, If you have total assets worth Rs. 1000 cr and total debt or liabilities with interest Rs. 700 cr, so it is the total amount of money Rs. 300 cr that remains available is your net worth, after selling all the assets at market value and paying off all liabilities or debts along with interest, if any.

44. Power of Compounding:

Compounding is a simple concept that offers return on returns with principle amount: if you park your money in an investment with a given return, and then reinvest those earnings as you receive them, your investment grows exponentially over time.

Assuming Mala and Gita invest Rs.1,00,000 this year. Both of them earn an interest of 10% p.a. However, Mala has invested in a simple interest scheme, where the interest is given to her every year. However, Gita has invested in a scheme with compounded interest. So, at the end of 1st year, both of them will have earned interest of Rs.10,000. However, in the 2nd year, Mala invests the same Rs.1,00,000 and gets interest of Rs.10,000. However, Gita’s investment increases to Rs.1,10,000 and her interest earned increases to Rs.11,000. As the years increase, the income for Gita also increases proportionately.

45. Capital Gain:

Capital gain is an increase in the value of an investment that gives the higher worth by the difference between the net purchase price and the net sale price.

For example, if you have purchase the stock of Reliance worth Rs. 100000 and you are selling this stock worth Rs. 120000 a year hence, then the difference of Rs. 20000 is your capital gain.

46. Diversification:

Diversification is the practice of investing in multiple asset classes and securities with different risk characteristics to reduce the risk of owning any single investment.

For example, you are investing total Rs. 10 lakhs into four different assets Rs. 250000 each in gold, bond, equity and mutual funds with different features to reduce the risk.

47. Strategic Asset Allocation:

This is a portfolio strategy that involves sticking to long-term asset allocation. Strategic asset allocation ignores the anomalies in the stock or bond or other markets and focuses only on the investor's needs.

For example, if you have invested Rs. 100000 in to the mutual funds before one year for down payment of the car after 5 years and now equity market is crashed and value of your investment comes down Rs. 85000 means loss of Rs. 15000. But you are ignoring current value of your investment and stick to your goal after 5 years, it is your strategic asset allocation.

48. Tactical Asset Allocation:

An active portfolio management strategy that rebalances the percentage of assets held in various categories in order to take advantage of market pricing anomalies or strong market sectors. Tactical asset allocation believes that the various markets keep offering opportunities that can be exploited to enhance the portfolio returns.

For example, if you want an asset allocation consisting of 45% stocks, 45% bonds and 10% cash. Historically, stocks have performed extremely well.

Your portfolio manager recently noted that the yield curve has inverted, a leading indicator of a recession. The portfolio manager tells you that the portfolio's asset class should be shifted to 20% stocks, 70% bonds and 10% cash due to fears of a recession and potentially poor stock returns. In doing so, the portfolio manager is employing a tactical asset allocation strategy.

49. Risk Averse:

A risk averse investor is an investor who prefers lower returns with known risks rather than higher returns with unknown risks.

For example, investor stays away from high risk investments and prefers investments which provide a sure shot return. Such investors like to invest in government bonds, debentures and index funds.

50. Risk Seekers:

Risk seeking or risk-loving describes a person who cannot get enough risk. He or she prefers an investment with an uncertain outcome rather than one with the same expected returns and certainty that they will be delivered.

For example, if you offer either Rs. 100 guaranteed or a 50% chance of either Rs. 200 or Rs. 0, a risk-seeking individual will prefer the Rs. 200 or nothing option, even though both options have the same expected value means Rs. 200 plus Rs. 0 divided by two possibilities, which equals Rs. 100.

51. Corpus:

Money available with an investment scheme for investment. If already invested, then corpus is the total value of the investment portfolio.

For example, if you have invested Rs. 10 lakhs in the various investment options, then total value of portfolio worth Rs. 10 lakhs is the corpus of the investment.

52. Systematic Risk:

Systematic risk is the risk caused by macroeconomic factors within an economy and is beyond the control of investors or companies. This risk causes a fluctuation in the returns earned from risky investments. It is also called non-diversifiable risk.

For example, the world's stock markets are facing the economic impact due to pandemic effect of corona virus and industrial shutdown. There is least or no production of the products and services world-wide which gives negative returns from stock market. It is not only for company specific but for global economy as a whole.

53. Unsystematic Risk:

Unsystematic Risk is an industry or firm-specific threat in each kind of investment. It is also known as "Specific Risk", "Diversifiable risk" or "Residual Risk". These are risks which are existing but are unplanned and can occur at any point in causing widespread disruption.

For example, if the staff of the airline industry goes on an indefinite strike, then this will cause risk to the shares of the airline industry and fall in the prices of the stock impacting this industry.

54. Beta:

Beta is a numeric value that measures the fluctuations of a stock to changes in the overall stock market.

For example, if a stock's beta value is 1.3, it means, theoretically this stock is 30% more volatile than the market means the market is expected to move up by 10%, then the stock should move up by 13% (1.3×10).

55. Alpha:

Alpha is a measure of the performance of an investment as compared to a suitable benchmark index, such as the Nifty 50. An alpha of one shows that the return on the investment during a specified time frame outperformed the overall market average by 1%. A negative alpha number reflects an investment that is underperforming as compared to the market average.

For example, assuming that the actual return of the fund is 30%, the risk-free rate is 8%, beta is 1.1, and the benchmark index return is 20%, alpha is calculated as:

$$\begin{aligned}\text{Alpha} &= R - R_f - \text{beta} (R_m - R_f) \\ \text{Alpha} &= (0.30 - 0.08) - 1.1 (0.20 - 0.08) \\ &= 0.088 \text{ or } 8.8\%\end{aligned}$$

The result shows that the investment in this example outperformed the benchmark index by 8.8%

56. Financial Year:

Financial year is the year or the time period within which income is earned. Financial year ends on 31st of March and begin on the 1st April.

For example, employee is working in the organisation and got the salaries for the months of April 1st 2019 to March 31st 2020 is considered for the financial year 2019-2020.

57. Assessment Year:

Assessment year is the year immediately following the financial year wherein the income of the F.Y. is assessed. Assessment year also ends on 31st of March and begin on the 1st April.

For example, in the above example salary income of employee is for the financial year 2019-2020 and its assessment year is 2020 – 2021.

58. Contingency Fund:

A contingency fund, also known as a contingency reserve or emergency fund, is savings that you set aside for a financial emergency.

For example, Mr Khanna was planning for a family vacation this summer. However, last week his wife met with an accident and his plans went down the drain. He had to arrange funds for the sudden medical expenditure. In situations like Mr Khanna's, the financial goals that we dream off—may all go haywire due to an emergency expenditure. A high financial exodus may even affect day-to-day spending to run a home, including servicing EMIs for a home loan. So have to build emergency funds for meeting unexpected expenditures.

59. Estate Planning:

Estate planning involves the accumulation and distribution of estates or wealth to the beneficiaries such as spouse, children, and other close relatives.

Estate include includes your home, cars, retirement accounts, saving accounts, and insurance proceeds; basically it covers all your movable and immovable assets.

60. Financial Goals:

Financial goals are the personal, big-picture objectives you set for how you'll save and spend money.

Examples of financial goals include: paying off debt, saving for retirement, building an emergency fund, buying home or car, saving for vacations, etc.