GLOSSARY

Key terms and phrases related to investing.

10 Commandments	My 10 investment criteria I use when making investing decisions.
Accelerated Distribution Schedule	Increasing the speed with which an equity investment is repaid to the investor. Typically, this would include distributing a larger percent of profits than what the typical equity splits are in a partnership for a limited period of time until the initial investment is repaid.
Accredited Investor	An individual or business entity that is allowed to invest in certain investment opportunities based on satisfying at least one requirement regarding their income, net worth, asset size, governance status, or professional experience.
Actual Rate of Return	A formula that reflects the actual gain or loss of an investment over a certain period of time compared to the initial investment's cost. This is the preferred way to measure actual returns on investments because it isn't based on an average percentage but rather on the actual investment return compared to the original cost. Beware of "average" rate of return, which can be misleading.
Actuary	A professional who assesses and manages the risks of financial investments, insurance policies, and other potentially risky ventures.
Agency Loan	A loan that an agency of the federal government may make available to an investor. *See also* Fannie Mae and Freddie Mac.
Alternative Investments	A financial asset that does not fall into one of the conventional stocks, bonds, or cash categories. Private equity, venture capital, hedge funds, real estate, art and antiques, and commodities would all be examples of alternative investments.
Amortization	The gradual repayment of a debt over a period of time, such as monthly payments on a mortgage loan. Often the amortization is based off a greater number of years than the actual loan term to lower monthly payments to create greater profitability and cash flow.
Angel Investments	A high net-worth individual (also known as a private investor, seed investor, or angel funder) who provides financial backing for small startups or entrepreneurs, typically in exchange for ownership equity in the company. Often, angel investors are found among an entrepreneur's family and friends. The funds that angel investors provide may be a one-time investment to help the business get off the ground or an ongoing injection to support and carry the company through its difficult early stages.

GLOSSARY

Key terms and phrases related to investing.

Annual Recurring Revenue (ARR)	A financial metric that shows the annual revenue from business products or services. In this book, ARR refers specifically to revenues of existing subscriptions, also commonly referred to as run rate.
Arbitrage	The purchase and sale of an asset in order to profit from a difference in the asset's price between markets. It is a trade that profits by exploiting the price differences of identical or similar financial instruments in different markets or in different forms. Arbitrage exists as a result of market inefficiencies and would, therefore, not exist if all markets were perfectly efficient.
Asset Cash Flow	The aggregate total of all cash flows related to the assets of a business. This information is used to determine the net amount of cash being spun off by or used in the operations of a business.
Asset Class	A group of investments that exhibit similar characteristics and are subject to the same laws, regulations, and market forces.
Assignment	The transfer of an individual's rights or property to another person or business. This option exists in a variety of business transactions. For investors, the most prominent example occurs when a purchase sale agreement (PSA) is assigned; the assignee has an obligation to complete the requirements of the contract. Other business transactions are also known as an assignment.
Asymmetric Risk/Reward	*Asymmetric risk* is the risk an investor faces when the gain realized from the move of an underlying asset in one direction is significantly different from the loss incurred from its move in the opposite direction. *Asymmetric reward* is the reward an investor may achieve when the gain realized from the move of an underlying asset in one direction is significantly different from the loss incurred from its move in the opposite direction.
Average Rate of Return	A formula that reflects the percentage rate of return on an investment or asset compared to the initial investment's cost. Be careful because this average can be misleading and doesn't necessarily reflect the actual rate of return. See the definition for actual rate of return.
Balloon Payment	A larger-than-usual one-time payment at the end of the loan term.
Basis Points (BPS)	Common unit of measurement for interest rates and other percentages in finance. One basis point is equal to 1/100 of 1 percent% or 0.01 percent %.

GLOSSARY

Key terms and phrases related to investing.

Beneficiaries	Any person who gains an advantage and/or profits from something. In the financial world, a beneficiary typically refers to someone eligible to receive distributions from a trust, will, or life insurance policy.
Bridge Loan	Short-term financing used until a person or company secures permanent financing or removes an existing obligation. Bridge loans are short-term, typically up to one year.
Capital Improvements	Any addition or alteration to real property that meets one of the following conditions: It substantially adds to the value of the real property or appreciably prolongs the useful life of the real property.
Capital Partners	All partners who have contributed capital to the partnership. Often this phrase is referring to the partner that contributed the most capital to a partnership.
Carried Interest	Also referred to as carry, is a share of the profits of an investment paid to the investment manager or general partner of private equity or hedge fund investments. This compensation is received regardless of whether they contribute any initial capital.
Cash Bonus	A lump sum of money awarded to an investor, either periodically or at the end of a specified investment period, as an incentive to invest. Most cash bonuses are paid once at the end of the term, but they can vary from investment to investment. Sometimes cash bonus incentives are attached to the performance of the investment or company on an annual basis. These bonuses can range from a few hundred dollars to millions of dollars, depending on the terms and the growth of the company.
Cash Flow	The amount of income earned from investments and other assets.
Cash Flow Investing	Cash flow derived from assets or investments that is paid on an ongoing and regular basis. Typically, distributions or interest payments are paid quarterly or monthly.
Cash-On-Cash Return	A rate of return often used in real estate transactions and other income producing assets that calculates the cash income earned on the cash invested in that asset. Cash-on-cash return measures the annual return the investor made on the asset in relation to the amount of cash invested. It is considered one of the most important real estate return on investment calculations.

GLOSSARY

Key terms and phrases related to investing.

Co-Investment

A minority investment in a company made by investors alongside a private equity fund manager or venture capital firm. Equity co-investment enables investors to participate in potentially highly profitable investments without paying the usual fees charged by a private equity fund. Equity co-investment opportunities are typically restricted to large institutional investors who already have an existing relationship with the private equity fund manager, and they are often not available to smaller or retail investors.

Collateralize

The use of a valuable asset to secure a loan. If the borrower defaults on the loan, the lender may seize the asset and sell it to offset the loss. Collateralization of assets gives lenders a sufficient level of reassurance against default risk. It also helps some borrowers obtain loans if they have poor credit histories. Collateralized loans generally have a substantially lower interest rate than unsecured loans.

Collectibles

An item that is worth far more than it was originally sold for because of its rarity and/or popularity. The price for a particular collectible usually depends on how many of the same item are available as well as its overall condition. Common categories of collectibles include antiques, artwork, coins, historical documents, wine, toys, comic books, and stamps. People who amass collectibles take a lot of time to collect them and usually store them in locations where they will not be ruined.

Commercial Mortgage-Backed Security Loans (CMBS Loan)

A commercial real estate loan that is backed by a first-position commercial mortgage. Loans such as these are held and sold by commercial and investment banks or conduit lenders. CMBS loans are for properties such as apartments, hotels, warehouses, offices, retail, or any other real estate that is used in connection with a company or business in need of such a space.

Concentration Risk

The level of risk in a portfolio arising from concentration to a single counterparty, sector, or country. The risk arises from the observation that more concentrated portfolios are less diverse; therefore, the returns on the underlying assets are more correlated.

Conduit Loans

A means of raising capital from Wall Street financial institutions for private real estate investments, among other types of investments.

Cooking the Books

A slang term for using accounting tricks to make a company's financial results look better than they really are. Typically, it involves manipulating financial data to inflate revenue and deflate expenses in order to pump up earnings or profit, which makes the company appear more valuable than it really is.

GLOSSARY

Key terms and phrases related to investing.

Correlated Asset	An asset whose value is tied to the larger fluctuations of the traditional markets, such as the stock market.
Crowdfunding	The practice of funding a project or venture by raising small amounts of money from a large number of people, typically via the internet. Crowdfunding is a form of crowdsourcing and alternative finance.
Cryptocurrency	A digital or virtual currency designed to work as a medium of exchange that is secured by cryptography, which makes it nearly impossible to counterfeit or double-spend. Many cryptocurrencies are decentralized networks based on blockchain technology—a strong distributed ledger enforced by a disparate network of computers. A defining feature of cryptocurrencies is that they are generally not issued by any central authority, rendering them theoretically immune to government interference or manipulation.
Deal Flow	A term used by investors, investment bankers, and venture capitalists to describe the rate at which business proposals and investment pitches are being received.
Deal Structure	The agreement reached in financing an acquisition. The deal can be unleveraged, leveraged, traditional debt, participating debt, participating/convertible debt, or a joint venture, among other things.
Debt Investment	A financial transaction of loaning money to an institution or organization in exchange for the promise of a return of principal plus interest, as opposed to a conventional equity investment through buying common or preferred stock.
Deed of Trust	An agreement between a lender and a borrower to give the property to a neutral third party who will serve as a trustee. The trustee holds the property until the borrower pays off the debt. During the period of repayment, the borrower keeps the actual or equitable title to the property and maintains full responsibility for the premises, unless expressly stated otherwise in the Deed of Trust. The trustee, however, holds the legal title to the property.
Default	Failure to fulfill an obligation, especially with regards to repayment of a loan.
Defeasance	A provision in a contract that voids a bond or loan on a balance sheet when the borrower sets aside cash or bonds sufficient enough to service the debt.
Depreciation (Depreciating an Asset)	An accounting method of allocating the cost of a tangible or physical asset over its useful life or life expectancy. Depreciation represents how much of an asset's value has been used up. Depreciating assets helps companies earn revenue from an asset while expensing a portion of its cost each year the asset is in use. Not taking it into account can greatly affect profits.

GLOSSARY

Key terms and phrases related to investing.

Derivatives or High-Risk Derivatives	Investment instruments that consist of a contract between parties whose value derives from and depends on the value of an underlying financial asset. Like any investment instrument, varying levels of risk are associated with derivatives. Among the most common derivatives traded are futures, options, contracts for difference, or CFDs, and swaps.
Direct Recognition	A company in which the earnings rate on cash value are affected both positively and negatively when the cash value is used as collateral. In a *non-direct recognition* company, the earnings rates on loaned cash value are totally unaffected by loans against cash value.
Diversification	A risk management strategy that mixes a wide variety of investments within a portfolio. A diversified portfolio contains a mix of distinct asset types and investment vehicles in order to limit exposure to any single asset or risk. The rationale behind it is that a portfolio constructed of a mix of assets will, on average, yield higher long-term returns and lower the risk of any individual holding or security.
Due Diligence	An investigation, audit, or review performed to confirm the facts of a matter under consideration. In the financial world, due diligence requires an examination of financial records before entering into a proposed transaction with another party.
Earned Income	Income derived from active participation in a trade or business, including wages, salary, tips, commissions, and bonuses. This is the highest taxed income.
EBITDA: Earnings Before Interest Taxes Depreciation and Amortization	One way of measuring a company's overall financial performance.
Equity Investment	A financial transaction where a certain number of shares of a given company or fund are bought, entitling the owner to be compensated ratably according to his ownership percentage. Typically referred to as shareholders' equity (or owner's equity for privately held companies), an individual or company invest money into a private or public company to become a shareholder.
Escrow Collateral	All of the borrower's right, title, and interest in and to the Escrow Property, the Escrow Account, and the Escrow Agreement.

GLOSSARY

Key terms and phrases related to investing.

Fannie Mae
A United States government-sponsored enterprise (GSE), the Federal National Mortgage Association (FNMA) commonly known as Fannie Mae is, since 1968, a publicly traded company. Founded in 1938 during the Great Depression as part of the New Deal, the corporation's purpose is to expand the secondary mortgage market by securitizing mortgage loans in the form of mortgage-backed securities (MBS), allowing lenders to reinvest their assets into more lending and in effect increasing the number of lenders in the mortgage market by reducing the reliance on locally based savings and loan associations (or thrifts).

Fiat Currency
Government-issued currency that isn't backed by a commodity such as gold. Fiat money gives central bankers greater control over the economy because they can control how much money is printed. Most modern currencies, such as the U.S. dollar, are fiat currencies.

Fiduciary
A person or organization that acts on behalf of another person or persons, putting their clients' interests ahead of their own, with a duty to preserve good faith and trust. Being a fiduciary requires being bound both legally and ethically to act in the other's best interests. It also involves trust, especially with regard to the relationship between a trustee and a beneficiary, always having the beneficiary's best interest at heart.

Filters
Criteria used to sort through and narrow down investment opportunities. Using filters to screen investments saves significant time and creates greater efficiency.

Finder's Fee
A commission paid to an intermediary or the facilitator of a transaction. Also known as *referral income* or *referral fee,* it is awarded because the intermediary discovered the deal and brought it to the attention of interested parties. The presumption is that without the intermediary, the parties would not have found the deal; thus the facilitator warrants compensation.

First-Lien Position
The highest priority debt in the case of default. If a property or other collateral is used to back a debt, first-lien debt holders are paid before all other debt holders. This debt holds less risk than a second lien debt.

Fractional-Reserve Lending
A system in which only a fraction of bank deposits is backed by actual cash on hand and available for withdrawal, done theoretically to expand the economy by freeing capital for lending.

GLOSSARY

Key terms and phrases related to investing.

Freddie Mac	A stockholder-owned, government-sponsored enterprise (GSE) chartered by Congress in 1970 to keep money flowing to mortgage lenders in support of homeownership and rental housing for middle-income Americans. Freddie Mac, also known as Federal Home Loan Mortgage Corp (FHLMC), was established to purchase, guarantee, and securitize mortgages to form mortgage-backed securities.
Freedom Formula	Time + Money + Relationships + Impact = Lifestyle Investor Freedom
General Partner	One of two or more investors who jointly own a business or asset and assume the day-to-day role in managing it. A general partner has the authority to act on behalf of the business without the permission of the other partners but has unlimited liability for any debt.
Hard Money Loan	A loan that is secured by real property and considered a loan of “last resort” or short-term bridge loan. It is primarily used in real estate transactions, with the lender generally being individuals or companies and not banks.
Holding Company	A business entity, usually a corporation or limited liability company (LLC). Typically a holding company doesn’t manufacture anything, sell any products or services, or conduct any other business operations. Rather, holding companies hold the controlling stock in other companies.
House Money	For this particular book, it refers to money that is invested that you have no risk on because you have already received your original investment back so any additional return is just icing on the cake.
Hurdle Rate	(1)* The rate investment managers must earn in their funds before they receive incentive-based compensation. (2) The minimum rate of return on a project or investment required by a manager or investor. *Allows companies to make important decisions on whether or not to pursue a specific project. Describes the appropriate compensation for the level of risk present. Riskier projects generally have higher hurdle rates than those with less risk. In order to determine the rate, the following areas must be taken into consideration: associated risks, cost of capital, and the returns of other possible investments or projects.
Income Amplifier	Any mechanic or negotiated term that helps improve an investment return. Various ways exist to structure these deal terms; in general, the more income amplifiers, the better the investment return.
Incubator	An organization designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services offered at below-market prices.

GLOSSARY

Key terms and phrases related to investing.

Internal Rate of Return (IRR)	A performance measure used in financial analysis to estimate the profitability of potential investments. Return on Investment (ROI) measures the total return from start to finish whereas IRR identifies the annual return.
Invisible Deals	A deal typically not known to the general public, and if it is known, it is likely not accessible; difficult to get access to due to exclusivity, but can be deals in emerging markets, new technology, or disruptive trends. A right, warrant, or other feature added to a debt obligation to make it more desirable to potential investors, such as equity participation.
Kicker	A right, warrant, or other feature added to a debt obligation to make it more desirable to potential investors, such as equity participation.
LIBOR	The benchmark interest rate that global banks use to lend to one another.
Liens	A legal claim against an asset used to secure a loan that must be paid when the property is sold. Liens can be structured in many different ways. In some cases, the creditor will have a legal claim against an asset but not actually hold it in possession, while in other cases the creditor will actually hold on to the asset until the debt is paid off. The former is a more common arrangement when the asset is productive since the creditor would prefer that the asset be used to produce a stream of income to pay off debt rather than just held in possession and not used.
Lifestyle Investor	Someone who has intentionally built a great life and is able to support their lifestyle with passive income they earn from investments rather than earned income from their job or business.
Limited Partnership (LP)	Exists when two or more partners conduct a business in which they are liable for an amount not exceeding their investment. The general partner oversees and runs the business, and limited partners do not partake in managing the business; however, the general partner has unlimited liability for the debt, and any limited partners have limited liability up to the amount of their investment. (A limited partnership is different from a limited liability partnership. or LLP.)
Liquidation Preference	A clause in a contract that dictates the payout order in case of a corporate liquidation event, such as the sale of a company, initial public offering (IPO), or other liquidation payout. Typically, the company's debt holders get their money back first ahead of preferred stockholders, who are ahead of common stockholders in the event that the company must be liquidated.

GLOSSARY

Key terms and phrases related to investing.

Liquidity Event	An acquisition, merger, initial public offering, or other event that allows founders and early investors in a company to cash out some or all of their ownership shares. Considered an exit strategy for an illiquid investment—that is, for equity that has little or no market to trade on. Founders of a firm naturally push toward a liquidity event, and the investors along the way—venture capital firms, angel investors, or private equity firms—hope for or expect one within a reasonable amount of time after initially making an investment. The most common liquidity events are initial public offerings (IPOs) and direct acquisitions by other companies or private equity firms.
Loan Modification	A change made to the terms of an existing loan by a lender. It may involve a reduction in the interest rate, an extension of the length of time for repayment, a different type of loan, or pulling out available equity in the form of cash.
Long-Term Capital Gains Tax	A tax applied to assets held for more than a year. Long-term capital gains tax rates are 0%, 15%, and 20%, depending on income. These rates are typically much lower than the ordinary income tax rate.
Lost Opportunity Cost	The benefit foregone by choosing another course of action, also known as opportunity cost. Lost opportunity is sometimes measured by the lost contribution margin (sales minus the related variable costs).
Mindset	A way of thinking. An attitude or opinion, especially a habitual one.
Minimum Guaranteed Return	The minimum return guaranteed on select permanent life insurance products.
Monthly Recurring Revenue (MRR)	A financial metric that shows the monthly revenue from business products or services (in this book, it refers specifically to revenues of existing subscriptions). Also commonly referred to as monthly run rate.
Multiple	A performance measurement found by a simple calculation of multiplying a specific item on a financial statement or an investment by another number to determine the total value of the asset or investment.
Murphy's Law	An adage that is typically stated as "anything that can go wrong will go wrong."
Negative Arbitrage	The opportunity lost during the purchase and sale of an asset when there was not a profit in the difference in asset prices between markets. It occurs in a trade where, instead of making a profit by exploiting the price differences of identical or similar financial instruments, the prices change in a way that the trade creates a loss.

GLOSSARY

Key terms and phrases related to investing.

Negotiation	A strategic discussion that resolves an issue in a way that both parties find acceptable.
Non-Correlated Asset or Uncorrelated Asset	An asset whose value isn't tied to the larger fluctuations of the traditional markets, such as the stock market.
Non-Direct Recognition	A strategy by insurance companies in which the earnings rate on cash value is unaffected by any loans against the cash value. Unlike direct recognition, there is no cost with a lower dividend when a loan is taken out against the policy.
Non-Direct Recognition Company	A company in which the earnings rate on cash value is unaffected by any loans against cash value. In a direct recognition company, the earnings rates on loaned cash value are affected both positively and negatively when the cash value is used as collateral.
Non-Recourse Lending	A loan secured by collateral, usually property. If the borrower defaults, the issuer can seize the collateral but cannot seek out the borrower for any further compensation, even if the collateral does not cover the full value of the defaulted amount. (The borrower does not have personal liability for the loan.)
Off-Market Investments	An investment that has not been advertised publicly for sale, so there is no competition or less competition to buy the asset.
Operating Agreement	A key document used by an LLC because it outlines the business financial and functional decisions, including rules, regulations, and provisions. It governs the internal operations of the business in a way that suits the specific needs of the business owners.
Operating Company	A business that produces goods or services and has regular operations.
Passive Income	Income received from investments and other assets that requires little to no effort to earn and maintain. This is one of the lowest taxed incomes.
Personal Guarantee	An individual's legal promise to repay credit issued to a business for which they serve as an executive or partner.
Phantom Income	For the context of this book, it is the ability to earn a return from money that doesn't even exist.
Points	Also known as *discount points*, fees paid directly to the lender at closing, often in exchange for a reduced interest rate.

GLOSSARY

Key terms and phrases related to investing.

Ponzi Scheme	A fraudulent investing scam promising high rates of return with little risk to investors. The Ponzi scheme generates returns for early investors by acquiring new investors. It is similar to a pyramid scheme in that both are based on using new investors' funds to pay the earlier backers.
Preferred Return	A profit distribution preference whereby profits, either from operations, sale, or refinance, are distributed to one class of equity before another until a certain rate of return on the initial investment is reached.
Principal	The original sum of money borrowed in a loan or put into an investment. It can also refer to the face value of a bond.
Private Equity	An alternative investment class that consists of capital and is not listed on a public exchange. It is comprised of funds of investors who directly invest in private companies or that engage in buyouts of public companies, resulting in the delisting of public equity.
Private Placement Memorandum (PPM)	A legal document provided to prospective investors when selling stock or another security in a business. It is sometimes referred to as an *offering memorandum* or *offering document*.
Profits Interest	An equity right based on the future value of a partnership awarded to an individual for their services to the partnership. The reward consists of receiving a percentage of profits from a partnership without having to contribute capital.
Pro-Rata	A Latin term used to describe a proportionate allocation. It translates literally to "in proportion," which means a process where whatever is being allocated will be distributed in equal portions.
Public Equity	A stock that is bought and sold through a public market such as the New York Stock Exchange or the London Stock Exchange. Companies often offer the investor the right to buy either "common" or "preferred" stock.
Purchase Sale Agreement (PSA)	The document received after mutual acceptance of an offer. It states the final sale price and all terms of the purchase.

GLOSSARY

Key terms and phrases related to investing.

Put Option	A contract giving the owner the right, but not the obligation, to sell—or sell short—a specified amount of an underlying security at a predetermined price within a specified time frame. This predetermined price is called the strike price. Put options are most commonly traded on underlying assets including stocks, currencies, bonds, commodities, futures, and indexes. Put options can also be negotiated on investments in real estate and private equity deals as a protection against the risk of capital exposure if a deal goes bad. A put option can be contrasted with a call option, which gives the holder the right to buy the underlying at a specified price, either on or before the expiration date of the options contract.
Quick Principal Back	A strategy in which an investor focuses on getting their initial principal investment back as quickly as possible.
Real Estate Fun	A mutual fund that primarily focuses on investing in securities offered by public real estate companies.
Real Estate Investment Trust (REIT)	A company that owns, operates, or finances income-generating real estate. Modeled after mutual funds, REITs pool the capital of numerous investors. They make it possible for individual investors to earn dividends from real estate investments without having to buy, manage, or finance any properties themselves.
Recourse Landing	A loan that can help a lender recoup the investment if a borrower fails to pay and the value of the underlying asset is not enough to cover the debt. A recourse loan is a form of secured financing. It lets the lender go after the debtor's other assets that were not used as loan collateral or to take legal action in case of default in order to pay off the full debt.
Return on Investment (ROI)	A performance measure used to evaluate the efficiency of an investment or compare the efficiency of a number of different investments. The ROI tries to directly measure the amount of return on a particular investment relative to the investment's cost. The benefit (or return) of an investment is divided by the cost of the investment to calculate ROI. The result is expressed as a percentage or a ratio.
Revenue Share (Rev Share)	The distribution of the total amount of income generated by the sale of goods or services between the stakeholders or contributors. It should not be confused with profit shares. As with profit shares, only the profit is shared; that is, the revenue left over after costs have been removed.

GLOSSARY

Key terms and phrases related to investing.

Right of First Refusal	The right of a party to match the terms of a proposed contract with another party. Also known as first right of refusal.
Royal Agreement	A legal contract between two parties where one party agrees to pay the other party fees of some sort, typically based on a percentage of gross or net revenues, derived from the use or performance of an asset.
Run Rate	The financial performance of a company based on current financial information as a predictor of future performance. It functions as an extrapolation of current financial performance and assumes current conditions will continue. Technically the run rate can also refer to the average annual dilution from company stock option grants over the most recent three-year period recorded in the annual report (not how the term is used in this book.)
"Series A" Money	The first venture capital funding for a startup (also known as Series A financing or Series A investment). Series A refers to the class of preferred stock sold. The Series A funding round follows a startup company's seed round and precedes the Series B funding round.
Securities and Exchange Commision (SEC)	An independent federal government regulatory agency responsible for protecting investors, maintaining the fair and orderly function of the securities markets, and facilitating capital formation. It was created by Congress in 1934 as the first federal regulator of the securities markets.
Seed Round	The first official equity funding round for a startup company.
Seller Finance Loan	A real estate agreement in which the seller handles the mortgage process instead of a financial institution. The buyer signs a mortgage with the seller instead of applying for a conventional bank mortgage. Also called owner financing or seller carry.
Senior Debt	Money owed by a company that has first claims on the company's cash flows. Also known as *Senior Note*, it is more secure than any other debt such as subordinated debt (also known as junior debt). Senior debt is usually collateralized by assets. The lender is granted a first lien claim on the company's property, plant, or equipment in the event that the company fails to fulfill its repayment obligations.
Short-Term Capital Gains Tax	A tax applied to profits from selling an asset held for less than a year. Short-term capital gains taxes are set up so that in federal tax brackets, the investor pays at the same rate they pay ordinary income taxes.

GLOSSARY

Key terms and phrases related to investing.

Sidecar Agreements	A contract or agreement with pre-negotiated terms that are better than what most investors received in a particular investment or fund, among other definitions; a special set of enhanced terms that improve the investment for a single investor or, more commonly, a group of investors.
Software as a Service (SaaS)	A method of software delivery and licensing in which the software is accessed online via a subscription rather than bought and installed on individual computers.
Solvency Ratio	A key metric used to measure an enterprise's ability to meet its debt obligations, often used by prospective business lenders. Solvency ratio indicates whether a company's cash flow is sufficient to meet its short- and long-term liabilities. The lower a company's solvency ratio, the greater the probability that it will default on its debt obligations.
Amplifier Stack	Negotiating multiple income amplifiers on the same deal for even greater projected returns.
Standard Operating Procedure (SOP)	An established or prescribed method to be followed routinely for the performance of a designated operation or in a designated situation.
Stock Pledge	The transfer of stocks against a debt in the form of a legal agreement. The debtor pledges the stocks as an asset against the amount of money taken from a lender and promises to return the amount. The debtor pledges the stocks as security against the debt. According to the law, after the payment of the obligation, the lender must return the stocks to the debtor. The agreement then stands void.
Strategy Stack	Combining multiple, non-obvious approaches to earn an even greater return with low risk.
Strike Price	The set price at which a derivative contract can be bought or sold when it is exercised. For call options, the strike price is the price at which the security can be bought by the option holder; for put options, the strike price is the price at which the security can be sold.
Structure	The relationship between the specific investment terms in an agreement.
Sweat Equity	A person or company's contribution toward a business venture or other project. Not monetary and, in most cases, comes in the form of physical labor, mental effort, and time. Commonly found in real estate and the construction industry as well as in the corporate world—especially for startups.

GLOSSARY

Key terms and phrases related to investing.

Syndication	A partnership between several investors to combine skills, resources, and capital to purchase and manage a property they otherwise couldn't afford.
Venture Capital	A form of private equity and a type of financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. Venture capital generally comes from well-off investors, investment banks, and other financial institutions able to provide it.
Volatility	A statistical measure of the dispersion of returns for a given security or market index. In most cases, the higher the volatility, the riskier the security. Volatility is often measured as either the standard deviation or variance between returns from that same security or market index.
Warrants	An option that gives the right, but not the obligation, to buy (or sell) a security—most commonly an equity—at a certain price before expiration. The price at which the underlying security can be bought or sold is referred to as the exercise price or strike price.
Wealth Optimization	A process that focuses on improving overall wealth by supporting and optimizing each individual component of wealth such as health, relationships, purpose, and finances.
Whole Life Insurance	Coverage for the life of the insured. In addition to paying a death benefit, whole-life insurance also contains a savings component in which cash value may accumulate. These policies are also known as "permanent" or "traditional" life insurance. Whole-life insurance policies are one type of permanent life insurance. Universal life, indexed universal life, and variable universal life are others. Whole-life insurance is the original life insurance policy.
Yield Maintenance	A prepayment penalty that allows investors to attain the same yield as if the borrower made all scheduled interest payments up until the maturity date. It dictates that borrowers pay the rate differential between the loan interest rate and the prevailing market interest rate on the prepaid capital for the period remaining to loan maturity.