TYPES OF INVESTMENTS

You have a variety of options when pursuing an investment portfolio.

FIRST-TIME INVESTORS OFTEN FIND THE PROCESS INTIMIDATING. AND LET'S BE HONEST: EVEN THOSE WITH AN EXTENSIVE PORTFOLIO MAY STILL NOT QUITE UNDERSTAND THE COMPLEXITIES ASSOCIATED WITH INVESTMENT RISK STRATEGIES, REBALANCING, AND OTHER INVESTMENT TERMS.

With that in mind, we offer you a primer on some of the more common investment types, providing you with an overview of their characteristics. You may find value in consulting a financial professional, who will be well-versed in these investments and their associated risks, along with the role they can play in helping you achieve your financial goals.

Stocks

Stocks are perhaps the most well-known investment type. When you purchase a company's stock, or shares, you are purchasing an ownership interest in that company. Larger companies may be publicly traded, which means that you can buy stock. When you invest in stock, you are hoping that the price will increase after your purchase, which you could then sell for a profit. However, if the price of a stock falls, you will lose money if you later sell the stock. For this reason, the purchase of stock carries inherent risk.

You can purchase stock online or by working with a broker.

Bonds

Bonds are typically offered by business (corporate bonds) or government entities (municipal bonds) when they are seeking to raise money. Your purchase is therefore a loan to that entity.

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After your purchase, your bond accrues interest, which is payable when the bond matures. The maturity date is a predetermined duration specified in your purchase agreement. At that point, you receive your principal plus interest.

Rates of return for bonds are typically modest, though they generally carry lower risk than stocks. However, there is still risk. For instance, if you buy corporate bonds, the company could go out of business. And, if you buy government bonds, the government could default on their payment.

U.S. Treasury bonds, however, are generally considered to have lower risks than corporate and municipal bonds.

Mutual funds

A mutual fund includes investments from multiple investors, whose money is managed by a fund manager who selects the mutual fund's securities. Mutual funds can include a variety of investments, like stocks, bonds, and other securities.

Depending on their investments, a mutual fund can carry risks similar to stocks and bonds. However, the prospect of investment diversification has the ability to lessen risk.

An index fund is a type of mutual fund that seeks to passively track an index. For instance, a NASDAQ index fund will try to mirror its performance to the NASDAQ by investing in companies from that index. These typically have lower fees because there isn't an active fund manager.

Gold

Gold, like silver or crude oil, is a commodity that can be held as an investment. The price of commodities is based on supply as well as consumer fears, which can be impacted sharply by external factors, like political actions.

Generally, investing in gold and other commodities is considered risky.

Real estate

You can invest in real estate in several ways—purchasing and flipping homes, investing in apartments or trailer parks, purchasing a business building, among others. Generally, the cost of entry to purchase real estate is high, though there are crowd-funded real estate investment opportunities that provide buy-in for those with less cash.

You earn money on a real estate investment when you sell it at a higher price than you paid for it (after fees and expenses). There is risk associated with real estate, as market values are impacted by supply/demand and other economic factors.

These are just a few of the major investment types. There are others—annuities, retirement plans, and cryptocurrency, to name a few.

Because there are risks associated when purchasing any type of investment, you may find it helpful to consult a financial professional.