A Plain-English Glossary of Financial Terms

Vocabulary of common words and concepts you can actually use.

Capital: The money you put to work to generate future returns. Think of it as the fuel for your long-term financial engine.

Security: An umbrella term for any tradable financial asset. It is essentially a receipt proving you own a piece of something (a stock) or that someone owes you money (a bond).

Stocks: You own a slice (or slices) of a company, depending on how many shares you own. You participate in its growth and its losses; higher risk, higher potential reward.

Bonds: A loan you make to a company or government. In return, the issuer pays you interest and repays your principal when the bond matures. Generally lower risk than stocks, and a common stabilizer in a portfolio.

Mutual Funds: A professionally managed pool of money from many investors that buys a mix of stocks, bonds, or other securities, often from hundreds or thousands of issuers at once, giving you instant diversification. Mutual funds are priced once a day, after the market closes.

Exchange-Traded Funds (ETFs): Like mutual funds but built for modern trading. They trade all day like a stock, with a price that moves constantly.

Money Market Funds: Short-term, highly liquid, and designed to preserve your principal while paying a return tied to current interest rates. They have a long track record of stability, and losses have been rare. They won't make you rich, but they typically yield more than a checking account. Unlike bank deposits, they are not FDIC insured or guaranteed.

Compound Interest: You earn a return on your original investment, and over time, a return on the returns you've already earned. It is a snowball effect and is the key to building long-term wealth.

Inflation: The invisible tax. Why? Because this represents the slow rise in the cost of everyday goods and services, which erodes what your money can buy (known as buying power). Outpacing inflation over time is one of the core goals of investing.

Diversification: Spreading your money across different types of investments so that a problem at one company or in one sector does less damage to your overall portfolio. Diversification reduces the risk of any single investment, but it does not protect against losses when the broader market declines.

Options (Calls and Puts): Contracts, not ownership. A call gives you the right, but not the obligation, to buy an investment at a set price by a set date. A put gives you the right to sell at a set price by a set date. If you buy an option, the most you can lose is what you paid for it, but options can expire worthless. Selling options can carry much larger risk. Approach with caution.

Short Selling: Borrowing shares and selling them now, betting you can buy them back cheaper later. If the price rises instead, your potential losses have no theoretical limit. Approach with extreme caution.

Cryptocurrency: Digital assets that exist outside the traditional banking system. Often marketed online as a fast path to wealth; in reality, highly speculative, less regulated than traditional securities, and prone to extreme swings.

Taxable Brokerage Account: An account at a licensed firm that lets you buy and sell securities. Unlike retirement accounts such as IRAs, there are no contribution limits or early withdrawal penalties. You generally owe taxes each year on dividends, interest, and realized gains, though investments held longer than a year can qualify for lower long-term capital gains rates.

IRA (Individual Retirement Account): A tax-advantaged account for retirement savings. Traditional IRA contributions may be tax-deductible, depending on your income and whether you have a retirement plan at work, and withdrawals are taxed as income. Withdrawals can include penalties if taken before age 59½. A Roth IRA is funded with after-tax dollars, and qualified withdrawals, including growth, are tax-free (generally after age 59½ and once the account has been open at least five years).