

Investment and Diversification

Many individuals struggle when it comes to investing. However, it does not have to be as difficult as we might first believe. Below are the major types of non-retirement investments that are commonly included in an investment portfolio.

Stocks

Stocks are a type of security that signifies ownership in a company. Publicly held companies are most commonly traded on the [NYSE](#) or the [NASDAQ](#) exchanges. Investing in stocks is a gamble, as you are betting the stock price will rise and or that the company pays dividends. Because of the risks involved, stocks typically offer a higher return. However, there is no guarantee of a return on the original investment.

Choosing Stocks

Visit the company website and find the investor section to locate their financial information. (All publicly traded companies in the United States must file their financial statements with the Security and Exchange Commission (SEC) and these filings must be made public.)

There are four main financial statements showing the worth of a stock: the balance sheet, income statement, statement of shareholder's equity, and the cash flow statement. You can learn more about how to read these in the [Beginners' Guide to Financial Statement](#) from the U.S. Securities and Exchange Commission. You should also search the internet for any recent articles on the company.

Choosing Bonds

Government Bonds

- Safest type/Lowest interest
- Backed by the government
- Notes mature in 1-10 years
- Bonds mature in more than 10 years

Municipal Bonds ("Munis")

- More risk than Government Bonds/Less than Corporate Bonds
- Issued by local governments, cities, counties, school districts, and public utility districts
- Many are free from federal tax/Some are free from state tax as well

Corporate Bonds

- Issued by large companies like stocks
- Higher return/Higher Risk
- Higher Bond quality rating = Lower interest to the investor
- Usually less risky than stock

Check out [Bond Basics: How to Trade Bonds](#) from Investopedia for more information.

Bonds

Bonds are a debt investment where investors loan money to a corporation or the government for a defined period of time at a variable or fixed interest rate. Bonds are used by companies, municipalities, states and governments to raise money and finance a variety of projects and activities. Investing in bonds is a way to diversify your portfolio and they tend to be a lot less volatile than stocks. However, less risk also means bonds will most likely have a lower return. Most often, bonds pay interest semiannually which provides a predictable income stream. Many people invest in bonds to receive this expected interest income and also to preserve their capital investment.

Investment and Diversification

Mutual funds

A mutual fund is an investment pool comprised of different securities such as stocks, bonds, and money market investments. Mutual funds are overseen by money managers who invest the fund's capital to try to produce income for investors.

Mutual funds have become popular investing vehicles for several reasons: they are professionally managed so individual investors don't have to pick individual investments that make up a mutual fund, they are diversified with a range of companies and industries, the initial investment is low making it easier to start investing, and there is no set time an investment must be held so they are fairly liquid.

Choosing Mutual Funds

Because Mutual funds are professionally managed they come with a higher fee which can cut into the gains.

Load Funds

- Includes a sales commission the investor pays up front

No-Load Funds

- Does not include a sales commission
- May have a higher fee schedule than load funds
- Statistical data shows they perform just as well as load funds

Visit the [MUTUAL FUNDS](#) website provided by the U.S. Securities and Exchange Commission for more information.

Choosing Real Estate

There are several requirements and some research the investor must do to ensure he or she is getting a good deal.

- Property must have a good location with many potential renters
- Investor should consult real estate agent regarding prices
- Monthly rent must cover the house payment, insurance, repairs, taxes, and any additional costs

Visit the [How to Invest in Real Estate: An Introduction](#) and [10 Lethal Real Estate Investing Mistakes](#) online resources for more information.

Real estate

Real estate properties that generate rental income and profit through price appreciation are often solid investments for those who like to work to renovate and/or improve them. This type of investment may provide tax benefits, but it can also be time consuming and there can be some intense labor required that the investor may not be able to complete on his or her own. There is a lot to consider and understanding a good deal is important.

Diversification

A completed balance sheet can be used to break individual assets into more detail and calculate how much money is divided between stock, bonds, and real estate. While there is no set percentage that should be in any one category, the general rule is to keep investments spread between higher and lower risk instruments and to move to a larger number of lower risk investment as a person gets older.

Learn More Now!

[10 lethal real estate investing mistakes](#)[Links to an external site.](#)

- This resource will help you to learn more about investing in real estate.

[10 things you absolutely need to know about stocks](#)[Links to an external site.](#)

- This article provides a primer on the basics the average person should know about investing.

[Bond basics: How to trade bonds](#)[Links to an external site.](#)

- This will help you learn more details about bonds and the bond market.

[Effective investment diversification is not as simple as most think](#)[Links to an external site.](#)

- This article looks at diversification as a process aimed at improving the predictability of your investment returns.

[Five basics you should definitely know about the stock market](#)[Links to an external site.](#)

- This article seeks to demystify the stock market for the everyday investor.

[How to invest in real estate: An introduction](#)[Links to an external site.](#)

- This resource will help you to learn more about investing in real estate.

[Investing basics: Diversification for dummies](#)[Links to an external site.](#)

- A lot of investors think diversification is owning a lot of stocks, and that's not wrong on the face of it. But let's start with a simpler metaphor: Don't put all your eggs in one basket.

[Mutual funds](#)[Links to an external site.](#)

- Mutual funds have become popular investing vehicles. This webpage from the U.S. Securities and Exchange Commission website provides more detailed information to help you invest wisely.

[What is the "Rule of 72"?](#) [Links to an external site.](#)

- The "Rule of 72" is one of the formulas that can be used for estimation in S.M.A.R.T goal setting. This article provides an example of how it works.