

# Basic Investment Tools

Individuals with investable funds often have a desire to put those “extra” dollars to work to meet a specific purpose. For some, there may be a desire to accumulate funds for a future purchase, or a need to generate more income to pay current expenses. For others, it may be to put money aside for a “rainy day,” or simply to “get rich.” Whatever the investment goal, an investor should clearly understand both the role and the potential risks and rewards of each type of investment tool.

## Stocks

The terms “stock” and “share” both refer to a fractional ownership interest in a corporation. As “owners,” stockholders vote for the company’s Board of Directors, and receive information on the firm’s activities and business results. Stockholders may share in current profits through “dividends” declared by the firm’s Board.

When a corporate business is first organized, investors contribute money to fund the enterprise, and in return receive shares of stock representing their ownership in the company. If the business is successful, it will grow and have increasing profits, and the shares generally become more valuable. If the business is not successful, the value of the shares usually declines.

- **Uses:** Investors typically buy and hold stock for its long-term growth potential. Stocks with a history of regular dividends are often held for both income and growth.
- **Risks:** As the long-term growth of a company cannot be predicted, the short-term market value of the company’s stock will fluctuate up and down. If need or fear cause an investor to sell when the market is “down,” a capital loss will result. If the market is “up,” the investor will realize a capital gain.

## Bonds

While stocks represent ownership in a business, bonds are debt. Issued by institutions such as the federal government, corporations, and state and local governments, a bond is evidence of money borrowed by the bond issuer. In return, bondholders receive interest and, at “maturity,” the principal amount of the bond.

When first issued, a bond will have a specified rate of return, or “yield.” For example, a 6.0% bond will pay \$60.00 per year for each \$1,000 invested. If a bond is traded on a public exchange, the market price will fluctuate, generally with changes in interest rates. Later investors will receive a yield that may be more, or less, than 6.0%, depending on the price paid for the bond in the open market.