Simple Explanation Of Stocks, Bonds, and Mutual Funds

Stocks: Ownership – When you own a stock in a company you actually own a piece of that company! Stocks are good long-term investments. Over the long term they may dip and climb, but eventually they balance out and can earn you more money. They can be a high risk for the short term, but over the long term they can bolster your portfolio in a positive way. Research your investments when buying stock for the best results.

Bonds: Are basically a Loan – When you buy a bond, you are actually loaning that entity money. You give an amount (buy a bond) over a number of years. You get interest, plus your money (the total you invested) back at the end. This is a low risk investment. For example, think of a school district, like Dexter, they recently sold bonds they had purchased many years ago to build a new school building. They got all the money they invested back plus all of the interest from the many years since purchasing the initial bonds. It is sort of like an I Owe You!

Mutual Funds: Mutual funds have an asset manager, who manages the fund. The manager invests in several diverse stocks; it is less risky, remember the broken window scenario, if a one pane window has a rock thrown at it, it destroys the whole window. If a rock is thrown at a six-pane window only one section is broken. The rest of the window is stable. That is how mutual funds work. They are a lower risk investment, because you have other stocks to support you if one or more fall.

A Diverse portfolio contains Stocks, Bonds, and Mutual Funds!