



## Making the Investment Choice

There are a wide variety of investment vehicles available to the individual investor. You could invest in different assets like undeveloped land, residential rental property, business property, commodities, gold and other precious metals, art, your family's business, and so on. However, investing is often about owning publicly traded securities like stocks, bonds, money market instruments, or mutual funds that hold such investments.

### Stocks

When you buy a stock, you buy part of a company. Stock is often called equity because the word means "ownership." If the company you own does well, you receive dividends, which are your part of the profits. And if the share price goes up, you can sell your stock at a profit. If the company doesn't do well, you could lose some or all of your money. The advantages of investing in stocks include higher potential returns over time than most investments offer and returns that historically have outpaced inflation.

### Bonds

Bonds are loans you make to corporations or governments. Unlike buying stocks (also called equity securities), which makes you a part owner in a company, buying bonds (or debt securities) makes you a creditor. Bonds are called fixed-income securities because they pay a specified amount of interest on a regular basis. A bond is basically an IOU that says if you buy a bond with a stated face value (usually \$1,000), the issuing company or authority will pay you a set amount of interest twice a year and the face value at maturity – that is, the date on which the bondholder is repaid.

Fixed-income investments offer a steady income stream and historically less volatile price fluctuations than equity investments. But, fixed-income investments aren't without risk. Sometimes a bond issuer, for example, can run into financial difficulties, default on its bonds, and not be able to return the money you invested. And bond prices do move up and down, largely in reaction to interest rate swings. So, investors in bonds or bond mutual funds can't rule out the possibility of losing principal.

### Cash

Cash is usually the third major category of investment securities. Investments in cash vehicles are kinds of liquid investments that can help you achieve your short-term or savings goals. These investments can include passbook, or regular savings accounts, money market deposit accounts, CDs, money market mutual fund accounts, U.S. Savings Bonds, or U.S. Treasury Bills. Many financial institutions offer an assortment of these convenient places to park your funds in interest-bearing accounts. Your principal is relatively secure and interest should flow steadily. An investor in high-quality money market securities has a very low risk of losing principal. The downside is comparatively low-return potential compared to bonds and stocks.

## **Mutual Funds**

Today, instead of investing in individual stocks or bonds, many investors buy shares in professionally managed mutual funds. A mutual fund is an investment company that enables its shareholders to pool their funds as a single investment account using professional management.

When you buy shares of a mutual fund, the portfolio manager pools your money with the money of all other investors to buy and sell securities for the group. By placing money in a mutual fund, rather than an individual stock and/or bond, you become part of a multimillion-dollar organization. This gives you more clout in the marketplace and an edge over the small, individual investor. You also receive professional management, reduced brokerage fees and a greater diversification than most small investors can afford.

You can choose from thousands of stock, bond, balanced (stocks and bonds) and money market mutual funds. Each fund is managed toward a particular investment objective, such as growth, income, or asset preservation. The mutual fund's prospectus will explain the fund's investment objective and tell you what securities the fund holds.