



# FLIPPING HOUSES

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# INTRODUCTION

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fig. 1

## OUR KITCHEN REMODEL



fig. 2

## OUR FIRST KITCHEN REMODEL

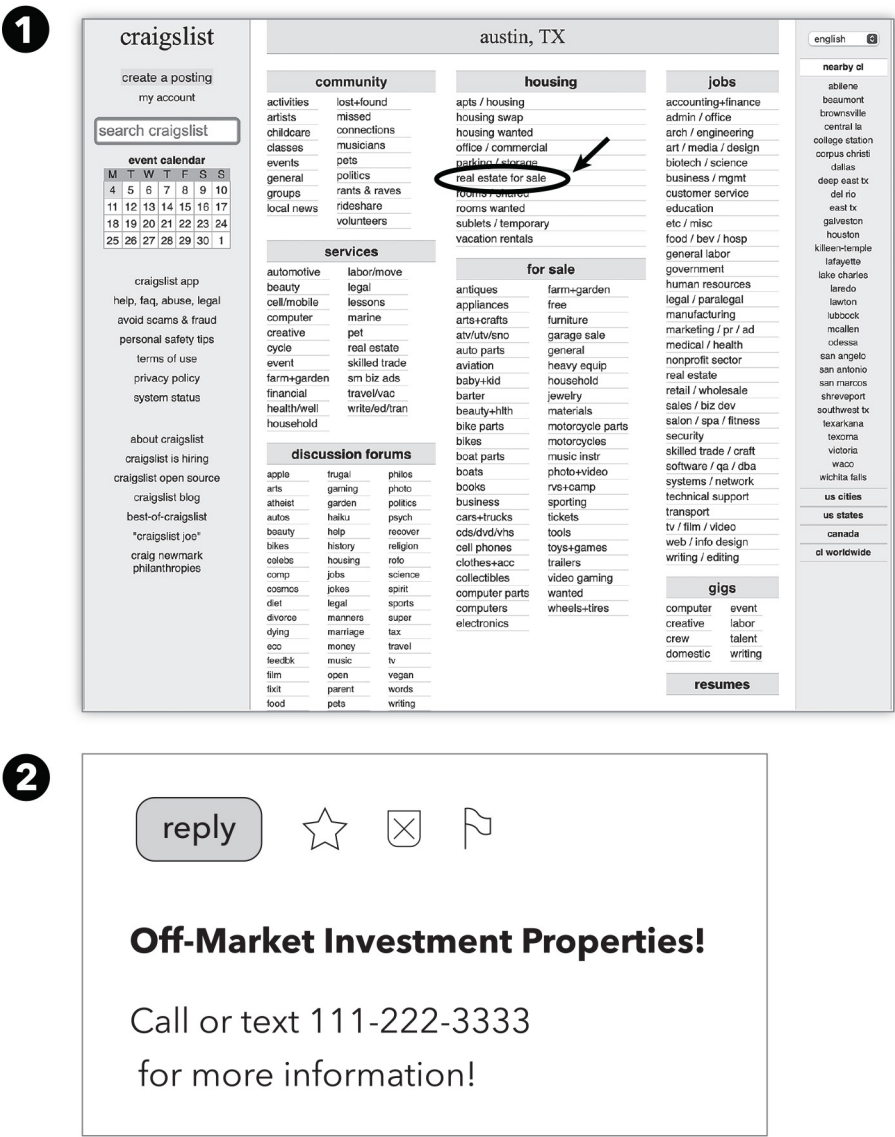


The kitchen of my first flip, before and after renovations.

# CHAPTER 1

## The House Flipping Business Model

fig. 3



To submit a free Craigslist post, go to the home page, select your location, click on “real estate for sale,” and create your post.

fig. 4

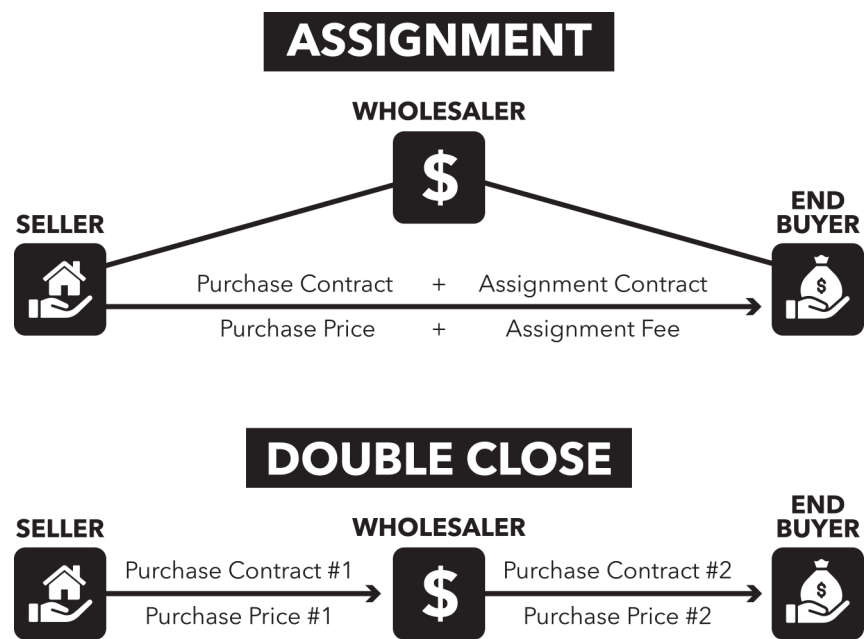


fig. 5



fig. 6




## CHAPTER 2

### Scouting Out Potential Deals

fig. 7

**AN AVERAGE HOME IN THE BAY AREA**



- Single Story
- Ranch Style
- 3 Bedroom, 2 Bath
- 1,200 – 1,500 sq ft

fig. 8

THE NUMBERS	
Purchase Price	\$1 million
Estimated Rehab Cost	\$100,000
Final Rehab Cost	\$120,000
All Other Costs*	\$136,000
Estimated After-Repair Value (ARV)	\$1.35 million
Sales Price	\$1.35 million
Profit	\$94,000

\*Other costs include commissions, closing costs, financing costs, insurance, utilities, staging, and miscellaneous costs

fig. 9

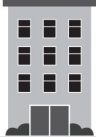


	 CONDO	 TOWNHOME	 SINGLE-FAMILY HOME
PROS	More affordable		More desirable
	Remodeling will focus mostly on interior		Holds value better
CONS	Must navigate HOA rules and dues		Remodeling will involve both interior & exterior

fig. 10



fig. 11

THE NUMBERS	
Purchase Price	\$1.15 million
Estimated Rehab Cost	\$140,000
Final Rehab Cost	\$140,000
All Other Costs*	\$120,000
Estimated ARV	\$1.5 million
Sales Price	\$1.675 million
Profit	\$265,000
*Other costs include commissions, closing costs, financing costs, insurance, utilities, staging, and miscellaneous costs	

fig. 12

THE NUMBERS	
Purchase Price	\$900,000
Estimated Rehab Cost	\$80,000
Final Rehab Cost	\$80,000
All Other Costs*	\$120,000
Estimated ARV	\$1.2 million
Sales Price	\$1.1 million
Profit	\$0
*Other costs include commissions, closing costs, financing costs, insurance, utilities, staging, and miscellaneous costs	

fig. 13

### Agent Cold Call Script

*Hi, this is Elisa Covington calling, how are you? I'm a house flipper in the Bay Area.*

*If you bring a deal to me, I'll purchase it with you so you can get the buying side commission. After I flip the house, I'll relist it with you so you can also get the selling side commission. You'll earn at least double commission by working with me.*

*I am looking for fixer-uppers that I can rehab and resell for a profit.*

fig. 14

MLS LISTINGS

My Matrix Search Directory Market Reports Financial Stats Realist Mobile

CriteriaMapResults

PreviousNext · 1-25 of 28Checked 0All · None · PageDisplayAgent 1 Lineat 25per page

MLS #	Street Address	Price	DOM	Bds	Bths	SqFt	Lot Size	Postal City	Class
SF421532605	2592 Filbert Street	\$32,000,000	202	6	7 2	12,200	11,554 Lot SqFt	San Francisco	Res. Single Family
SF509969	2950 Pacific Avenue	\$29,500,000	327	8	13 0	20,000	12,209 Lot SqFt	San Francisco	Res. Single Family
CC40953497	2698 Pacific Ave	\$25,800,000	228	8	6 2	10,734	8,219 Lot SqFt	San Francisco	Res. Single Family
SF421523154	2828 Vallejo Street	\$19,500,000	314	8	8 1	10,345	11,343 Lot SqFt	San Francisco	Res. Single Family
SF422621287	2660 Scott Street	\$18,500,000	7	6 1	9,190	5,623 Lot SqFt	San Francisco	Res. Single Family	
SF421594521	2620 Buchanan Street	\$18,000,000	130	6	7 1	8,350	3,502 Lot SqFt	San Francisco	Res. Single Family
SF421595472	2500 Broadway Street	\$17,000,000	125	6	5 2	7,045	3,746 Lot SqFt	San Francisco	Res. Single Family
SF421536339	2839 Pacific Avenue	\$16,950,000	289	5	5 1	8,650	5,745 Lot SqFt	San Francisco	Res. Single Family
SF421616860	2505 Pacific Avenue	\$15,500,000	6	4 2	6,377	4,724 Lot SqFt	San Francisco	Res. Single Family	
SF507358	2626 Filbert Street	\$14,000,000	439	4	4 1	4,185	3,850 Lot SqFt	San Francisco	Res. Single Family
SF422620107	2815 Pacific Avenue	\$10,500,000	13	5	5 1	5,000	4,350 Lot SqFt	San Francisco	Res. Single Family
SF421616467	3075 Pacific Avenue	\$9,995,000	3	3 1	0	4,163 Lot SqFt	San Francisco	Res. Single Family	
SF421611513	2725 Broadway Street	\$9,500,000	6	4	4 1	5,213	4,346 Lot SqFt	San Francisco	Res. Single Family
SF422622496	2715 Scott Street	\$9,000,000	5	4 0	6,490	4,673 Lot SqFt	San Francisco	Res. Single Family	
SF422620299	669 Marina Boulevard	\$7,999,000	8	5	5 0	3,929	4,944 Lot SqFt	San Francisco	Res. Single Family

Shown here are the results for my queries, which were “Status = active, contingent, pending, sold,” “COE (Close of Escrow) Date = 0-360,” “Property Type = single family home,” and “Map Search = within 0.25 miles of 2505 Pacific Ave, San Francisco.” As you can see, my search resulted in numerous listings meeting my criteria.



fig. 15



A sign indicating a house is in foreclosure and for sale.

fig. 16

A black and white photograph of a single-story house with a porch and a walkway leading to the front door. The house has a gabled roof and a chimney. The porch has a small roof and a railing. The walkway is made of concrete. The house is surrounded by trees and a lawn.

**\$300,000/1,670 sq ft**

Contractor special. Home is gutted.  
REO sale. Sold as-is. No permits or  
plans are in seller's possession.

fig. 17

THE NUMBERS	
Purchase Price	\$950,000
Estimated Rehab Cost	\$160,000
Final Rehab Cost	\$160,000
All Other Costs*	\$102,000
Estimated ARV	\$1.4 million
Sales Price	\$1.325 million
Profit	\$113,000
*Other costs include commissions, closing costs, financing costs, insurance, utilities, staging, and miscellaneous costs	

fig. 18



fig. 19

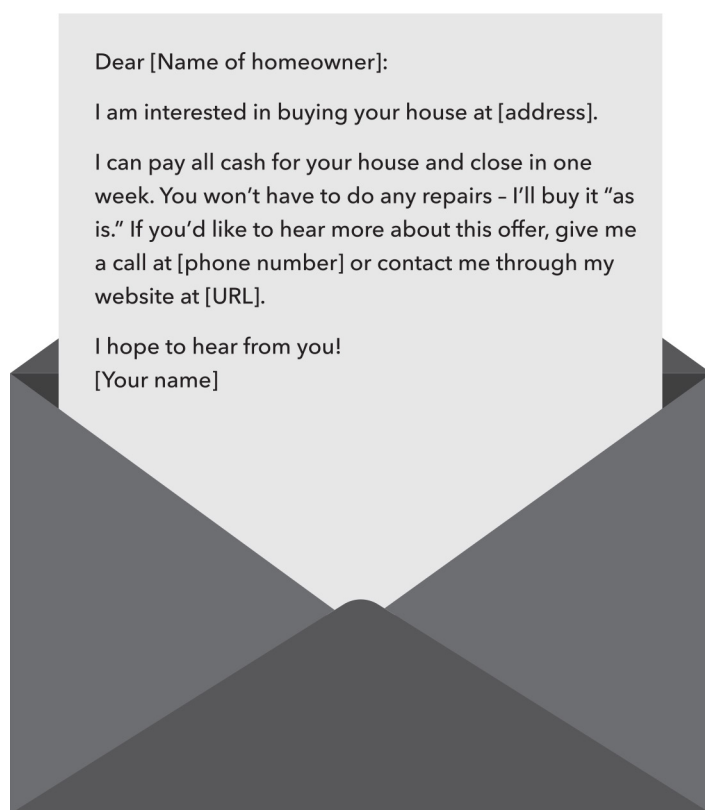




fig. 20

THE NUMBERS	
Purchase Price	\$1.4 million
Estimated Rehab Cost	\$350,000
Final Rehab Cost	\$400,000
All Other Costs*	\$275,000
Estimated ARV	\$2.5 million
Sales Price	\$2.675 million
Profit	\$600,000
*Other costs include commissions, closing costs, financing costs, insurance, utilities, staging, and miscellaneous costs	

fig. 21



Example of a “bandit sign”

## CHAPTER 3

### Analyzing a Deal

---

fig. 22

DEAL ANALYZER	
After-Repair Value	\$1,400,000
Commission	(\$70,000)
Closing Costs - Buy	(\$5,000)
Closing Costs - Sell	(\$5,000)
Insurance, Utilities, Staging, Other Misc.	(\$4,500)
Financing Cost	(\$36,000)
Rehab Cost	(\$100,000)
# Months Purchase to Sell/Close	4.0
Purchase Price	\$1,000,000
(Profit)/Loss	(\$179,500)
Projected Profit %	15%

A snippet of the House Flip Deal Analyzer. Deal-specific numbers are added in the right-hand column.

fig. 23



A house sale map

fig. 24

THE NUMBERS	
Purchase Price	\$1.25 million
Estimated Rehab Cost	\$80,000
Final Rehab Cost	\$107,000
All Other Costs*	\$123,000
Estimated ARV	\$1.6 million
Sales Price	\$1.5 million
Profit	\$20,000
*Other costs include commissions, closing costs, financing costs, insurance, utilities, staging, and miscellaneous costs	

fig. 25

ARV – ALL COSTS – DESIRED PROFIT = **MAX OFFER PRICE**

\$300,000 – \$67,000 – \$28,000 = **\$205,000**

fig. 26

After-Repair Value	\$300,000
Commission	-\$15,000
Closing Costs – Buy	-\$4,100
Closing Costs – Sell	-\$6,000
Insurance, Utilities, Staging, Other Misc.	-\$4,500
Financing Cost	-\$7,400
Rehab Cost	-\$30,000
Desired Profit	-\$28,000
Purchase Price	\$205,000
Projected Profit %	10%

fig. 27

After-Repair Value	\$1,500,000
Commission	-\$75,000
Closing Costs – Buy	-\$22,000
Closing Costs – Sell	-\$30,000
Insurance, Utilities, Staging, Other Misc.	-\$4,500
Financing Cost	-\$37,950
Rehab Cost	-\$100,000
Desired Profit	-\$130,000
Purchase Price	\$1,100,000
Projected Profit %	10%

## CHAPTER 4

### Funding the Flip

---

fig. 28

#### A CHECKLIST FOR HOUSE-FLIPPING COSTS

- |   |  |
|---|--|
| <input type="checkbox"/> Purchase Price <ul style="list-style-type: none"><li>• Earnest Money Deposit</li></ul> | <input type="checkbox"/> Rehab Costs         |
| <input type="checkbox"/> Closing Costs <ul style="list-style-type: none"><li>• Buy</li><li>• Sell</li></ul>     | <input type="checkbox"/> Property Taxes      |
| <input type="checkbox"/> Insurance  | <input type="checkbox"/> Agent Commission    |
| <input type="checkbox"/> Financing Costs  | <input type="checkbox"/> Staging             |
|   | <input type="checkbox"/> Utility Costs       |
|   | <input type="checkbox"/> Miscellaneous Costs |

fig. 29

#### WAYS TO FINANCE A HOUSE FLIP

- |  |                         |
|--|-------------------------|
| • Savings                                  | • Credit Card           |
| • Personal Line of Credit or Personal Loan | • Private Investor      |
| • HELOC or Home Equity Loan                | • Conventional Mortgage |
|  | • Hard Money Loan       |

fig. 30

PRIVATE LENDER	EQUITY PARTNER
<ul style="list-style-type: none"><li>• Charges interest</li><li>• Charges points</li><li>• Gets paid no matter what</li></ul>	<ul style="list-style-type: none"><li>• Gets paid a percentage of the profit</li><li>• Isn't paid if deal is unsuccessful</li></ul>

fig. 31

THE NUMBERS	
Purchase Price	\$1.04 million
Estimated Rehab Cost	\$100,000
Final Rehab Cost	\$100,000
All Other Costs*	\$145,000
Estimated ARV	\$1.6 million
Sales Price	\$1.525 million
Profit	\$240,000
*Other costs include commissions, closing costs, financing costs, insurance, utilities, staging, and miscellaneous costs	

fig. 32

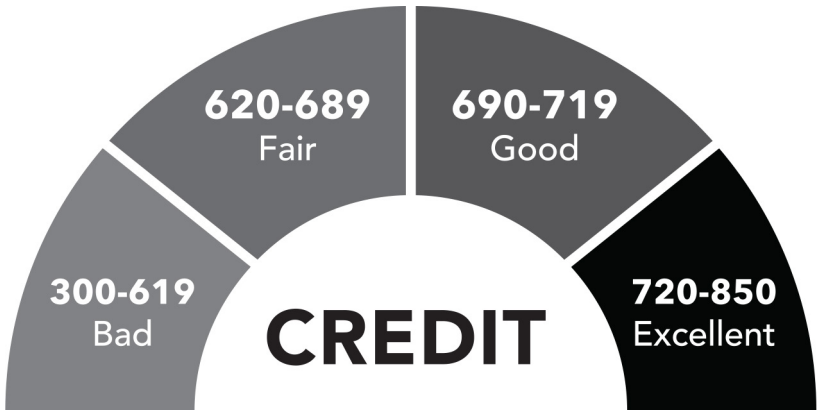


fig. 33

HARD MONEY LOAN VS. CONVENTIONAL MORTGAGE	
HARD MONEY LOAN	CONVENTIONAL MORTGAGE
<ul style="list-style-type: none"><li>• Higher interest rate</li><li>• Short term</li><li>• Asset based</li><li>• Underwriting simple and fast</li><li>• Offers construction loan</li><li>• Allows multiple loans simultaneously</li></ul>	<ul style="list-style-type: none"><li>• Lower interest rate</li><li>• Long term</li><li>• Income based</li><li>• Underwriting complex and slow</li><li>• No construction loan offered</li><li>• Takes into account all outstanding debt</li></ul>

## CHAPTER 5

### Making an Offer and Buying the House

fig. 34

THE NUMBERS	
Purchase Price	\$1.025 million
Estimated Rehab Cost	\$80,000
Final Rehab Cost	\$40,000
Estimated ARV	\$1.35 million
Sales Price	\$1.27 million
Profit	\$85,000

fig. 35

CONTINGENCIES	
TYPE	DESCRIPTION
Inspection contingency	Gives the buyer the right to have the home inspected within a specified time frame.
Appraisal contingency	Enables the buyer to cancel the contract if the house is appraised for less than the purchase price.
Loan contingency	Makes the sale contingent on the buyer being able to get a loan.
Title contingency	Protects the buyer if problems arise regarding the ownership of the house.

fig. 36

A CHECKLIST FOR CLOSING	
<input type="checkbox"/> Finalize your scope of work and rehab budget	<input type="checkbox"/> Stay in touch with your lender, the title company, and your agent
<input type="checkbox"/> Review all seller disclosures	<input type="checkbox"/> Make sure you have acceptable funding sources for closing
<input type="checkbox"/> Purchase title insurance and a title binder policy	<input type="checkbox"/> Get utility services set up
<input type="checkbox"/> Purchase property insurance	

# CHAPTER 6

## Planning the Renovation

fig. 37

EXTERIOR ITEMS	INTERIOR ITEMS	
<ul style="list-style-type: none"><li>• Landscaping</li><li>• Roof, gutters, and downspouts</li><li>• Siding, trim, fascia, and eaves</li><li>• Garage</li><li>• Decks</li><li>• Driveway, porch, and patio</li><li>• Foundation</li><li>• Exterior painting</li></ul>	<ul style="list-style-type: none"><li>• Demolition</li><li>• Trash removal</li><li>• Plumbing</li><li>• Electrical</li><li>• Mechanical</li><li>• Rough framing</li><li>• Insulation</li><li>• Drywall</li></ul>	<ul style="list-style-type: none"><li>• Countertops</li><li>• Finish trim work</li><li>• Floors</li><li>• Interior painting</li><li>• Cabinets</li></ul>

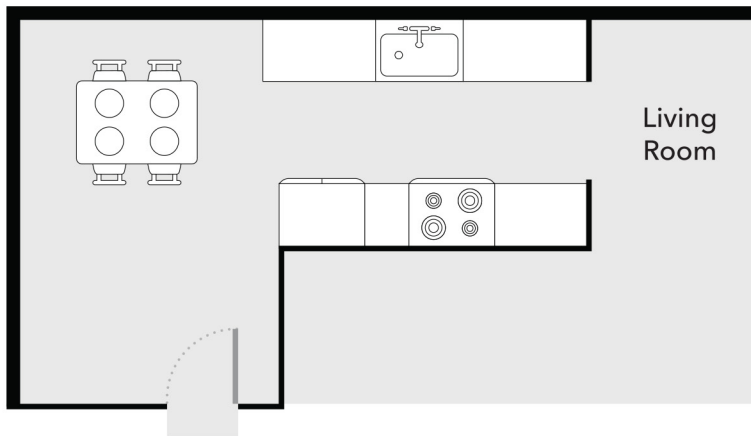
fig. 38



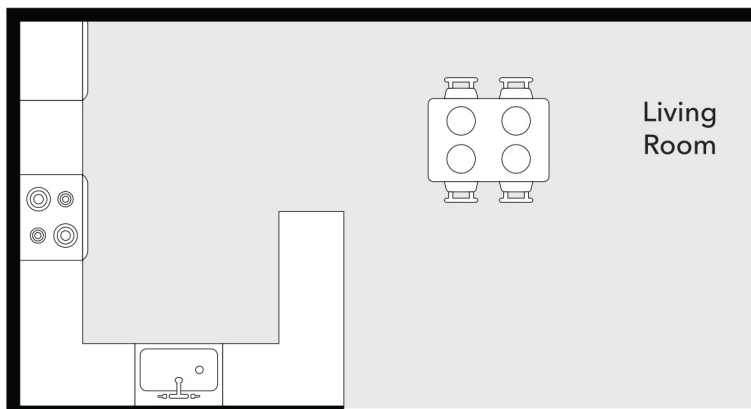
fig. 39

## SAMPLE FLOOR PLAN

Creating an open concept by removing load-bearing walls and relocating the kitchen



## BEFORE



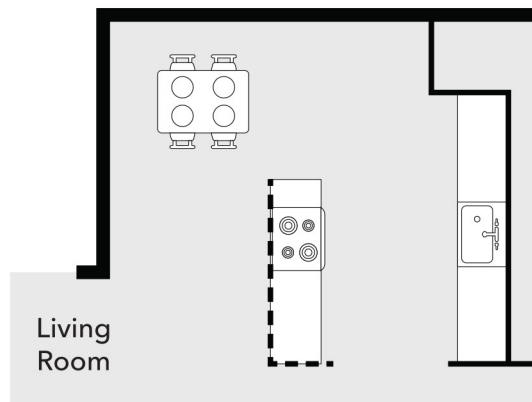
## AFTER



fig. 40

## SAMPLE FLOOR PLAN

Creating an open concept by removing non-load-bearing walls and relocating the kitchen



## BEFORE

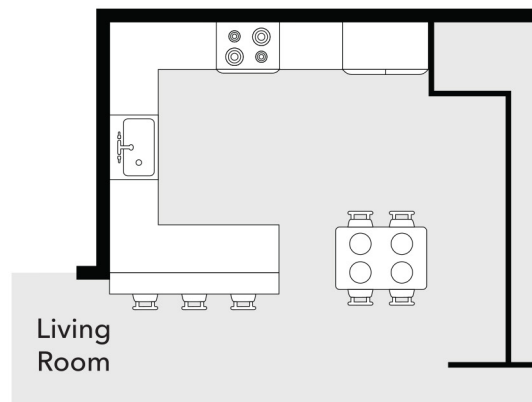
**AFTER**

fig. 41

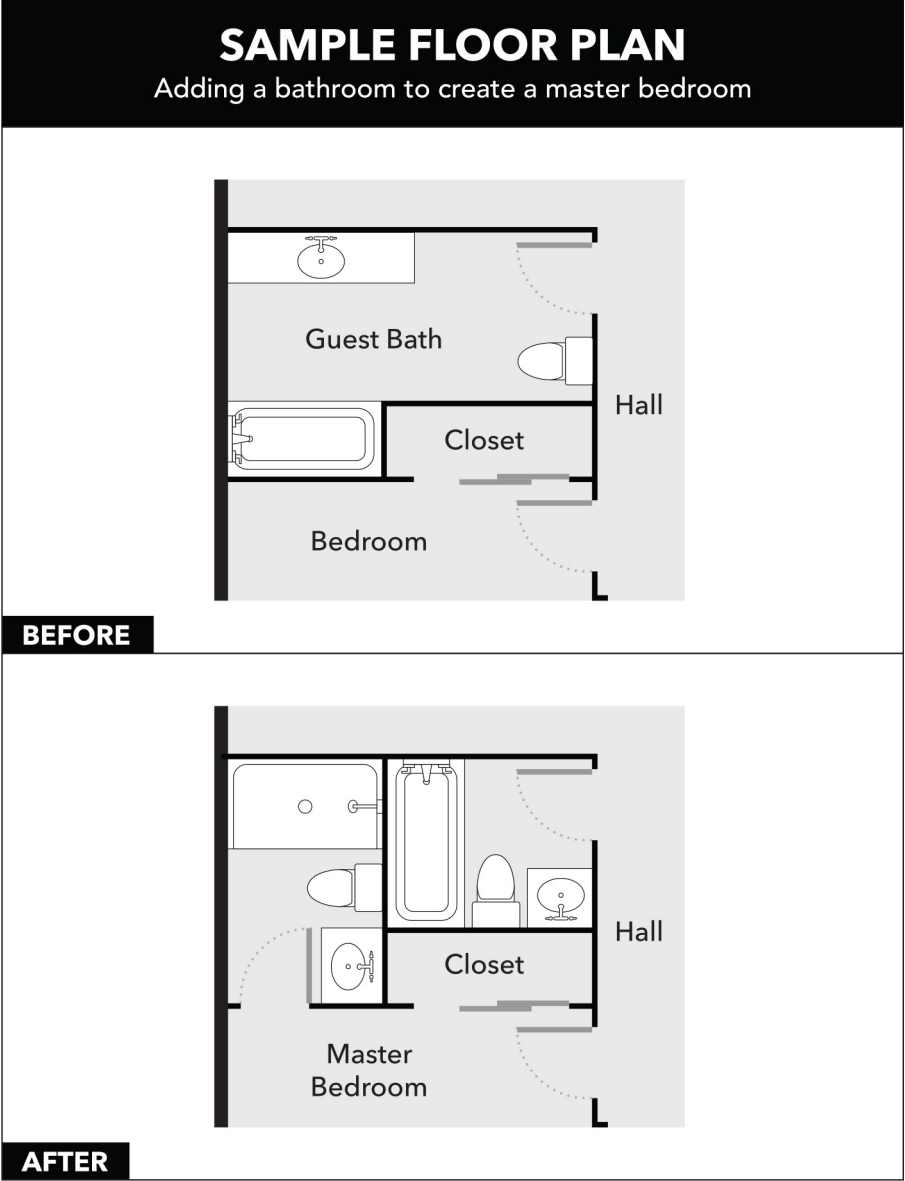
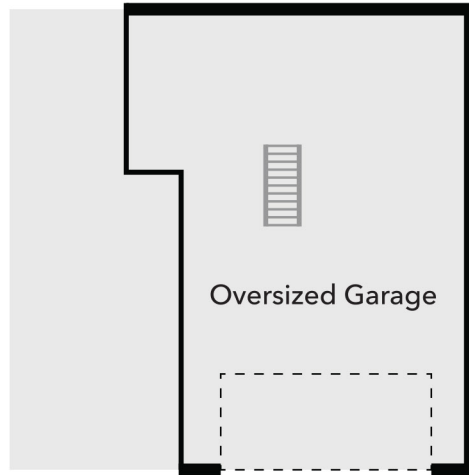


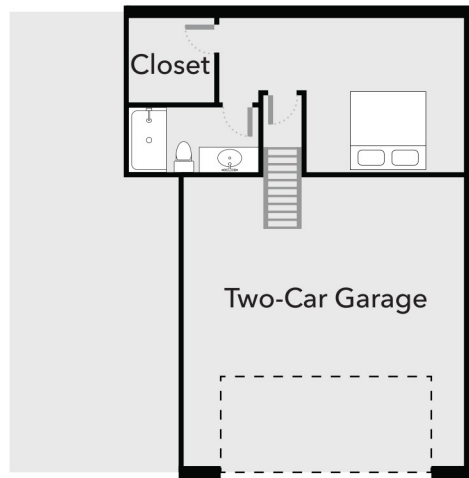
fig. 42

## SAMPLE FLOOR PLAN

## Converting part of an oversized garage into a junior master bedroom



## BEFORE



## AFTER

fig. 43

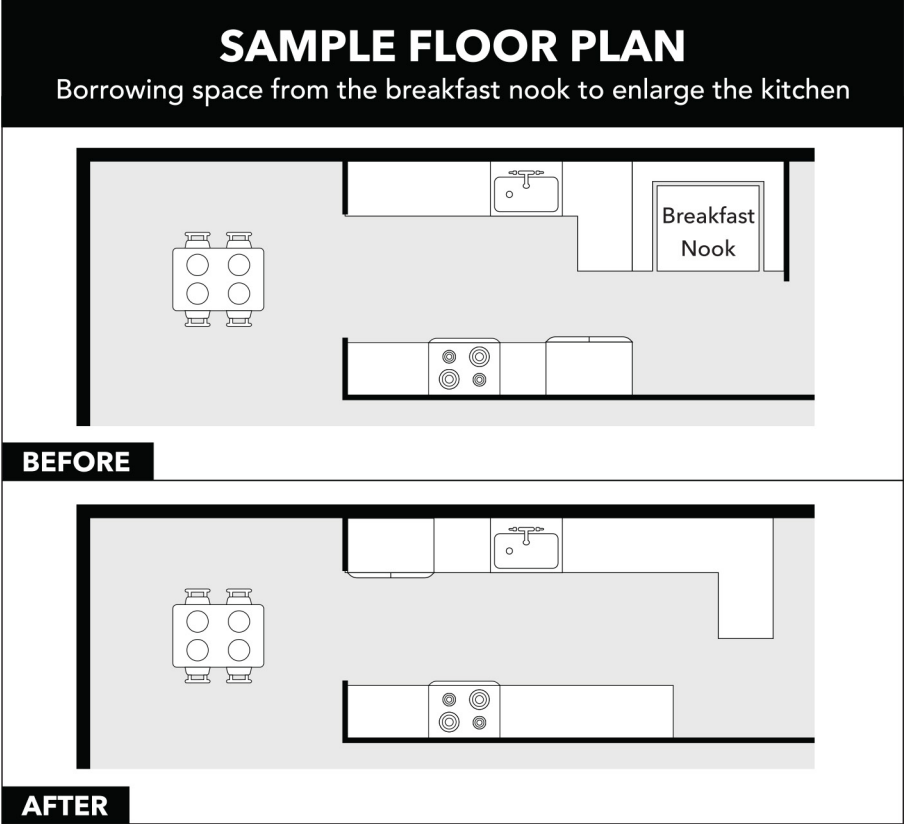


fig. 44

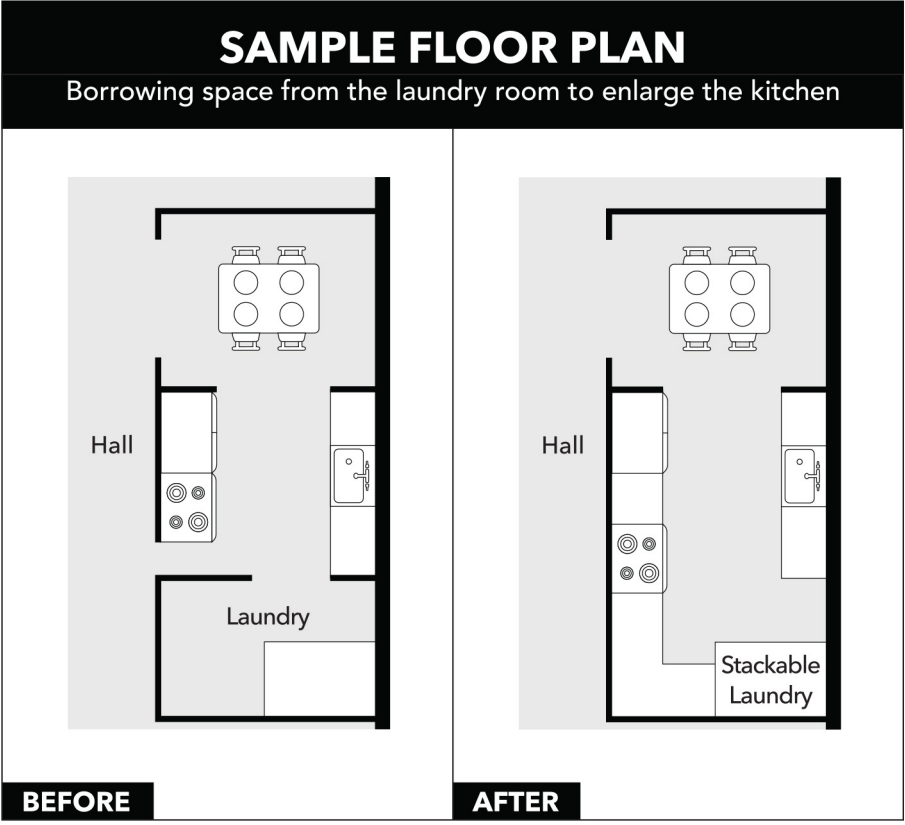
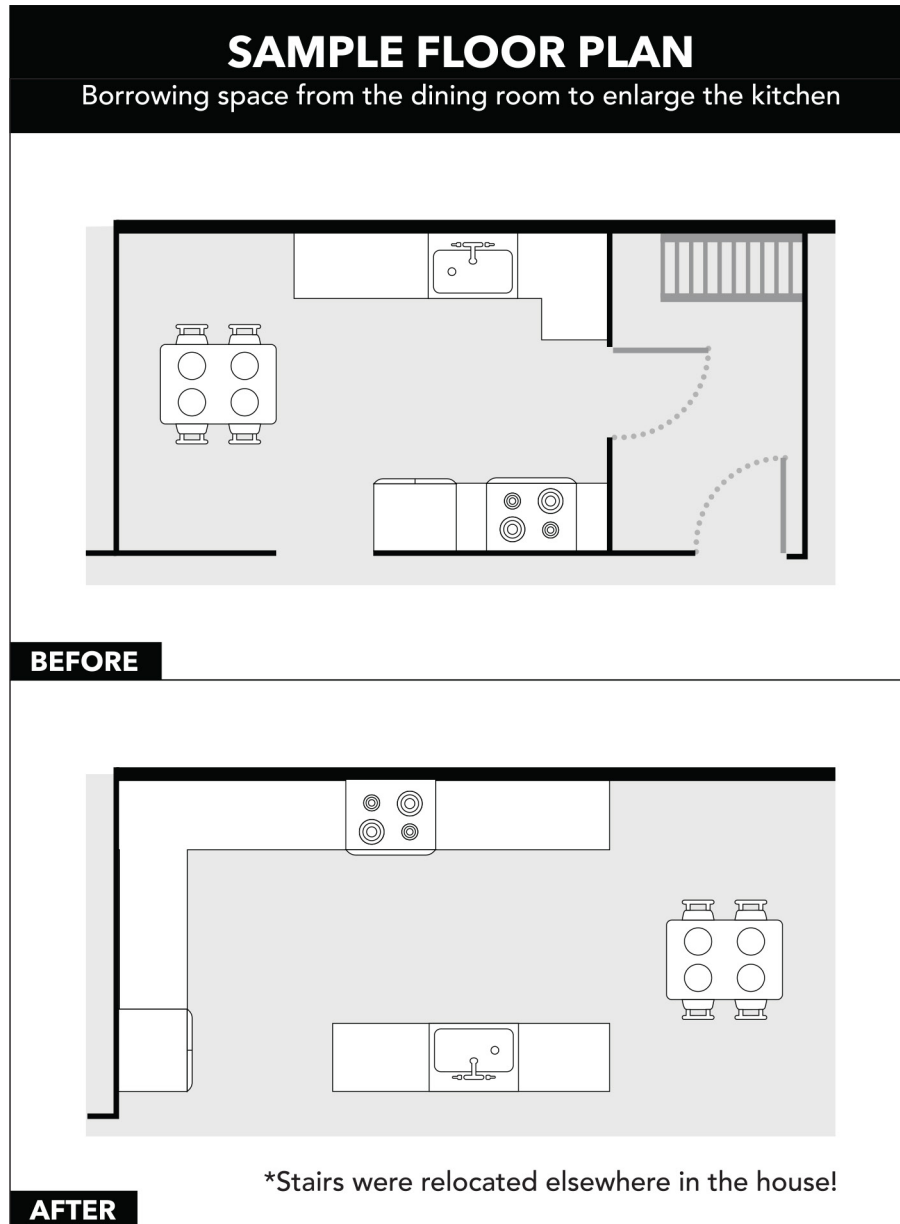


fig. 45



The kitchen was expanded into the old dining room and the staircase area was converted into the new dining room, with the stairs being removed entirely from that section of the house.

fig. 46

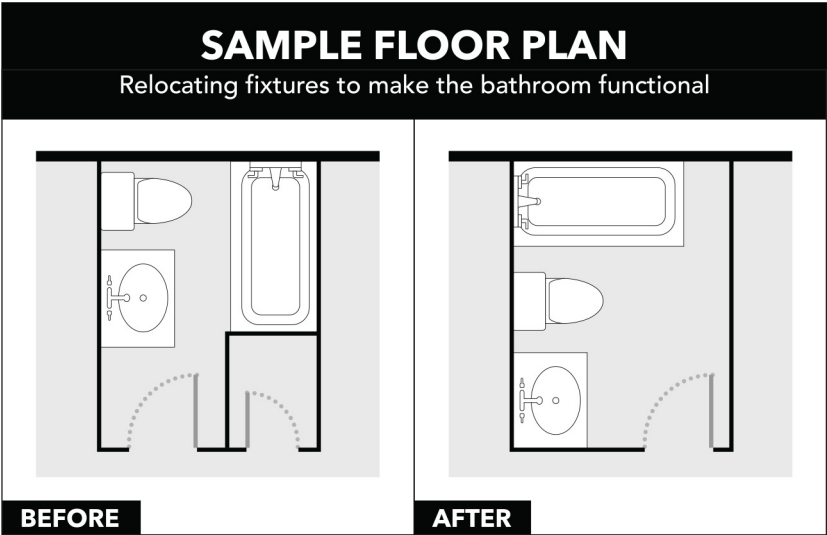


fig. 47

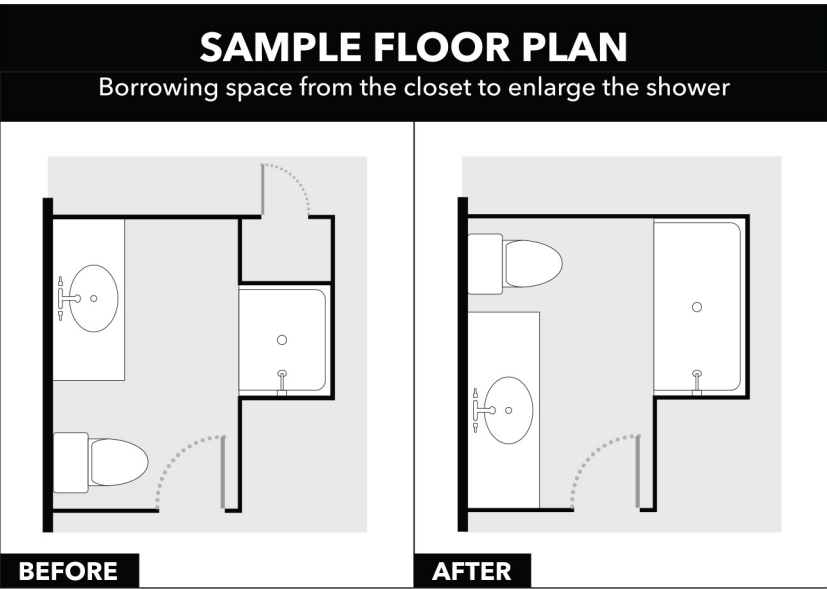
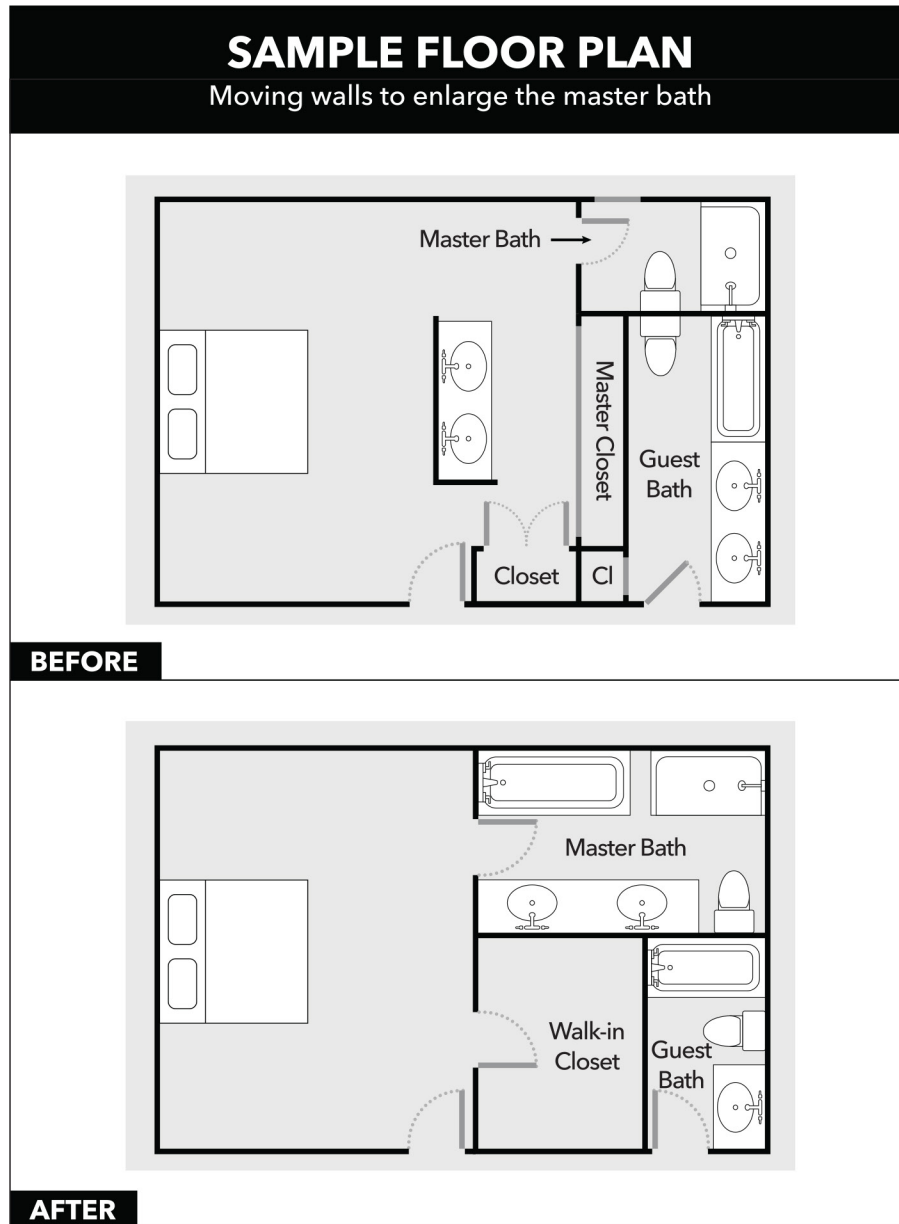


fig. 48



A nice walk-in closet was created as a by-product of the master bath expansion.

fig. 49

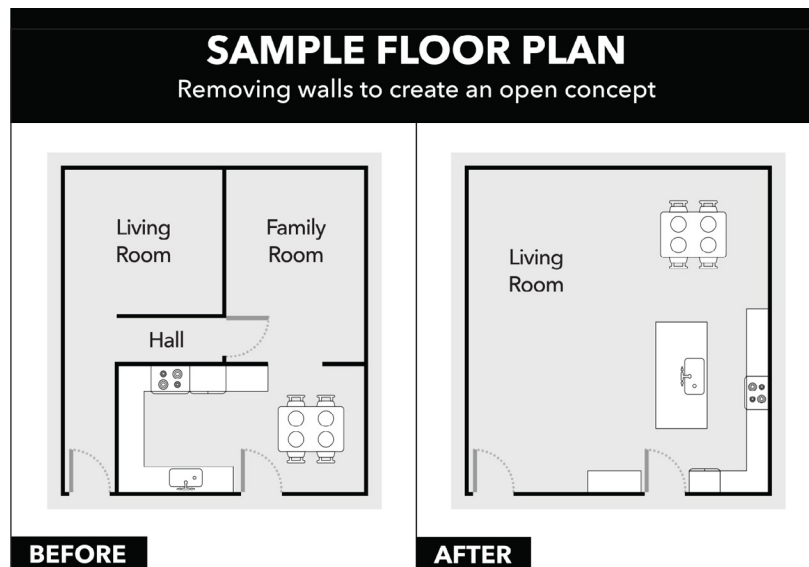
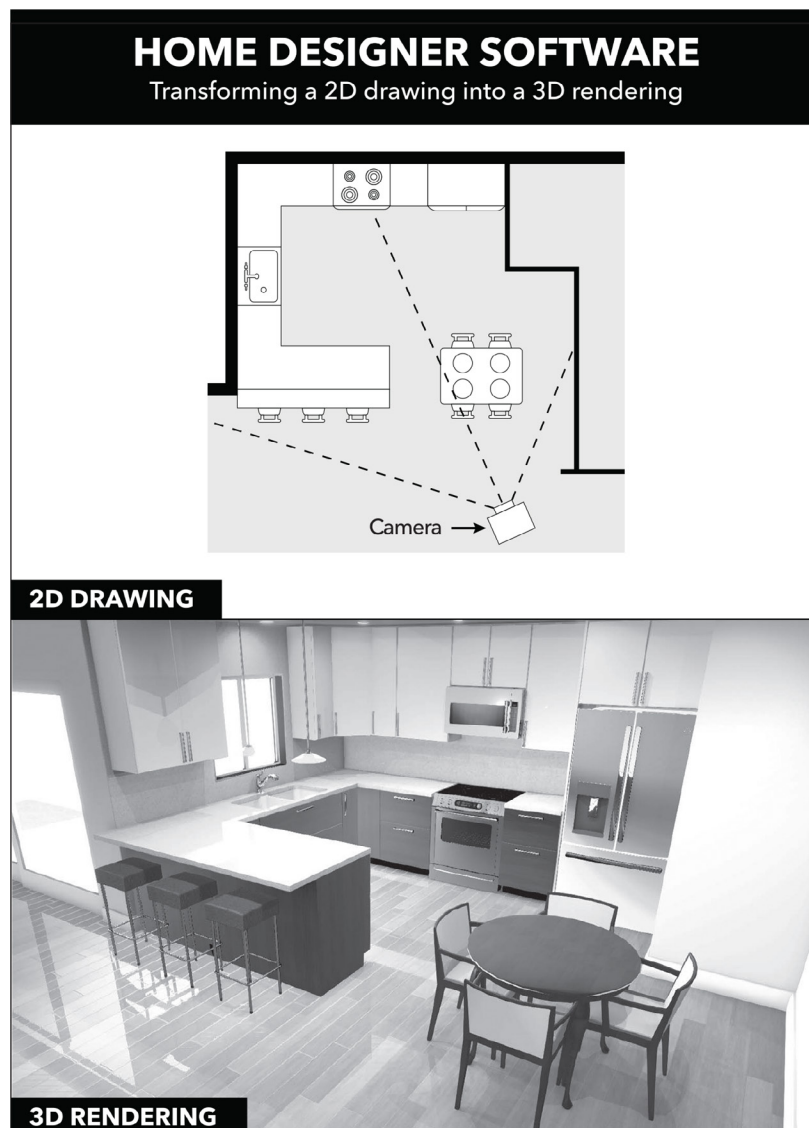





fig. 50



A basic drawing of a home layout that's been converted to a 3D version by a Home Designer software program




fig. 51

 ENTRY-LEVEL HOME	 MEDIUM-LEVEL HOME	 HIGH-END HOME
Laminate flooring	A combination of the materials for entry-level and high-end homes	Hardwood flooring
Porcelain/ceramic tiles		Marble tiles
Quartz countertops		Marble countertops
Prefabricated cabinets		Custom cabinets

Materials I use in homes that sell at various price points

fig. 52



**Material Cost**  
*(Rough Materials + Finishing Materials)*

**+ Labor Cost**

---

**= Rehab Budget**

## CHAPTER 7

### Finding a Contractor

fig. 53

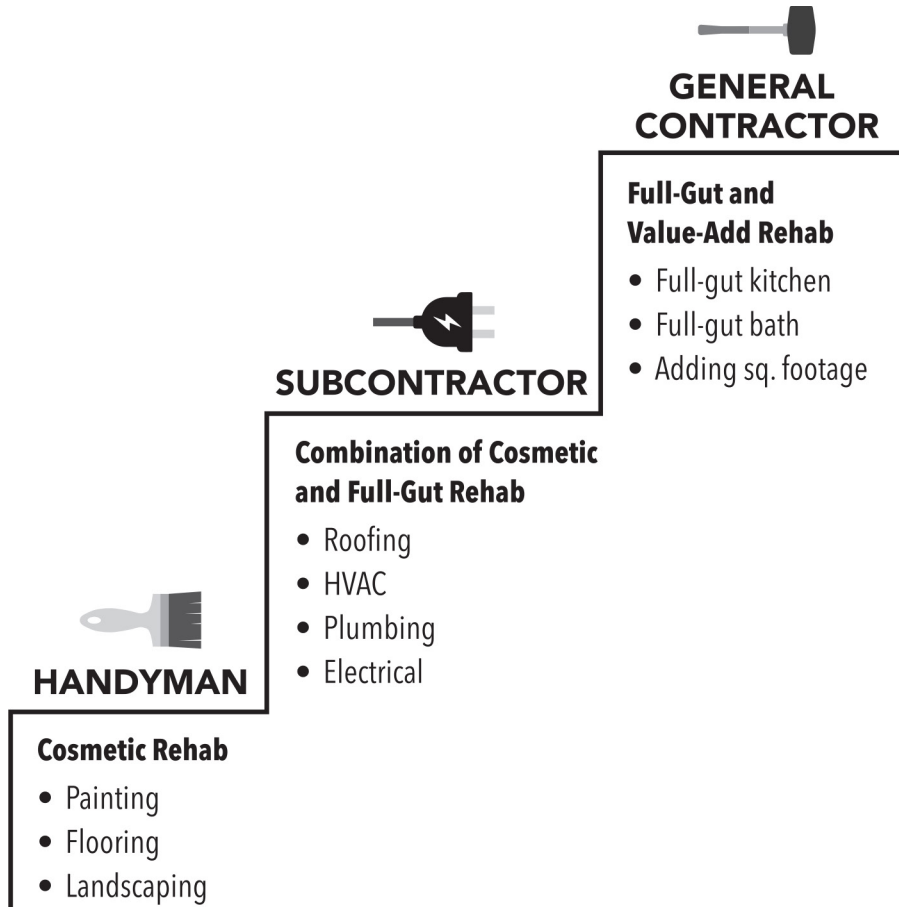


fig. 54



 <b>RETAIL CONTRACTORS</b>	 <b>WHOLESALE CONTRACTORS</b>
<ul style="list-style-type: none"> <li>• Increased attention to detail</li> <li>• No urgency to finish project quickly</li> <li>• Accustomed to using high-quality materials</li> <li>• Charge higher rates</li> </ul>	<ul style="list-style-type: none"> <li>• Limited attention to detail</li> <li>• Understand importance of quick turnaround</li> <li>• Have access to cost effective materials</li> <li>• Work to keep rates low</li> </ul>

fig. 55



Rate Per Hour x Hours Needed to Complete = **Cost of Labor**

fig. 56

- PAYMENT MILESTONES**
- 1

Starting payment

2

Underground electric and plumbing
- 3
- Foundation and framing

4

5

6

7

Electric and plumbing

8

9

10

## CHAPTER 8

### Getting the House Ready to List

---

fig. 57

CURB APPEAL CHECKLIST

<input type="checkbox"/> Exterior Painting	<input type="checkbox"/> Driveway
<input type="checkbox"/> Pressure Washing	<input type="checkbox"/> Landscaping
<input type="checkbox"/> Front Door	<input type="checkbox"/> Outdoor Lighting
<input type="checkbox"/> Garage Door	<input type="checkbox"/> Mailbox

fig. 58




CLEANING PRODUCTS	CLEANING EQUIPMENT		
<ul style="list-style-type: none"> <li>An all purpose cleaner in a spray bottle for cleaning dirt, grease, and stains</li> <li>Tile cleaner</li> <li>Glass cleaner/window spray</li> <li>Toilet bowl cleaner</li> </ul>	<table style="width: 100%;"> <tbody> <tr> <td style="vertical-align: top;"> <ul style="list-style-type: none"> <li>Shop vacuum</li> <li>Vacuum cleaner</li> <li>Razor blades for scraping paint</li> <li>Toilet brush</li> <li>Rubber gloves</li> </ul> </td><td style="vertical-align: top;"> <ul style="list-style-type: none"> <li>Microfiber cloths</li> <li>Towels</li> <li>Broom</li> <li>Dustpan and brush</li> <li>Sponges</li> <li>Extendable duster</li> </ul> </td></tr> </tbody> </table>	<ul style="list-style-type: none"> <li>Shop vacuum</li> <li>Vacuum cleaner</li> <li>Razor blades for scraping paint</li> <li>Toilet brush</li> <li>Rubber gloves</li> </ul>	<ul style="list-style-type: none"> <li>Microfiber cloths</li> <li>Towels</li> <li>Broom</li> <li>Dustpan and brush</li> <li>Sponges</li> <li>Extendable duster</li> </ul>
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fig. 59



Source: Photos from DeAnda Photography  
An example of virtual staging

fig. 60

**LISTING PREPARATION CHECKLIST**

☐ Final Touch-up

☐ Enhance Curb Appeal

☐ Deep Cleaning

☐ Professional Staging

☐ Professional Photography

☐ Order Inspections

☐ Property Inspection

☐ Termite Inspection

☐ Roof Inspection

☐ Chimney Inspection

☐ Note report items you will fix

## CHAPTER 9






### Use an Agent or Sell It Yourself?

fig. 61

#### HOW AN AGENT HELPS YOU SELL A HOUSE

- Determines ARV
- Oversees marketing
- Suggests SOW
- Reviews offers
- Performs project management
- Negotiates with buyer
- Sets asking price
- Oversees sale
- Lists on MLS

fig. 62

					
	1 Green Ct.	108 Plum Rd.	21 Chilly St.	37 Duke Rd.	12 King Rd.
List Price	\$445,000	\$585,000	\$424,900	\$457,500	\$550,000
List \$/sq. ft.	\$263	\$245	\$260	\$290	\$276
Sold Price	\$445,000	\$570,000	\$403,000	\$450,000	\$546,000
Sold \$/sq. ft.	\$263	\$238	\$251	\$285	\$274
Subdiv	Kenilworth	Kenilworth	Kenilworth	Kenilworth	Kenilworth
Year Built	1955	1941	1953	1951	1954
Appx Acres	0.28	0.25	0.28	0.16	0.28
Total sq. ft.	1,690	2,391	1,604	1,578	1,990
Type	1 Story Basement	2 Story	1 Story Basement	1 Story	1 Story
Style	Ranch	Cape Cod	Ranch	Cottage, Ranch	Ranch
Bedrooms	3	3	3	2	3
Full Baths	2	2	2	2	2
Half Baths	0	0	0	0	0
Heat/Cool	Central Air	Central Air	Central Air	Gas Hot Air	Central Air
Heat/Cool	Gas Hot Air	Gas Hot Air	Gas Hot Air	Gas Water Heater	Gas Hot Air
Fireplace	Living Room	Gas Logs	Gas Logs	Bonus Room	Living Room
Parking	1 Car Garage	Attached Garage	1 Car Garage	None	None
Driveway	Gravel	Asphalt	Asphalt	Gravel	Gravel
Foundation	Basement Inside	Crawl Space	Basement	Crawl Space	Block
Flooring	Tile	Tile	Tile	Tile	Tile
Flooring	Wood	Wood	Wood	Wood	Wood
Laundry	Basement	Attic Other	Basement Shop	Main	Main
Int Feature	-	Attic Walk-in	Garage Shop	-	-
Ext Feature	Fenced Yard	-	-	Fenced Yard	-

An example of a comparative market analysis

fig. 63

AGENT MARKETING AVENUES

 For sale sign

 Flyers

 Postcards

 Online ads

 Social media ads

fig. 64

AGENT QUALIFICATIONS TO LOOK FOR



1

Familiar with the area

2

Five-plus years of experience

3

5-40 sales a year

4

High-quality previous listing

5

Most capable, but not cheapest or promising the highest price

fig. 65

WHY SELL TO ANOTHER INVESTOR?

1

Wholesaling a fixer-upper without doing any work



2

Selling a flip mid-construction

3

Getting plans approved and selling the house with the plans

fig. 66

<div></div> <div>PROS</div>	<div></div> <div>CONS</div>
<div><ul style="list-style-type: none"><li>• Complete and easy access to the MLS</li><li>• Potential for extra income from selling houses</li><li>• You keep listing commission money</li><li>• Networking opportunities with other agents</li><li>• Ongoing education about real estate industry</li><li>• Career backup if you decide to stop flipping houses</li></ul></div>	<div><ul style="list-style-type: none"><li>• Costs associated with obtaining and maintaining license</li><li>• Time associated with obtaining and maintaining license</li><li>• Increased responsibility of performing the tasks of agent</li><li>• Harder to enlist other agents to bring you deals</li></ul></div>

## CHAPTER 10

### Selling the Flip

fig. 67



fig. 68

	CONVENTIONAL	FHA	VA
Credit Score	620	580	None; unless lender requires
Down Payment	3%	3.5%	N/A
Appraisal	Required	Required	Required
Inspection	Not Required	Not Required	Not Required
Best for	Borrowers with good to excellent credit scores	Borrowers with lower credit scores looking for lower-priced properties	Borrowers who qualify based on military service



fig. 69

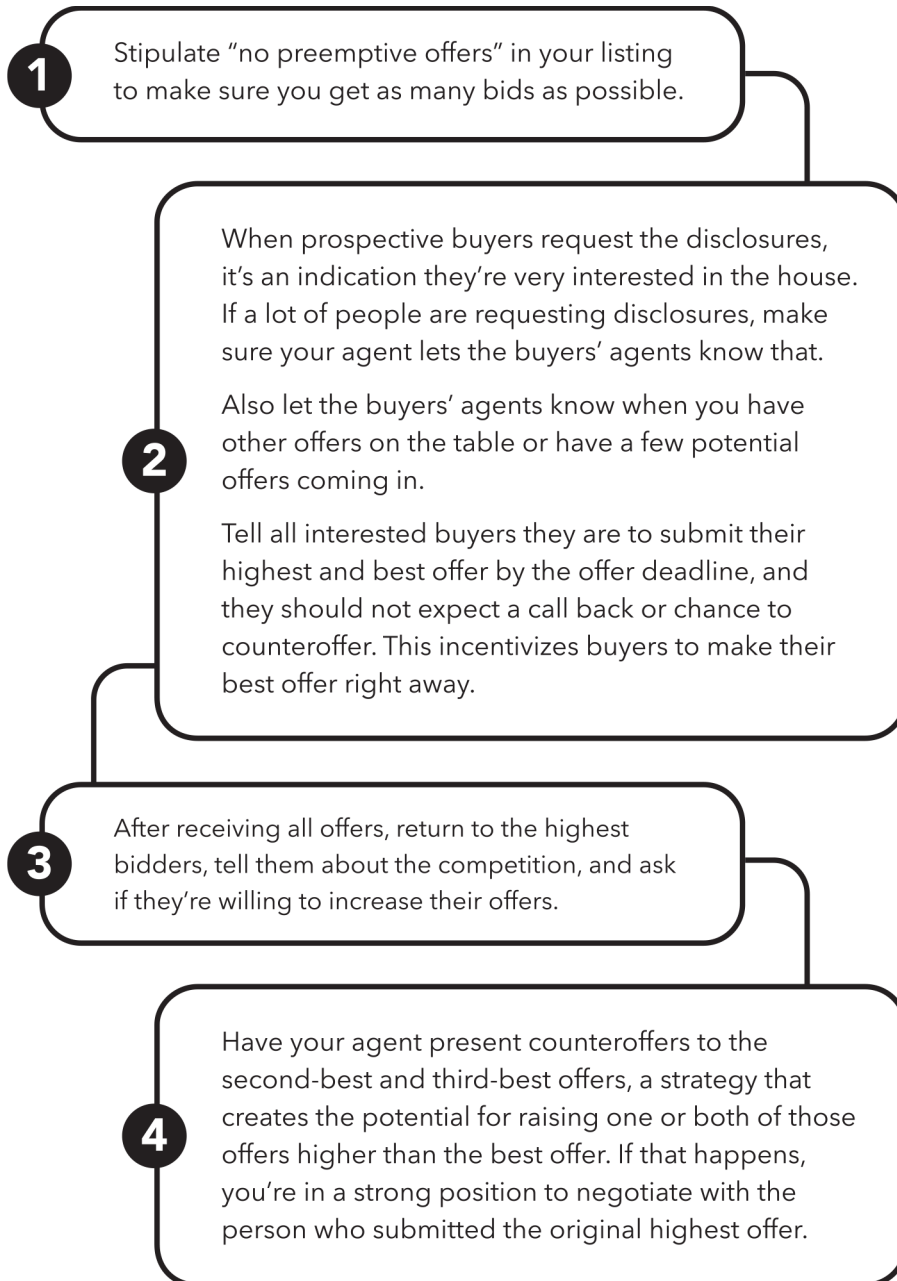
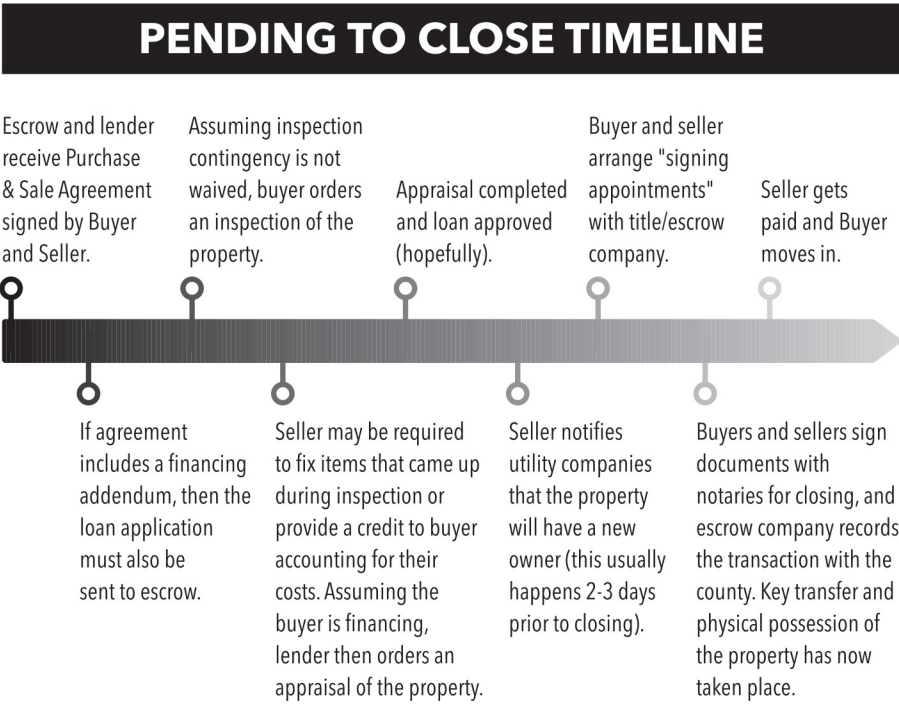


fig. 70



## CHAPTER 11

### Looking Toward Your Next Flip

---

fig. 71



fig. 72

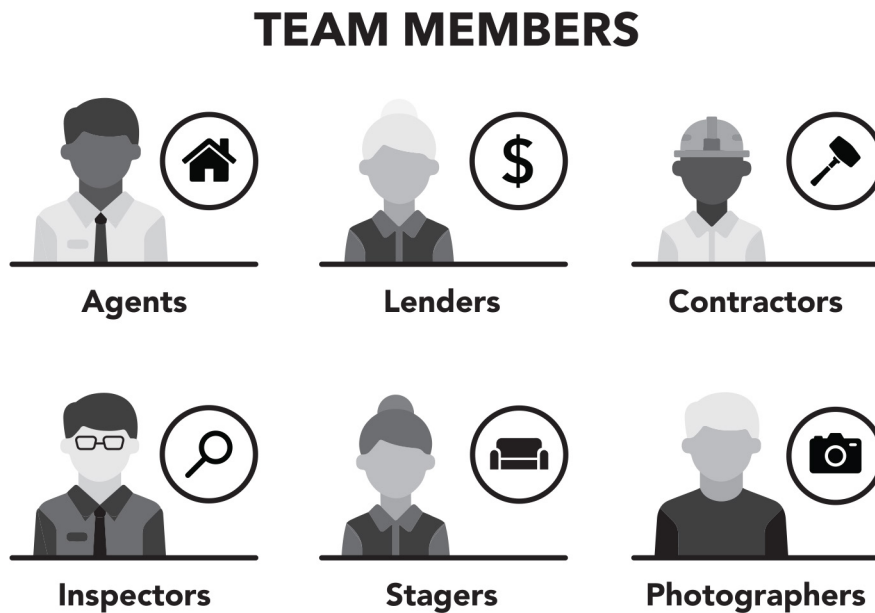
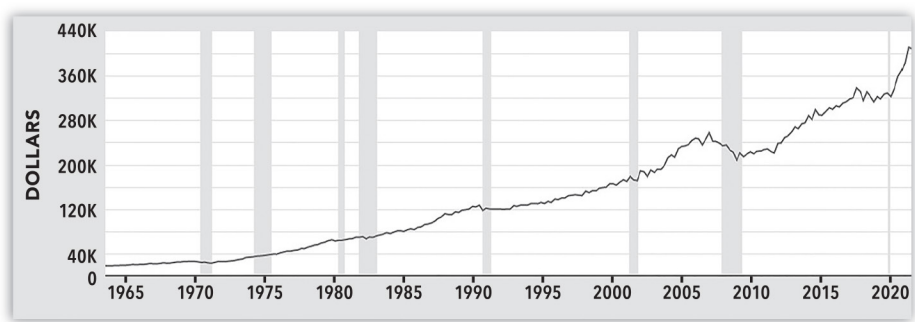


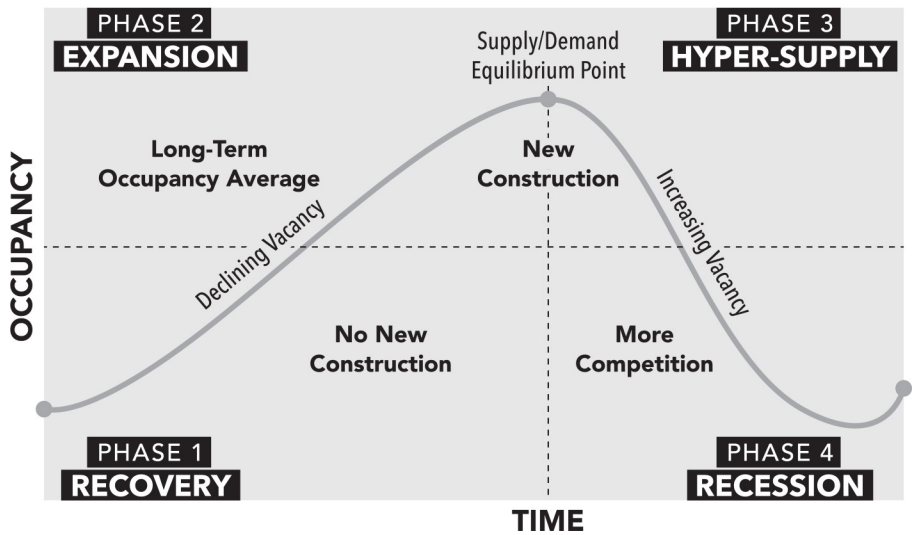
fig. 73



Source: US Census Bureau and Federal Reserve Bank of St. Louis

fig. 74

# MARKET QUADRANT CYCLE



## CHAPTER 12

### Establishing a Business Entity

---

fig. 75



fig. 76

### BUSINESS ENTITY ATTRIBUTES

	SOLE PROPRIETORSHIP	LLC	CORPORATION
Set up cost	Free	Varies by state	Varies by state
Set up difficulty	N/A		
Admin difficulty			
Protects your personal assets	✗	✓	✓
Your salary is unrestricted	✓	✓	✗
You must pay self-employment tax	✓	✓	✓

fig. 77

**CALIFORNIA LLC TAXES AND FEES**  
(TAX YEARS 2001-PRESENT)

TOTAL INCOME (FISCAL YEAR)	LLC TAX +	LLC FEE =	TOTAL CA TAXES
< \$250,000 (including any loss)	\$800	\$0	\$800
\$250,000 – \$499,999	\$800	\$900	\$1,700
\$500,000 – \$999,999	\$800	\$2,500	\$3,300
\$1,000,000 – \$4,999,999	\$800	\$6,000	\$6,800
≥ \$5,000,000	\$800	\$11,790	\$12,590

## CHAPTER 13

### Tax Implications

---

fig. 78

#### FACTORS THE IRS CONSIDERS WHEN DETERMINING INVESTOR VS DEALER

- Number and frequency of sales
- Intent when buying the property
- How the property was acquired
- Extent of improvements made
- How long property is held
- Amount of profit realized on sale
- Number of sales done in the past
- Effort involved in the sale
- Use of a broker
- Nature and extent of your business

fig. 79

#### EXPENSE DEDUCTIONS












- |  |   |
|--|---|
|  Renovation Labor                       |  Insurance             |
|  Renovation Materials                   |  Office Expenses       |
|  Real Estate Taxes                      |  Marketing             |
|  Points, Closing Costs, and Commissions |  Travel Expenses       |
|  Mortgage Interest                      |  Meals / Entertainment |

fig. 80



- Sale Price
- Purchase Price
- Expenses

---

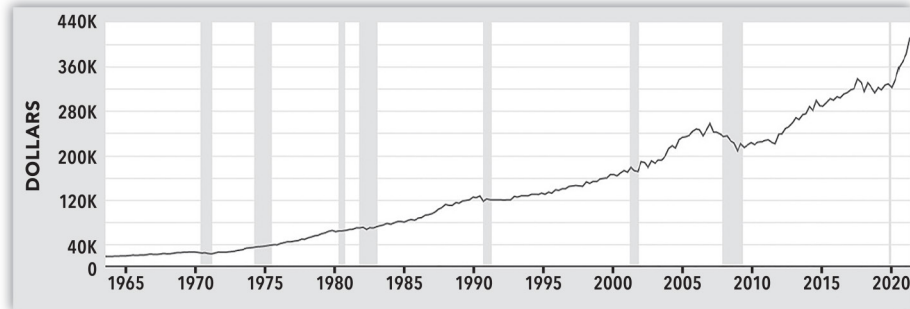
= Profit on Flip

## CHAPTER 14

### Risks of House Flipping

---

fig. 81



Source: US Census Bureau and Federal Reserve Bank of St. Louis

fig. 82

POTENTIAL CONTRACTOR PROBLEMS	
OVERCHARGING YOU	This happens more frequently to house flippers who haven't yet learned the going rates for contracting work.
DELAYING THE PROJECT	As mentioned in chapter 7, it's not uncommon for contractors to take on as many projects as possible without the ability to finish them all on schedule, inevitably resulting in gross delays.
GOING OVER BUDGET	Even if your analysis is spot on, a contractor who upcharges during the project can skew your numbers and prevent you from having enough money for all the rehab.
TAKING YOUR MONEY AND DISAPPEARING	This happens more frequently than you might think, and it can be a real hassle to try to track down the contractor and recover your funds.



## CHAPTER 15

### Prepare for a Career in House Flipping

---

fig. 83



# Appendix I

## Scope of Work Document

---

fig. 84

CONTRACTING COMPANY	
_____ <i>Client</i>	_____ <i>Client's Contact Information</i>
_____ <i>Company</i>	_____ <i>Company's Contact Information</i>
<b>CONTRACT PROPOSAL</b>	
Prepared by: _____	Date: _____
Total Construction: _____	
<b>SCOPE OF WORK</b>	
<u>Landscaping:</u>	
· Pull weeds in backyard	
· Prune trees in backyard	
<u>Subfloor - According to Plans:</u>	
· Build subfloor to level existing bathroom next to stairway	
· Build subfloor to even in master bathroom	
<u>Underground plumbing:</u>	
· 2" Main water line	
· 2", 3", 4" ABS sewer	
· (2) Toilet	
· (3) Sink in bathroom	
· (1) Tub (if possible)	
· (1) Kitchen sink	
1	

Rough framing:

- 2x4 Walls in master bathroom
- 2x4 Walls for new bathroom downstairs
- All posts will be 4x4 and 4x6 for exterior balcony
- Replace existing beam for balcony
- Replace balcony with redwood and redwood handrail in back of home
- Repair damaged siding
- New headers for master bedroom for two (2) new openings

Rough plumbing - (as per plan)

- All plumbing shall be done for sewer 3" and 2" ABS
- ½", ¾" and 1" water service
- All hot water shall be insulated
- All vents shall be ABS 2"
- Main water for four (4) units will be 1"
- 3" ABS for toilet
- (3) Sink only
- (1) Tub (if possible) in master
- Prep for range and dryer in kitchen

Rough electrical - (as per plan)

- Compact Qty: 30
- Ceiling mount Qty: 3
- 1x4 LED Qty: 2
- Chandelier Qty: 1
- Prep for dryer and range
- Rewire in old area that needs Romex downstairs
- Rerun wiring in master bedroom conduit, put inside wall
- All wire shall be #12

## FINISH WORK & ALLOWANCES

Finish framing - (as per plan)

- ½" and ⅝" Sheetrock
- Taped Sheetrock and medium texture knock-down
- Roof asphalt, sheet metal, and gutter repair only where needed
- Cabinets/millwork (prefab cabinets and marble top) **Allowance: \$7,000.00**
- Carpet (in all bedrooms, hallway, and stairs) **Allowance: \$20.00 per yd installed**
- Paint Shermin-Williams (3 colors) inside and exterior
- Tile in bathrooms and kitchen **Allowance: \$2.00 per sq ft**
- Resurface existing hardwood to match floors (living and dining)

- Siding
- Casing doors and baseboard

**Total: \$4,000.00**  
**Allowance: \$1.00 LF**

Finish plumbing - (as per plan)

- Toilet and seat (Toto)

**Allowance: \$200.00**

Qty: 2

**Total: \$400.00**

- Mirror and glass
- Sink and faucet
- Bathtub and valve
- Custom shower tile
- Water heater

**Total: \$500.00**

**Allowance: \$800.00**

**Allowance: \$1,600.00**

**Allowance: \$3.00 per sq ft**

**Allowance: Owner supply**

Finish electrical - (as per plan)

- Exhaust fan
- 1x4 LED lights
- Compact or LED
- Ceiling mount
- Chandelier
- Outlets
- Standard switch

**Total: \$200.00**

**Allowance: \$150.00**

**Allowance: \$1,800.00**

**Allowance: \$150.00**

**Allowance: \$150.00**

**Allowance: \$0.50 per**

Includes:

- General liability \$1,000,000.00 per occurrence \$2,000,000.00 total
- Worker's comp policy 9164880-2016
- Maintain auto insurance

Exclusions:

- City permit fees
- Structural engineering fees
- Surveying fees
- Any additional work city requires
- Modifying of appliance
- Site improvements
- PG&E fees
- Landscaping

\_\_\_\_\_  
 Please Print Name

\_\_\_\_\_  
 Customer Signature

\_\_\_\_\_  
 Date

\_\_\_\_\_  
 Please Print Name

\_\_\_\_\_  
 Contractor Signature

\_\_\_\_\_  
 Date

## Appendix II

### Sample Contractor's Contract

fig. 85

CONTRACTING COMPANY	
_____ Owner's Name	_____ Owner's Address
_____ Project Name	_____ Address
<b>A. Description of the Work: Contractor will furnish all labor and materials to construct and complete in a good, workman-like and substantial manner.</b>	
_____ (Describe the work to be done. Look on Scope of Work page for more details and scope of work.)	
Upon the following described property (hereafter called "the project"):	
_____ (Insert Legal Description And Street Address If Known)	
<p>A substantial commencement of the above-described work shall be deemed to be physical performance at job site. (Per Sec. 7159(c) of the California Business and Professions Code, a plan and scale drawing showing the shape, size, dimensions and description of materials and equipment must be attached to this contract.)</p>	
<p><b>B. Property Lines:</b> Owner shall locate and point out property lines to contractor. Contractor may, at his option, require owner to provide a licensed land surveyor's map of property.</p>	
<p><b>C. Arbitration of Disputes:</b> Any dispute arising out of or related to this contract or the interpretation or performance thereof shall be decided by arbitration under the Construction Industry Rules of the American Arbitration Association and judgment shall be entered on the award. The arbitrator shall award reasonable attorneys' fees and expenses to the prevailing party. If any party after due notice fails to appear at or participate in arbitration proceedings, the arbitrator shall make an award based upon evidence presented by the party or parties who do appear and participate. In the event that there are court proceedings arising out of or related to the performance or interpretation of this contract, the court shall award reasonable attorneys' fees to the prevailing party.</p>	
<b>D. Payment – Total Contract Price To Be:</b> _____	
<b>Down Payment* (if any)</b> _____	
<small>(*By California law, cannot exceed two hundred dollars (\$200) or 2 percent of the contract price of swimming pools, or one thousand dollars (\$1,000) or 10 percent of the contract price for other home improvements, excluding finance charges, whichever is the lesser.)</small>	

Schedule of Payments shall be per Sec. 7159(e) and (f) of the California Business and Professions Code

WHEN	AMOUNT
1. _____	\$ _____
2. _____	\$ _____
3. _____	\$ _____
4. _____	\$ _____
5. _____	\$ _____
6. _____	\$ _____

(Shall be specifically referenced to the amount of work or services to be performed and to any materials and equipment to be supplied)

**E. Commencement/Completion of Work:** Owner shall have job site ready for commencement of the work of improvement no later than 30 days from the date of this contract - and so notify the contractor in writing.

**F. Commencement/Completion of Work:** The terms and conditions on the reverse side are expressly incorporated into this contract.

**G.** Upon satisfactory payment being made for any portion of the work performed, the contractor shall, prior to any further payment being made, furnish a full unconditional release\*\* from any claim or mechanic's lien pursuant to Section 3114 of the Civil Code, for that portion of the work for which payment has been made.

\*\*BNI Form 110-UP, "Unconditional Waiver and Release Upon Progress Payment," meets this requirement.

**NOTICE:** By initialing in the space below, you are agreeing to have any dispute arising out of the matter included in the "arbitration of disputes" provision decided by neutral arbitration as provided by California law, and you are giving up any rights you might possess to have the dispute litigated in a court or jury trial. By initialing in the space below, you are giving up your judicial rights to discovery and appeal, unless those rights are specifically included in the "arbitration of disputes" provision. If you refuse to submit to arbitration after agreeing to this provision, you may be compelled to arbitrate under the authority of the Business and Professions Code or other applicable laws. Your agreement to this arbitration provision is voluntary. We have read and understand the foregoing and agree to submit disputes arising out of the matters included in the "arbitration of disputes" provision to neutral arbitration.

I agree to arbitration \_\_\_\_\_ I agree to arbitration \_\_\_\_\_  
 (Initial Owner/ Owners) (Initial Contractor)

You, the owner (buyer), have the right to require that your contractor have a performance and payment bond, and the expense of the bond may be borne by the owner. You, the buyer, may cancel this transaction at any time prior to midnight of the third business day (in the case of disaster repairs, seventh business day) after the date of this transaction. See the attached Notice of Cancellation form for an explanation of this right.

Date \_\_\_\_\_  
(Contractor shall make a substantial commencement of the  
work no more than 50 days from the foregoing date)

X \_\_\_\_\_  
(Owner sign here - see and read Notice to  
Owner on next page before signing)

X \_\_\_\_\_  
(If more than one owner,  
second owner sign here)

Contractor License No. \_\_\_\_\_

X \_\_\_\_\_ V.P.  
(Contracting company  
representative signature)

**Time.** The approximate dates of commencement and completion are filled in on the first page of this proposal. Delivery of building materials to the site or the issuance of a building permit constitutes substantial commencement of work under this contract. Failure to substantially commence work within 20 days from the approximate date of commencement will violate Contractors' State License Law.

Failure to complete by the approximate completion date shall not entitle Owner to any damages for delay or consequential damages of any kind. Owner's sole remedy shall be to withhold progress payments and retention amounts until completion. The time for completion shall be extended or reduced by such time as Owner and Contractor agree in a written change order or extra work order. The time for completion shall be extended by the number of working days equal to the number of days between the oral issuance of a change order or extra work order and the delivery to Contractor of an approved and signed written change order or extra work order. The time for commencement and completion shall be extended by the number of working days equal to the number of days between the date Owner executes this contract and the date all required governmental permits and approvals are obtained.

Should the Owner, Owner's architect/design professionals, or any public agency direct or request that additional work not shown on the present plans and specifications for the project be done by Contractor, the cost of the additional work shall be added to the contract price and paid by the Owner on completion of such additional work. Contractor is entitled to be paid for all such additional work requested or directed, whether requested or directed in writing or orally, and any expenses incurred by Contractor because of unusual conditions shall be paid for by Owner as additional work done by Contractor.

The term "unusual conditions" includes, but is not limited to, the presence or suspected presence of asbestos, asbestos products, hazardous materials, hazardous wastes, pest infestation, dry rot, subsurface rocks which cannot be removed by a one-half-cubic-yard power shovel without continuous drilling or explosives, hardpan (any material which cannot be removed with hand pick or hand shovel), subsurface water (whether standing, seeping, or flowing), buried or hidden pipes, wires, cables, conduit or the like not visible without excavation or destructive inspection, utility lines, and easements.

The term "cost" means the amount agreed to between Contractor and Owner or Owner's architect/design professional, if the extra work is performed pursuant to a written change order signed by Owner or Owner's architect/design professional. The term "cost" as used in this paragraph means the actual cost to the Contractor of the labor, materials, or subcontracts required for such additional work increased by 30 percent, if the extra work is performed and no written change order was signed by Owner or Owner's architect/design professional.

Unless otherwise specifically provided herein, Contractor shall not be responsible for any patch or repair work to Contractor's work or the work of others on the premises to the extent such is

3



caused by the presence of Owner, other contractors, subcontractors, their employees, agents, invitees and the like during Contractor's performance. Any such patch or repair work shall be extra work. Payment for extra work is due immediately upon completion of the extra work. No retention shall be withheld from said amount.

**Permits and Approvals.** Unless otherwise provided herein, it shall be the obligation of Owner to obtain any and all necessary permits and government approvals of the work contemplated herein. This obligation includes any fees charged by the governmental entity. Should Contractor pay any fees, Owner shall reimburse same with no markup. Should Contractor's time be required to seek any permits and approvals, Contractor shall be paid at the rate of \$100.00/hour.

**Correlation Between Plans, Specifications, and Contract.** The plans and specifications for the project, if any, and this Contract are intended to supplement each other. Should a conflict arise between the instruments, the specifications shall control over the plans, and this Contract shall control over both the plans and the specifications.

**Fire Insurance.** Owner, at Owner's own cost and expense, shall procure promptly after execution of this Contract and maintain during the continuance of this Contract a policy of fire insurance with course of construction, vandalism, and malicious mischief clauses attached, insuring the project and all materials delivered to the site of the project for their full insurable value with loss thereunder payable to Owner, any beneficiary of a deed of trust encumbering the property on which the project is located, and Contractor as their interest may appear.

**Destruction of Project.** Should the project or any part thereof be destroyed by fire, theft, vandalism, accident, act of God, or other cause not the fault of Contractor, any work done or materials furnished by Contractor in restoring or rebuilding the project shall be paid for by Owner as extra work performed by Contractor pursuant to the provisions regarding "Extra Work and Change Orders."

**Owner's Power to Terminate Contract.** Should Contractor commit any of the acts specified in this paragraph, the Owner may, by giving ten days' notice in writing thereof to Contractor, without prejudice to any other rights or remedies given Owner by law or by this Contract, terminate the services of Contractor under this Contract; take possession of the project and the premises on which it is located; and complete the project by whatever method Owner may deem expedient. Contractor shall be deemed to have committed an act specified in this paragraph if Contractor shall:

- (a) File a voluntary bankruptcy under Chapter 7 of Title 11 U.S.C. or have an involuntary bankruptcy imposed upon Contractor;
- (b) Make a general assignment for the benefit of Contractor's creditors;
- (c) Persistently disregard any law or ordinance relating to the project or the completion thereof; or
- (d) Otherwise commit a substantial violation of any provision of this Contract.

**Rights on Termination by Owner.** (a) Should Owner terminate the services of Contractor under this Contract for any reason other than delay, and complete the project, Owner may only withhold amounts reasonably necessary to complete the project. Owner must pay Contractor the balance of the contract price, less such reasonably withheld amounts, within fourteen days of the termination. On completion of the project by Owner, if the unpaid balance of the contract price is less than Owner's cost of completion, such excess shall be promptly paid by Owner to Contractor. On completion of the project by Owner, if Owner's cost of completion exceeds the unpaid balance of the contract price, such excess shall be promptly paid by Contractor to Owner.

(b) Should Owner terminate the services of Contractor under this Contract for delay and complete the project, Owner must pay Contractor the balance of the contract price within fourteen days of the termination. After completion by the Owner, Contractor shall pay to Owner the reasonable cost of completion within thirty days of the recording of a Notice of Completion.



# GLOSSARY

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## 10-K

Annual financial report that is required of publicly traded companies.

## 10-Q

Quarterly financial report that supplements the 10-K.

## Ask price

The stock price at which a market maker can guarantee a transaction for a buyer. Think of an ask price as the amount someone is willing to immediately accept in order to buy a stock.

## Bid price

The stock price at which a market maker can guarantee a transaction for a seller. Think of a bid price as the amount someone is willing to immediately accept in order to sell a stock.

## Bond

An IOU issued by a government or private enterprise in exchange for cash. Bondholders (buyers) are paid interest at fixed intervals and rates and are repaid the bond's full principal amount at a future maturity date.

## Bubble

When the price of stocks or other securities becomes inflated due to herd behavior and overzealous investor confidence not rooted in sound fundamental analysis.

## Call option

An options contract that guarantees the option "owner" the right to purchase a stock at a specified price (strike price) before a specified expiration date.

## Capital gain

A profit resulting from an investor's ownership in a stock or other investment that has increased in value and can be sold at a price higher than its original purchase price.

## Capital structure

The way in which a company secures capital. The issuance of debt (bonds) and equity (stocks) are the primary methods of securing capital.

## Corporate governance

The layout and functioning of a corporation's management, including a system of rules, control hierarchies, policies, values, shareholder interests, community, and other factors.

## Correlation

The similar response of certain stocks to various outside factors, scored on a range from -1 to +1. Two stocks are perfectly correlated if they have a correlation value of +1. They are perfectly non-correlated if they have a correlation value of -1.

## Cost basis

The cost basis for a stock is the original cost of obtaining the stock adjusted for income obtained through the stock, such as dividends, capital distribution, and any income gained from selling options on the stock.

## Covered call

When a trader selling a call option owns the requisite shares in the underlying asset and is therefore able to readily produce the shares if the option is "called in."

## Debt-to-asset ratio

Also known as "debt ratio," a ratio used to quantify the percentage of a company's assets that are financed by creditors.

## Debt-to-equity ratio

A comparative measurement of the claims on a company's value exerted by creditors vs. the claims exerted by equity holders (shareholders).

## Deflation

When fewer units of currency have the power to purchase more goods and services. Deflation results from a decline in available money supply.

## Derivative

A security that derives its price from the price of other assets. Examples of derivative securities include options and commodities futures contracts.

## Dividend

Cash payment issued by a company to its stockholders on a regular basis, usually quarterly.

## Due diligence

The mandated inspection of a security by brokerages that must take place before the broker brings the security to market.

## Earnings per share (EPS)

Total company profit divided by total outstanding shares.

## Efficient market hypothesis (EMH)

The theory that all available information about a stock is reflected in its current price.

## Equity

A party's ownership percentage in a business, corporation, or other property.

## ETF (exchange traded fund)

ETFs are a pre-diversified, tradable security, but unlike mutual funds, ETF prices can fluctuate throughout the day. ETFs operate on the market in essentially the same manner as a stock.

## Expense ratio

An annual fee charged by the managers of mutual funds or ETFs. Expense ratios account for administrative overhead and other fixed costs of managing the fund or ETF.

## Foreign tax withholding

Taxes applied to investment income earned by nonresident investors.

## Fundamental analysis

The evaluation of core quantitative and qualitative attributes defining the financial vitality of a security's underlying assets. In the case of stocks, the subject of a fundamental analysis would be the corporation or business that is issuing the stock.

## Growth investing

Investing on the basis of a great story, inspired by companies that are making big splashes in relevant market sectors. Growth investors are open to investing in companies with higher levels of debt, higher P/E ratios, and lower earnings per share (EPS). Compare with "value investing."

## **Growth stock**

A stock that may not have particularly competitive financials but is eagerly sought by the market nonetheless on the basis of anticipated growth rather than dividend income.

## **GTC limit order**

A limit order that is “good till canceled.” A GTC, unlike a regular limit order (see definition below) does not expire at the end of the trading day. GTC limit orders expire only after a specified period of days has elapsed or after the investor cancels them. A 60-day GTC limit order, for example, is good for 60 days or until canceled.

## **Hedge fund**

Speculative, actively managed fund aimed at high-net-worth individuals. Hedge fund managers pursue aggressive growth through the use of derivative securities, short positions, and other forms of complex investment strategies.

## **Index fund**

A mutual fund comprised of stocks that reflect the composition of a specific market index.

## **Index investing**

Investing in a mutual fund or ETF comprised of stocks that reflect the composition of a specific market index.

## **Inflation**

The decline of a currency’s purchasing power.

## **Initial Public Offering (IPO)**

The first open-market offering of equity shares in a newly public company.

## **Leverage**

The application of borrowed capital for the purpose of acquiring investments for a greater return potential, albeit with a greater risk. Leverage can enhance returns and exacerbate losses.

## **Limit order**

An order placed to buy or sell a stock if and only if the stock reaches a specified price. Limit orders are distinct from market orders in that there is no guarantee that the transaction will be executed. Unless the limit order is “GTC” (see definition above) it expires at the end of the current trading day.

## **Liquidity**

A measure of how fast a stock or other asset can be turned into cash.

## **Long position**

An investment whereby a return is realized if the purchased security gains value over time.

## **Long-term capital gain**

Profit made from purchasing a security and holding it for at least a year before selling it for a gain. Long-term capital gains are taxed at the capital gains tax rate, which is generally favorable relative to the standard income tax paid on short-term capital gains.

## **Marketability**

The ability to trade a stock or other asset at a given price at a given volume.

## **Market capitalization**

Stock price multiplied by total shares outstanding. Market capitalization is used as a measurement of a company’s overall size and total value.

## **Market correction**

A sudden downturn in the market due to inflated stock prices and general overestimations of the market’s strength.

## **Market maker**

A firm that publicly quotes stock prices to the public. In order to ensure liquidity, market makers must be willing to buy and sell stock at the prices they quote.

## **Market order**

An order to buy or sell stock whereby the broker commits to an immediate transaction at an available market price. Market orders are used when investors prioritize the immediate execution of a trade over the exact price of a trade.

## **Mutual fund**

A professionally managed investment vehicle divided into shares and powered by investments in stocks, bonds, or other securities, and funded by shareholders.

## **Mutual fund load**

The commission paid to an advisor or broker for researching and selecting a mutual fund on a client’s behalf.

## **NAV (net asset value)**

Used to measure the value of a mutual fund. NAV is the aggregate per-share value of all securities that comprise a mutual fund, minus expenses. NAV values do not fluctuate throughout the day like stock values but instead are priced once at the end of each business day to reflect the day’s valuation change.

## **New York Stock Exchange**

The largest stock exchange in the world, as determined by the combined total market capitalization values of the securities represented on the exchange.

## **Normal yield curve**

The standard relationship between a bond’s term and its yield. In a normal yield curve, the longer the bond’s term (the more time allowed to pass before the bond’s face value is returned to the investor) the higher its yield.

## **Over-the-counter (OTC) market**

Trading venues that are networks of dealers. OTC markets are subject to fewer standards and regulations compared to centralized exchange markets but tend to be fair in transacting securities trades.

## **Part B prospectus**

A secondary component of a mutual fund’s prospectus that often includes important variable expense information and other data not found in the general prospectus. Part B prospectuses are usually not issued automatically. They often must be explicitly requested by the investor.

## **P/E (price-earnings) ratio**

A stock evaluation metric that is calculated by dividing a stock’s price by its earnings per share. Stocks with lower P/Es are considered “cheap.” Stocks with higher P/Es are considered more expensive.

## **Prospectus**

A report issued on behalf of a mutual fund disclosing the fund’s strategy, goals, fixed expenses, and risks.

## **Put option**

An options contract that guarantees the option “owner” the right to sell a stock at a certain price (strike price) before a specified expiration date.

## **Realized capital gain**

When an investor sells out of an investment position at a profit: receiving more cash than what he originally paid to buy into the position. Also known as a “realized gain.”

## **Rebalancing**

The investor’s periodic portfolio checkup, ensuring that asset ownership is proportioned evenly with no undue risk resulting from an over- or underabundance of one asset type or another.

**REIT (real estate investment trust)**

REITs are funds devoted to the acquisition and management of real estate assets for profit. REITs allow investors to own pieces of properties without having to hire a property management company or self-manage.

**SEC (Securities & Exchange Commission)**

The federal regulatory agency that oversees the buying, selling, and marketing of stocks, bonds, and other financial securities.

**Security**

A stock, bond, mutual fund, ETF, or other financial instrument that confers financial value to an extent determined by the market's demand.

**Settlement date**

Regarding the purchase or sale of a stock, the settlement date refers to the date on which the transfer of cash and legal stock ownership actually takes place.

**Short position**

An investment transaction whereby a gain is realized if the security loses value over time.

**Short-term capital gain**

Profit made from purchasing a security and then selling it for a gain within a year's time. Short-term capital gains are taxed at your standard income tax rate.

**Slippage cost**

The difference between an investor's expected price when buying or selling a stock and the actual price paid or received for the stock. Slippage is the result of swift market changes that may transpire between the investor's placement of an order and the broker's execution of that order. Instances of slippage are usually witnessed following the execution of a market or stop-loss order.

**Socially responsible investing**

The selection of investments on the basis of moral values and/or positive civic, humanitarian, or environmental implications, in addition to financial return potential.

**Stock**

Equity shares issued by a business or corporation in exchange for capital to further fund business development and growth.

**Stock market index**

A measurement based on certain attributes of a qualified assortment of stocks. Stock market indexes are used to track the overall performance of various sections of the market. Examples include the Dow Jones Industrial Average, the Nasdaq, and the S&P 500.

**Stock split**

When a company divides its shares so that each outstanding share is suddenly worth two shares, three shares, or some other multiple. Theoretically, the stock's price will decrease in proportion to the split, but oftentimes the market will try to buoy the stock back toward its pre-split price.

**Stop-limit orders**

An order to buy or sell a stock in the event that it drops below (or climbs above) a specified price (known as the "stop price"). Stop-limit orders trigger a limit order (see definition) when the stop price is reached.

**Stop-loss order**

An order to buy or sell a stock in the event that it drops below (or climbs above) a specified price (known as the "stop price"). Stop-loss orders trigger a market order (see definition) when the stop price is reached.

**Tax-loss harvesting**

Refers to selling a security at a loss in order to offset income and/or capital gains from the sale of other securities.

**Technical analysis**

Distinct from fundamental analysis, technical analysis is the evaluation of a stock or other security on the basis of its behavior in the market. Technical analysis concentrates on the perceived trends and patterns that affect a stock's price, whereas fundamental analysis is immediately focused on the vitality (financial and otherwise) of the company itself using financial statements and other reported financial data of the company.

**Term**

A specified period of time that a bondholder must wait until the bond's principal (face value) is returned. The bondholder is paid interest throughout the term. (Also known as "maturity date")

**Trading volume**

The total quantity of stock shares being traded during a given time interval.

**Unrealized capital gain**

Also known as an "unrealized gain," an investment position that has appreciated in value and is still being held by the investor. An "unrealized gain" becomes a "realized gain" when the investor sells out of the position in exchange for cash.

**Value investing**

Investing on the basis of sound financial fundamentals. Value investors invest in companies that consistently turn profits, pay dividends, have low debt, and are undervalued compared to competitors in the same industry.

**Value stock**

Stock whose valuation will hold up amid the scrutiny of fundamental analysis (see definition above). Value stocks have low P/E ratios, competitive yield, and reasonable debt levels. And they are undervalued compared to competitors in the same industry.

**Volatility**

The degree to which a stock or other asset's price is subject to fluctuation. Measurements of volatility may also be applied to markets as a whole. Volatility encompasses not only downside market movement but upward movement as well.