

Understanding Types of Investments

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Client Guide: Understanding Types of Investments

(Stocks, Bonds, Mutual Funds, and ETFs)

Investing is an important part of building wealth, saving for long-term goals, and creating financial security. But with so many types of investments available, it can be hard to know where to begin. This guide will break down the most common types of investments—stocks, bonds, mutual funds, and ETFs—so you can feel more confident in making informed financial decisions.

Stocks

Also known as: Equities

What Are They?

Stocks represent ownership in a company. When you buy a share of stock, you're buying a small piece of that company. As a shareholder, you benefit when the company performs well, typically through price appreciation or dividends.

Key Features:

- Higher growth potential, but also higher risk
- Can provide dividends (a portion of the company's profits)
- Value can go up or down based on company performance and market conditions

Best For:

- Long-term growth
- Investors with a higher risk tolerance

Bonds

Also known as: Fixed Income Investments

What Are They?

A bond is essentially a loan you give to a company or government. In return, they promise to pay you back at a later date with regular interest payments along the way.

Key Features:

- Generally considered lower risk than stocks
- Provide steady income through interest (called “coupon payments”)
- Bond prices can fluctuate but are typically more stable than stocks

Best For:

- Income generation
- Reducing portfolio risk through diversification

ETFs

Also known as: Exchange-Traded Funds

What Are They?

ETFs are similar to mutual funds but trade like individual stocks on an exchange. They often track a specific index, such as the S&P 500.

Key Features:

- Offer low-cost diversification
- Trade throughout the day like stocks
- Many are passively managed (index-based)
- Often have lower fees than mutual funds

Best For:

- Cost-conscious investors
- Those who want the flexibility to trade during the day

Final Thoughts

Understanding your investment options is the first step to building a strong financial future. Each investment type plays a different role in your overall strategy—some are better for growth, others for stability or income.

When deciding what to invest in, consider:

- Your financial goals
- Your time horizon
- Your risk tolerance

You don't need to know everything—working with a financial advisor can help you choose the right mix of investments for your personal situation. And as your life changes, your investment strategy can evolve with you.

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