

Investments

Know Your Options

The task of assembling an investment portfolio may present you with many questions. One of the most important is, “What assets would I like to include in my portfolio?” Although it may sound like a simple question, the options are numerous. The most common types of assets available are **stocks, bonds, cash**, and a combination of these offered as **mutual funds**. No *one* item is “better” than another; however, they may all vary in their risk vs. reward potential.

Stocks. Owning a stock means buying a “share” or portion of a company. The more shares of stock you own in a company, the greater the gain if the company succeeds. Conversely, the more shares of stock you own in a company, the greater the potential you have to be adversely affected in the event of poor financial performance. Stocks offer the investor no guarantees of any earnings, but do offer the potential for gain if the stock performs well. Prior to investing in any stock, research is imperative. Obtain a copy of the company’s financial statements—these documents are required to be filed regularly by the Securities and Exchange Commission (SEC) and are available from the company offering the stock or, in many cases, may be found on the Internet—and carefully review the statements prior to making any investment.

Bonds. Bonds are promissory notes or “IOUs” issued by a corporation or government to its lenders. A bond is evidence of a debt on which the issuing company usually promises to pay the bondholder a specified amount of interest at intervals over a specified length of time, as well as repay the original loan on the expiration date. A bond represents debt; therefore, its holder is a creditor of the corporation. Certain bonds are generally considered more conservative investments than stocks. This is due, in part, to the fact that bonds earn interest that is typically fixed and, thus, limited.

Cash. Cash, a liquid asset, is also typically found in a diversified portfolio. Typical cash vehicles include **certificates of deposit (CDs), money market accounts, short-term savings bonds, and bank savings accounts**. All of these options offer substantial liquidity and protect principal, but generally earn a much lower interest rate than bonds or return less than the dividends or gains you could earn by investing in stocks.

Keep in mind that significant differences exist in risk among investment asset classes. Bank CDs are FDIC insured and offer a fixed rate of return, whereas securities are not FDIC insured, and both their principal and

yield may fluctuate with changes in market conditions.

Mutual Funds. Mutual funds allow the investor to purchase a share of not just one company's stock, but a larger portfolio of professionally managed investments, that can include a mixture of stocks, bonds, and cash. Mutual funds range in value from several million to several billion dollars, and have different purposes and growth and/or income expectations. They range from the very conservative money market funds to aggressive growth funds, and fall into several general categories, based on the major objectives of the fund: income, long-term growth, growth and income, or a balanced investment strategy.

Mutual funds, by their very nature, provide the investor with a diversified portfolio and professional fund management, as well as increased buying power. They provide the investor with a streamlined approach to investing. For example, instead of making separate purchases of stocks, bonds, and certificates of deposit, you could invest your money in a mutual fund—one that contains a balance of investments that suits your level of risk tolerance.

In order to evaluate a mutual fund, you should obtain and review the fund's **prospectus**. The prospectus is documentation required by the SEC that provides information regarding the fund's management, goals, objectives, risks, and performance history, as well as pricing and any associated fees. As prior performance of a mutual fund is not a guarantee of its future performance, it is important that you thoroughly research any potential investments.

Research and Strategize

A sound financial strategy can often lead to a secure financial future. Regardless of your financial goals, and no matter which investment vehicle(s) you choose, increasing your net worth and attaining your financial goals involves research.

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Let's Have a Conversation

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