第一部分. Important terms in finance English

01. Bad Debt

Debt from a credit sale that the creditor is unable to collect. Debt becomes bad debt when the creditor has made all reasonable efforts to collect the debt but has been unable to do so. Often, this occurs when the debtor declares bankruptcy or when pursuing collection attempts further will cost more than the debt itself. A company writes off bad debt as an expense, which reduces its taxable income. However, it also deprives the company ofcash flow that is ultimately necessary to keep it in business.

02. Bankruptcy

A legal declaration that one is unable to pay one's debts and thus needs to have debts forgiven or reorganized. That is, bankruptcy is a legal proceeding in which a person or corporation has become insolvent, and therefore cannot pay his/her/its obligations. Most of the time, the person or corporation files this declaration with a bankruptcy court, though in some cases the creditors may do so themselves. In bankruptcy proceedings, one's assets and debts are evaluated and debts are repaid according to the debtor's ability to pay, what the creditors will accept, and what the court and the law decide.

In the United States, bankruptcy falls under federal jurisdiction. There are three main types of American bankruptcy. In Chapter 7, the person or company's assets are liquidated and creditors are repaid out of the proceeds from the liquidation. All remaining debts are then discharged. If a company files for Chapter 7 protection, it ceases operation. In bankruptcy, a company files a reorganization plan with the court whereby it continues operation and creditors are repaid for part of what they are owed; all other debts are discharged. In Chapter 13, the person or company remains in debt, but payments are lowered, repayment periods are extended, and the company remains in business.

The financial status of a firm that has been legally judged either to have debts that exceed assets or to be unable to pay its bills. Formal bankruptcy may result in reorganization and continued operation of the firm or it may require liquidation and distribution of the proceeds. In either case, most security owners, especially shareholders, are likely to suffer losses.

In the United States, a type of bankruptcy where a person's or company's assets are required to be liquidated. The court appoints a trustee, who may or may not be a part of the company, to oversee the liquidation process. If a company files for chapter 7, it ceases operations. The company's creditors receive the proceeds from liquidation according to the system of absolute priority; that is, secured creditors are paid first, then if anything is left unsecured creditors are paid, then preferred stockholders, and finally common stockholders. A company files for chapter 7 proceedings when its management believes that reorganizing according to a court-mandated plan would not result in the company becoming profitable.

03. Credit Card

A card entitling the owner to use funds from the issuing company up to a certain limit. The holder of a credit card may use it to buy a good or service. When one does this, the issuing company effectively gives the card holder a loan for the amount of the good or service, which the holder is expected to repay. Most credit cards have variable and relatively high interest rates on these loans. Credit cards also have a limit, which may be raised or lowered depending on the creditworthiness of the card holder. Most analysts recommend treating a credit card as a short-term loan, as allowing the interest to compound for too long may result in dire financial straits.

04. Cash Flow

1. Cash that comes into or goes out of a person's or company's account. Cash flow can come from any number of sources and is crucial for a business' continued operation and a person's continued survival. Cash inflow may come from wages, salary, sales, loans, revenue from operations, or even personal gifts. Cash outflow usually comes from expenses and investments. It is crucially important to maintain a positive net cash flow insofar as possible.
2. In accounting, an item on a financial statement indicating cash flow.

Cash flow is a measure of changes in a company's cash account during an accounting period, specifically its cash income minus the cash payments it makes. For example, if a car dealer sells $100,000 worth of cars in a month and spends $35,000 on expenses, it has a positive cash flow of $65,000. But if it takes in only $35,000 and has $100,000 in expenses, it has a negative cash flow of $65,000. Investors often consider cash flow when they evaluate a company, since without adequate money to pay its bills, it will have a hard time staying in business. You can calculate whether your personal cash flow is positive or negative the same way you would a company's. You'd subtract the money you receive (from wages, investments, and other income) from the money you spend on expenses (such as housing, transportation, and other costs).

If there's money left over, your cash flow is positive. If you spend more than you have coming in, it's negative.

(1) In business as in personal finance, cash flows are essential to solvency. They can represent past activities, such as the sale of a particular product, or forecast what a business or a person expects to take in and spend in the future. Cash flow is crucial to an entity's survival. Having ample cash on hand will ensure that creditors, employees. and others can be paid on time. If a person or business does not have enough cash to support

its operations, it is said to be insolvent and a likely candidate for bankruptcy if the insolvency continues. (2) The statement of a business's cash flows often is used by analysts to gauge the business's financial performance. Companies with ample cash flow are able to invest the cash back into the business to generate more cash and profit.

Cash Flow came from Investing Activities

On a cash flow statement, an item summarizing the change to a company's cash flow from its investments in securities. Cash flow from investing activities includes capital gains and losses. It is important to the cash flow statement because investments in securities may result in negative cash flow even when the company is otherwise profitable. Depending on the liquidity of the company's portfolio, the negative cash flow may actually be positive.

05. Investment

The act of placing capital into a project or business with the intent of making a profit on the initial placing of capital. An investment may involve the extension of a loan or line of credit, which entitles one to repayment with interest, or it may involve buying an ownership stake in a business, with the hope that the business will become profitable. Investing may also involve buying a particular asset with the intent to resell it later for a higher price. Many types of investing exist, and each is subject to greater or lesser regulation in the jurisdiction in which it takes place. Legally, investing requires the existence and protection of individual property rights. Investing wisely requires a combination of astuteness, knowledge of the market, and timing.

06. Asset Allocation

What Does *Asset Allocation* Mean?

An investment strategy that aims to balance risk and reward by spreading investments across three main asset classes—equities, bonds, and cash—in accordance with an individual's goals, risk tolerance, and investment horizon. Historically, different asset classes have varying degrees of risk and return and therefore behave differently over time.

An active management strategy for a portfolio or fund with a basic set of securities. The investor or money manager changes the securities represented in the portfolio or fund as one's investment goals change. It is important to note, however, that asset allocation implies diversification to the portfolio or fund. The investor or money manager may use fundamental, technical, and/or macroeconomic analysis in determining when and how to change the securities in the portfolio or fund.

Asset allocation is a strategy, advocated by modern portfolio theory, for reducing risk in your investment portfolio in order to maximize return.

Specifically, asset allocation means dividing your assets among different broad categories of investments, called asset classes. Stock, bonds, and cash are examples of asset classes, as are real estate and derivatives such as options and futures contracts. Most financial services firms suggest particular asset allocations for specific groups of clients and fine-tune those allocations for individual investors. The asset allocation model -- specifically the percentages of your investment principal allocated to each investment category you're using- that's appropriate for you at any given time depends on many factors, such as the goals you're investing to achieve, how much time you have to invest, your tolerance for risk, the direction of interest rates, and the market outlook. Ideally, you adjust or rebalance your portfolio from time to time to bring the allocation back in line with the model you've selected. Or, you might realign your model as your financial goals, your time frame, or the market situation changes.

07. Modern Portfolio Theory

What Does *Modern Portfolio Theory (MPT)* Mean?

An investment theory that demonstrates how risk-averse investors can construct portfolios that best maximize expected returns on the basis of a specific level of market risk while emphasizing that risk is inevitable when one is seeking higher returns; also called portfolio theory or portfolio management theory. A theory of investing stating that every rational investor, at a given level of risk, will accept only the largest expected return. More specifically, modern portfolio theory attempts to account for risk and expected return mathematically to help the investor find a portfolio with the maximum return for the minimum about of risk.

A Markowitz efficient portfolio represents just that: the most expected return at a given amount of risk (sometimes excluding zero risk). Harry Markowitz first began developing this theory in an article published in 1952 and received the Nobel prize for economics for his work in 1990. In making investment decisions, adherents of modern portfolio theory focus on potential return in relation to potential risk.

The strategy is to evaluate and select individual securities as part of an overall portfolio rather than solely for their own strengths or weaknesses as an investment. Asset allocation is a primary tactic according to theory practitioners. That's because it allows investors to create portfolios to get the strongest possible return without assuming a greater level of risk than they are comfortable with.

http://financial-dictionary.thefreedictionary.com/Modern+Portfolio+Theory

08. **Risk.**

Risk is the possibility you'll lose money if an investment you make provides a disappointing return. All investments carry a certain level of risk, since investment return is not guaranteed.

According to modern investment theory, the greater the risk you take in making an investment, the greater your return has the potential to be if the investment succeeds. For example, investing in a startup company carries substantial risk, since there is no guarantee that it will be profitable. But if it is, you're in a position to realize a greater gain than if you had invested a similar amount in an already established company. **As a rule of thumb**, if you are unwilling to take at least some investment risk, you are likely to limit your investment return.

Risk

The uncertainty associated with any investment. That is, risk is the possibility that the actual return on an investment will be different from its expected return. A vitally important concept in finance is the idea that an investment that carries a higher risk has the potential of a higher return. For example, a zero-risk investment, such as a U.S. Treasury security, has a low rate of return, while a stock in a start-up has the potential to make an investor very wealthy, but also the potential to lose one's entire investment. Certain types of risk are easier to quantify than others. To the extent that risk is quantifiable, it is generally calculated as the standard deviation on an investment's average return.

09. Systemic Risk

A risk that is carried by an entire class of assets and/or liabilities. Systemic risk may apply to a certain country or industry, or to the entire global economy. It is impossible to reduce systemic risk for the global economy (complete global shutdown is always theoretically possible), but one may mitigate other forms of systemic risk by buying different kinds of securities and/or by buying in different industries. For example, oil companies have the systemic risk that they will drill up all the oil in the world; an investor may mitigate this risk by investing in both oil companies and companies having nothing to do with oil. Systemic risk is also called systematic risk or undiversifiable risk. **Systemic Risk** also called undiversifiable risk or market risk which is risk that's characteristic of an entire market, a specific asset class, or a portfolio invested in that asset class. It's the opposite of the risk posed by individual securities in a class or portfolio, also known as nonsystematic risk. The predictable impact that rising interest rates have on the prices of previously issued bonds is one example of systematic risk. A good example of a systematic risk is market risk. The degree to which the stock moves with the overall market is called the systematic risk and denoted as beta.

http://financial-dictionary.thefreedictionary.com/Systematic+Risk

10. Unsystematic risk

What Does *Unsystematic Risk* Mean?

Company- or industry-specific risk as opposed to overall market risk; unsystematic risk can be reduced through diversification. As the saying goes, “Don't put all of your eggs in one basket.”

Also known as specific risk, diversifiable risk, residual risk and idiosyncratic risk. Unsystematic risk or risk that is uncorrelated to the overall market risk. In other words, risk that is firm-specific and can be diversified through holding a portfolio of stocks. Also called the diversifiable risk or residual risk. The risk that is unique to a company such as a strike, the outcome of unfavorable litigation, or a natural catastrophe that can be eliminated through diversification. Risk that is unique to a certain asset or company. An example of nonsystematic risk is the possibility of poor earnings or a strike amongst a company's employees. One may mitigate nonsystematic risk by buying different of securities in the same industry and/or by buying in different industries. For example, a particular oil company has the diversifiable risk that it may drill little or no oil in a given year. An investor may mitigate this risk by investing in several different oil companies as well as in companies having nothing to do with oil. Nonsystematic risk is also called diversifiable risk.

http://financial-dictionary.thefreedictionary.com/Unsystematic+Risk

11. Principle of diversification

That portfolios of different sorts of assets differently correlated with one another will have negligible unsystematic risk. In other words, unsystematic risks disappear in diversified portfolios, and only systematic risks persist, those related to particular assets. A principle of investing stating that a portfolio containing many different assets and kinds of assets carries lower risk than a portfolio with only a few. The principle of diversification states that unsystematic risk may be alleviated through diversification, but systemic risk is more difficult to reduce. That is, the risk associated with a single investment or type of investment may be offset by the risk of another investment or type of investment.

http://financial-dictionary.thefreedictionary.com/Principle+of+Diversification

12. Foreign Direct Investment

A major investment by a foreign corporation. A common example of foreign direct investment is a situation in which a foreign company comes into a country to build or buy a factory. Many economists believe that foreign direct investment is good for an economy, as it provides jobs and increases domestic capital. Critics point out that profits from foreign direct investment usually leave the country and go to the foreign company. Encouraging foreign direct investment is a major part of some IMF restructuring programs.

13. Foreign Exchange Market

Largely banks that serve firms and consumers who may wish to buy or sell various currencies.A market for the trading of currencies. For example, one may buy dollars or sell pounds on a forex market. Foreign exchange is one the largest and most liquid markets in the world. Trading occurs over-the-counter, and most of the major players are governments, banks, and speculators. Forex markets are often used in hedging strategies.

http://financial-dictionary.thefreedictionary.com/Foreign+Exchange+Market

14. Stock market.

What Does *Stock Market* Mean?

The term for the overall market in which shares are issued and traded on exchanges or in over-the-counter markets. Also known as the equity market, it is one of the most vital areas of a market economy because it provides companies with access to capital and allows investors to own companies and participate in economic growth. A stock market may be a physical place, sometimes known as a stock exchange, where brokers gather to buy and sell stocks and other securities. The term is also used more broadly to include electronic trading that takes place over computer and telephone lines. In fact, in many markets around the world, all stock trading is handled electronically.

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15. Stock dividend

Payment of a corporate dividend in the form of stock rather than cash. The stock dividend may be additional shares in the company, or it may be shares in a subsidiary being spun off to shareholders. Stock dividends are often used to conserve cash needed to operate the business. Unlike a cash dividend, stock dividends are not taxed until sold. **Stock dividend** is a dividend that is paid in stock or bonds rather than cash. A stock dividend may be declared when the company is cash poor and cannot afford a dividend otherwise. They are generally not considered desirable because one must pay capital gainstax on stock dividends, even though there is no cash gain for the shareholder. It is also called a scrip dividend.

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16. Stock Index

A group of stocks put together in a standardized way to provide a useful window into a sector or market's performance at a glance. That is, a stock index groups together a certain list of stocks and usually takes an average of their prices so as to provide an idea of how the industry or market represented in the stock index is doing. Very often, stock indices are weighted to prevent a few data points from overwhelming it. For example, the S&P 500 is weighted according to market capitalization, while the DJIA is weighted for price.

http://financial-dictionary.thefreedictionary.com/Stock+Index

17. Intellectual Property Rights

The right of a person or company to exclusively use its own ideas, plans, and other intangible assets without competition, at least for a certain period of time. Examples of intellectual property include copyrights, trademarks, patents, and trade secrets. Intellectual property rights may be enforced by court through a lawsuit. The idea behind the protection of intellectual property is to encourage innovation without fear that a competitor may steal the idea and/or take credit for it. **Intellectual Property Rights** including Patents, copyrights, and proprietary technologies and processes that may be the basis of a company's competitive advantage.

http://financial-dictionary.thefreedictionary.com/Intellectual+Property+Rights

18. Intangible asset

What Does *Intangible Asset* Mean?

A company's nonphysical assets, such as intellectual property (items such as patents, trademarks, copyrights, and business methodologies), goodwill, and brand recognition; an intangible asset can be classified as either indefinite or definite. A company's brand name is considered an indefinite asset, as it stays with the company as long as the company continues operations. However, if a company entered into a legal agreement to operate under another company's patent, with no plans for extending the agreement, it would have a limited life and would be classified as a definite asset.

A legal claim to some future benefit, typically is a claim to future cash. Goodwill, intellectual property, patents, copyrights, and trademarks are examples of intangible assets. In accounting, any asset that cannot be seen or touched. Intangible assets include things like patents and brand recognition, which add value to a company, but are difficult to price. Intangible assets explicitly do not include actual things, such as widgets, a widget factory, or the land upon which the widget factory is built. Because of the difficulty in pricing, intangible assets are sometimes not included in a company's valuation. However, not including them may not express the company's true value. **See also:** Tangible assets**.**

http://financial-dictionary.thefreedictionary.com/Intangible+Asset

19. **Book value**

A company's total assets minus intangible assets and liabilities, such as debt. A company's book value might be higher or lower than its market value.

The net dollar value at which an asset is carried on a firm's balance sheet. For example, a building that was purchased for $900,000 but that has depreciated $200,000 has a book value of $700,000. Book value, an accounting concept, often bears little relation to an asset's market value. Also called *carrying value*, *depreciated cost*.

Book value is the net asset value (NAV) of a company's stocks and bonds.

Finding the NAV involves subtracting the company's short- and long-term liabilities from its assets to find net assets. Then you'd divide the net assets by the number of shares of common stock, preferred stock, or bonds to get the NAV per share or per bond. Book value is sometimes cited as a way of determining whether a company's assets cover its outstanding obligations and equity issues. Further, some investors and analysts look at the price of a stock in relation to its book value, which is provided in the company's annual report, to help identify undervalued stocks. Other investors discount the relevance of this information.

20. Net Asset Value

In stocks and businesses, an expression of the underlying value of the company. That is, it is a statement of the value of the company's assets minus the value of its liabilities. One way of thinking about the net asset value is that it is the underlying value of a company, not the value dictated by the supply and demand of shares or its market capitalization. It is also called the book value.

21. Asymmetric information

When somebody knows more than somebody else. Such asymmetric information can make it difficult for the two people to do business together, which is why economists, especially those practising game theory, are interested in it. Transactions involving asymmetric (or private) information are everywhere. A government selling broadcasting licences does not know what buyers are prepared to pay for them; a lender does not know how likely a borrower is to repay; a used-car seller knows more about the quality of the car being sold than do potential buyers. This kind of asymmetry can distort people's incentives and result in significant inefficiencies.

22. Asymmetric shock

When something unexpected happens that affects one economy (or part of an economy) more than the rest. This can create big problems for policymakers if they are trying to set amacroeconomic policy that works for both the area affected by the shock and the unaffected area. For instance, some economic areas may be oil exporters and thus highly dependent on the price of oil, but other areas are not. If the oil price plunges, the oil-dependent area would benefit from policies designed to boost demand that might be unsuited to the needs of the rest of the economy. This may be a constant problem for those responsible for setting the interest rate for the euro given the big differences--and different potential exposures to shocks--among the economies within the euro zone.

23. Arbitrage

Buying an asset in one market and simultaneously selling an identical asset in another market at a higher price. Sometimes these will be identical assets in different markets, for instance, shares in a company listed on both the London Stock Exchange and New York Stock Exchange. Often the assets being arbitraged will be identical in a more complicated way, for example, they will be different sorts of financial securities that are each exposed to identical risks. Some kinds of arbitrage are completely risk-free-this is pure arbitrage. For instance, if EUROS are available more cheaply in dollars in London than in New York, arbitrageurs (also known as arbs) can make a risk-free PROFIT by buying euros in London and selling an identical amount of them in New York. Opportunities for pure arbitrage have become rare in recent years, partly because of the GLOBALISATION of FINANCIAL MARKETS. Today, a lot of so called arbitrage, much of it done by hedge funds, involves assets that have some similarities but are not identical. This is not pure arbitrage and can be far from risk free.

24. Stagflation

Term coined in the 1970s for the twin economic problems of STAGNATION and rising INFLATION. Until then, these two economic blights had not appeared simultaneously. Indeed, policymakers believed the message of the PHILLIPS CURVE: that UNEMPLOYMENT and inflation were alternatives.

25. Stakeholders

All the parties that have an interest, financial or otherwise, in a company, including shareholders, CREDITORS, bondholders, employees, customers, management, the community and GOVERNMENT. How these different interests should be catered for, and what to do when they conflict, is much debated. In particular, there is growing disagreement between those who argue that companies should be run primarily in the interests of their shareholders, in order to maximise shareholder value, and those who argue that the wishes of shareholders should sometimes be traded off against those of other stakeholders.