Basic Financial General Knowledge Cheatsheet

1. Fundamental Concepts

Finance: The management of money, including activities like investing, borrowing, lending, budgeting, saving, and forecasting.
Economics: The study of how people, businesses, and governments make choices about allocating resources.

2. Financial Statements

Balance Sheet: A financial statement that summarizes a company's assets, liabilities, and shareholders' equity at a specific point in time.
Income Statement (Profit and Loss Statement): A financial statement that shows a company's revenues and expenses over a period, resulting in net profit or loss.
Cash Flow Statement: A financial statement that shows the inflows and outflows of cash over a period, categorized into operating, investing, and financing activities.

3. Key Financial Ratios

Liquidity Ratios: Measure the ability to meet short-term obligations (e.g., Current Ratio, Quick Ratio).
Profitability Ratios: Measure the ability to generate profit (e.g., Net Profit Margin, Return on Equity).
Leverage Ratios: Measure the degree of financial leverage (e.g., Debt-to-Equity Ratio).
Efficiency Ratios: Measure how efficiently assets are used (e.g., Asset Turnover Ratio).

4. Investment Basics

Stocks: Shares of ownership in a company. Investors can earn returns through dividends and capital gains.
Bonds: Debt securities issued by corporations or governments. Bondholders receive periodic interest payments and the return of principal at maturity.
Mutual Funds: Investment vehicles that pool money from many investors to purchase a diversified portfolio of stocks, bonds, or other securities.

Exchange-Traded Funds (ETFs): Investment funds traded on stock exchanges, similar to stocks, that hold assets like stocks, commodities, or bonds.

5. Types of Markets

Primary Market: Where new securities are issued and sold for the first time (e.g., Initial Public Offerings).
Secondary Market: Where existing securities are traded among investors (e.g., Stock Exchanges).
Money Market: Short-term borrowing and lending, typically for periods of a year or less (e.g., Treasury Bills).
Capital Market: Long-term securities are bought and sold (e.g., Stocks, Bonds).

6. Investment Strategies

Diversification: Spreading investments across various assets to reduce risk.
Asset Allocation: Distributing investments among different asset categories (e.g., stocks, bonds, real estate) based on risk tolerance and investment goals.
Value Investing: Buying undervalued securities with strong fundamentals.
Growth Investing: Investing in companies with potential for significant growth.

7. Personal Finance

Budgeting: Planning income and expenses to manage money effectively.
Saving: Setting aside money for future use, typically in a savings account or other low-risk vehicles.
Investing: Allocating money with the expectation of generating income or profit.
Retirement Planning: Preparing for financial security in retirement through savings, investments, and other income sources (e.g., 401(k), IRAs).

8. Risk Management

Risk Tolerance: An investor’s ability and willingness to endure market fluctuations and potential losses.
Hedging: Using financial instruments (e.g., options, futures) to offset potential losses in investments.
Insurance: Transferring risk to an insurance company in exchange for premiums (e.g., health insurance, life insurance, property insurance).

9. Financial Instruments

Options: Contracts giving the buyer the right, but not the obligation, to buy/sell an asset at a set price within a specific period.
Futures: Contracts obligating the buyer to purchase an asset (or the seller to sell an asset) at a predetermined future date and price.
Derivatives: Financial contracts whose value is derived from the value of an underlying asset (e.g., options, futures).

10. Taxation Basics

Income Tax: Tax levied on individuals' and businesses' earnings.
Capital Gains Tax: Tax on the profit from the sale of assets or investments.
Corporate Tax: Tax on a company's profits.
Sales Tax: Tax on sales of goods and services.

11. Important Financial Concepts

Time Value of Money (TVM): The idea that money available now is worth more than the same amount in the future due to its potential earning capacity.
Compound Interest: Interest calculated on the initial principal, which also includes all accumulated interest from previous periods.
Inflation: The rate at which the general level of prices for goods and services is rising, eroding purchasing power.
Diversification: Reducing risk by investing in a variety of assets.

12. Regulatory Bodies

Securities and Exchange Commission (SEC): U.S. regulatory body overseeing securities markets.
Federal Reserve (Fed): Central banking system of the U.S., regulating monetary policy.
Financial Industry Regulatory Authority (FINRA): U.S. self-regulatory organization for brokerage firms and exchange markets.