

Glossary of Financial Terms

Rich Dad Education, LLC
1612 E. Cape Coral Parkway
Cape Coral, FL 33904

The Rich Dad® word marks and/or logos are owned by CASHFLOW Technologies, Inc. and any use of such marks by Rich Dad Education, LLC, is under license.

©2008 Rich Dad Education, LLC
All rights reserved.

DISCLAIMERS

This publication and the accompanying materials are designed to provide accurate and authoritative information in regard to the subject matter covered in it. It is provided with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional opinions. If legal advice or other expert assistance is required, the service of a competent professional should be sought. Reproduction or translation of any part of the information contained herein, in any form or by any means, without the written permission of the owner is unlawful.

All trading in the stock and/or options market involves risks. Any decisions to place trades are personal decisions that should be made after thorough research, including a personal risk and financial assessment. The company's products (including but not limited to training and coaching materials, and newsletters) are for educational and/or illustration purposes only, and are provided with the understanding that: (i) the company is not engaged in rendering legal, accounting, or other professional opinions; and (ii) no solicitation and/or recommendations to buy or sell any stocks and/or options is made herein. Virtual trade transactions are performed with delayed data. The company and employees, subcontractors, and alliances may own, buy, or sell the assets or options discussed for the purpose of trading at any time. No express or implied warranties are being made with respect to company services and products. If legal advice or other expert assistance is required, the service of a competent professional should be sought. The company is not liable in any form. You must receive a copy of the publication Characteristics and Risks of Standardized Options (ODD) prior to buying or selling an option. Copies of the ODD are available from your broker, at <http://cboe.com/Resources/Intro.aspx>, or from The Options Clearing Corporation, One North Wacker Drive, Suite 500, Chicago, Illinois 60606.

The educational training program provided hereunder is not designed or intended to qualify students for employment. It is intended solely for the avocation, personal enrichment, and enjoyment of students.

Access to EduTrader™ software features subject to maintaining a valid data subscription and may require additional or recurring fees.

GLOSSARY OF COMMON FINANCIAL INVESTMENT TERMS

Analyst—Employee of a brokerage or fund management house who studies companies and makes buy and sell recommendations on their stocks. Most specialize in a specific industry.

Annual Report—Yearly record of a publicly held company's financial condition. It includes a description of the firm's operations, and its balance sheet and income statement. SEC rules require that it be distributed to all shareholders. A more detailed version is called a 10-K.

Asset Allocation—Segments of a portfolio invested in different investment types.

Average—An arithmetic mean of selected stocks intended to represent the behavior of the market or some component of it. Example: Dow Jones Industrial Average.

Basis—The price an investor pays for a security plus any out-of-pocket expenses. It is used to determine capital gains or losses for tax purposes when the stock is sold.

Bear—An investor who believes a stock or the overall market will decline.

Bear Market—A prolonged period of falling stock prices, usually by 20% or more.

Bear Raid—A situation in which large traders sell positions with the intention of driving prices down.

Bull—An investor who thinks the market will rise.

Bull Market—A market which is on a consistent upward trend.

Buyout—Purchase of a controlling interest (or percent of shares) of a company's stock.

Call Option—An option contract that gives the holder of the option the right (but not the obligation) to purchase, and obligates the writer to sell, a specified number of shares of the underlying stock at the given strike price, on or before the expiration date of the contract.

Capital Gain—When a stock is sold for a profit, it's the difference between the net sales price of securities and their net cost, or original basis.

Capital Loss—When a stock is sold at a loss, it's the difference between the net cost of a security and the net sale price.

Cash Dividend—A dividend paid in cash to a company's shareholders.

Cash Flow—In financial investments, cash flow (sometimes called cash earnings) is earnings before depreciation, amortization, and non-cash charges. It is sometimes called funds from operations by real estate and other investment trusts. The cash flow of a company is an important indicator to investors of the company's ability to pay dividends.

Common Stock—Value of outstanding common shares at par, plus accumulated retained earnings. Also called shareholders' equity.

Confidence Indicator—A measure of investors' faith in the economy and the securities market. A low or deteriorating level of confidence is considered by many technical analysts as a bearish sign.

Confidence Level—The degree of assurance that a specified failure rate is not exceeded.

Confirmation—The written statement that follows any "trade" in the securities markets. Confirmation is issued immediately after a trade is executed. It spells out settlement date, terms, commission, etc.

Corner a Market—To purchase enough of the available supply of a commodity or stock in order to manipulate its price.

Coupon Rate—In bonds, notes, or other fixed income securities, the stated percentage rate of interest, usually paid twice per year.

Current Yield—For bonds or notes, the coupon rate divided by the market price of the bond.

Day Order—An order to buy or sell stock that automatically expires if it can't be executed on the day it is entered.

Derivative Security—A financial security, such as an option, warrant, right, or future, whose value is derived in part from the value and characteristics of another security, the underlying security.

Distributions—Payments from a fund or corporate cash flow.

Dividend—Distribution of a portion of a company's earnings, cash flow, or capital to shareholders, in cash or additional stock.

Dividend Reinvestment Plans (DRPs)—Plans offered by many corporations for the reinvestment of dividends, sometimes at a discount from market price, on the dividend payment date. Many DRPs also allow the investment of additional cash from the shareholder. The DRP is usually administered by the company without charges to the holder.

Earnings—Net income for the company during the period.

EBITDA—Stands for Earnings Before Interest, Taxes, Depreciation, and Amortization.

Equity—The value of the common stockholders' equity in a company as listed on the balance sheet.

Exchange—The marketplace in which shares, options, and futures on stocks, bonds, commodities, and indexes are traded.

Execution—The process of completing an order to buy or sell securities.

Exercise—To implement the right of the holder of an option to buy (in the case of a call) or sell (in the case of a put) the underlying security.

Fund Family—The management company that runs and/or sells shares of the fund. Fund families often offer several funds with different investment objectives.

Futures Contract—Agreement to buy or sell a set number of shares of a specific stock in a designated future month at a price agreed upon by the buyer and seller. The contracts themselves are often traded on the futures market. A futures contract differs from an option because an option is the right to buy or sell, whereas a futures contract is the promise to actually make a transaction.

Good 'Til Canceled—Sometimes simply called GTC, it means an order to buy or sell stock that is good until you cancel it.

Hedging—A strategy designed to reduce investment risk using call options, put options, short selling, or futures contracts. A hedge can help lock in existing profits. Its purpose is to reduce the potential volatility of a portfolio by reducing the risk of loss.

High Price—The highest same-day price of a stock over the past 52 weeks, adjusted for any stock splits.

Holding Company—A corporation that owns enough voting stock in another firm to control management and operations by influencing or electing its board of directors.

Industry—The category describing a company's primary business activity. This is usually determined by the largest portion of revenue.

Initial Public Offering (IPO)—A company's first sale of stock to the public.

Insider Information—Relevant information about a company that has not yet been made public. It is illegal for holders of this information to make trades based on it, no matter how the information was received.

Limit Order—An order to buy a stock at or below a specified price or to sell a stock at or above a specified price.

Low Price—The lowest same-day price of a stock over a certain period of time.

Market Capitalization—The total dollar value of all outstanding shares. Computed as shares multiplied by current market price. It is a measure of corporate size.

Market Order—An order to buy or sell a stock at the going price.

Money Market Fund—A mutual fund that invests only in short-term securities, such as bankers' acceptances, commercial paper, repurchase agreements, and government bills.

Mutual Fund—An open-end investment company that pools investors' money to invest in a variety of stocks, bonds, or other securities.

Objective—In the case of mutual funds, the fund's investment strategy category as stated in the prospectus.

Option—A contractual agreement between two parties that gives one of them the right, but not the obligation, to buy or sell shares of a stock at a specified price on or before a specific date in exchange for a market premium.

Preferred Stock—A security that shows ownership in a corporation and gives the holder a claim, prior to the claim of common stockholders, on earnings and also generally on assets in the event of liquidation. Most preferred stock pays a fixed dividend, stated in a dollar amount or as a percentage of par value. This stock does not usually carry voting rights.

Premium—The price of an option contract, determined on the exchange, which the buyer of the option pays to the option writer for the rights to the option contract.

Price—Price of a share of common stock on the date shown. Highs and lows are based on the highest and lowest same-day trading price.

Put Option—An option contract that gives the holder the right to sell (or put), and places upon the writer the obligation to purchase, a specified number of shares of the underlying stock at the given strike price on or before the expiration date of the contract.

SEC—The Securities and Exchange Commission, the primary federal regulatory agency of the securities industry.

Secondary Market—A market that provides for the purchase or sale of previously owned securities. Most trading is done in the secondary market. The NYSE, as well as all other stock exchanges, the bond markets, etc., are secondary markets.

Series—With options, it is all option contracts of the same class that also have the same unit of trade, expiration date, and exercise price. With stocks, it is shares which have common characteristics, such as rights to ownership and voting, dividends, par value, etc.

Settlement Date—The date on which payment is made to settle a trade.

Shares—Certificates or book entries representing ownership in a corporation.

SIC—Abbreviation for Standard Industrial Classification. Each four-digit code represents a unique business category, such as all those companies involved in manufacturing.

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.

Stop Order—An order to sell a stock when the price falls to a specified level.

Strike Price—The stated price per share for which underlying stock may be purchased (in the case of a call) or sold (in the case of a put) by the option holder upon exercise of the option contract.

10-K—Annual report required by the SEC each year. It provides a comprehensive overview of a company's state of business. It must be filed within 90 days after fiscal year end. A 10-Q report is filed quarterly.

12b-1 Fees—The percent of a mutual fund's assets used to defray marketing and distribution expenses. The amount of the fee is stated in the fund's prospectus.

Watch List—A list of securities selected for special surveillance by a brokerage, exchange, or regulatory organization. Firms on the list are often takeover targets, companies planning to issue new securities, or stocks showing unusual activity.

Yield—The percentage rate of return paid on a stock in the form of dividends, or the rate of interest paid on a bond or note.