

Understanding the Types of Investments

FINRA Investor Education Foundation

1 | Who We Are

Who We Are



FINRA® Financial Industry
Regulatory Authority

Mission:

- Investor protection
- Market integrity

What we do:

- Write rules
- Surveil the markets
- Discipline rule breakers
- Educate investors

FINRA Investor Education
FOUNDATION®

Mission:

- Empowers underserved Americans with knowledge, skills and tools to make sound financial decisions throughout life

What we do:

- Protect consumers from financial fraud
- Conduct and support research
- Foster financial capability in communities

By the End of Our Session Today

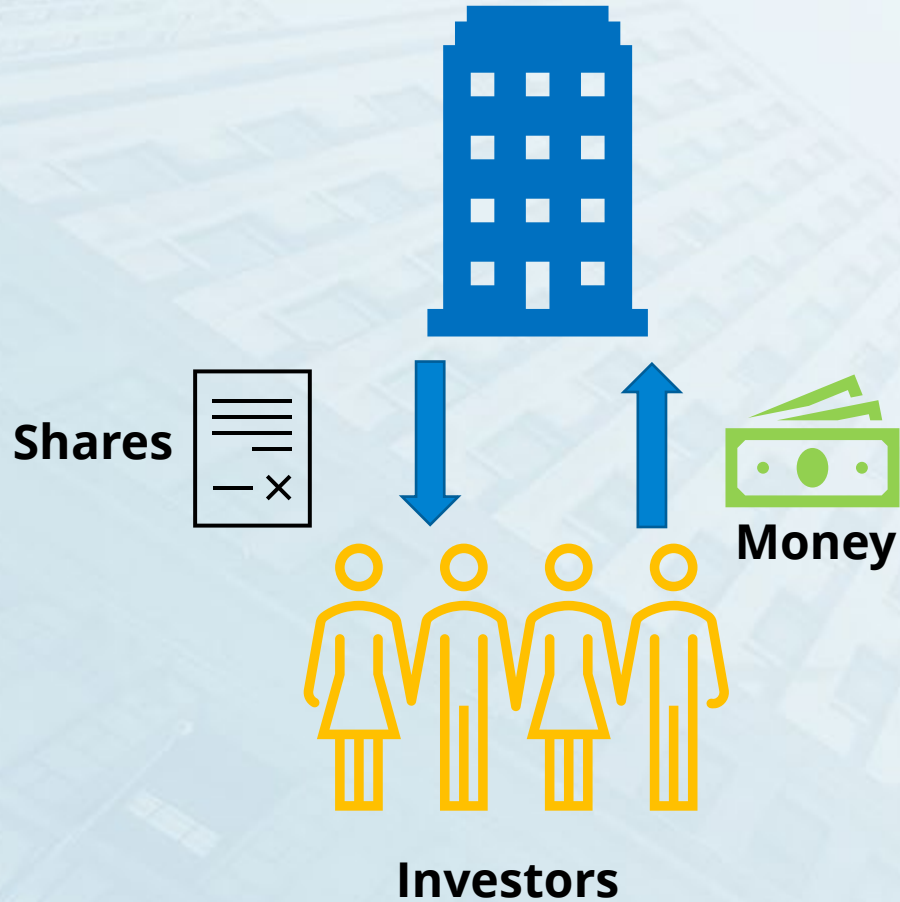
You will know:

- What Are the Capital Markets
- Types Of Investments
- Basics Features and Risks of the Different Types of Investments
- Free Resources to Learn More

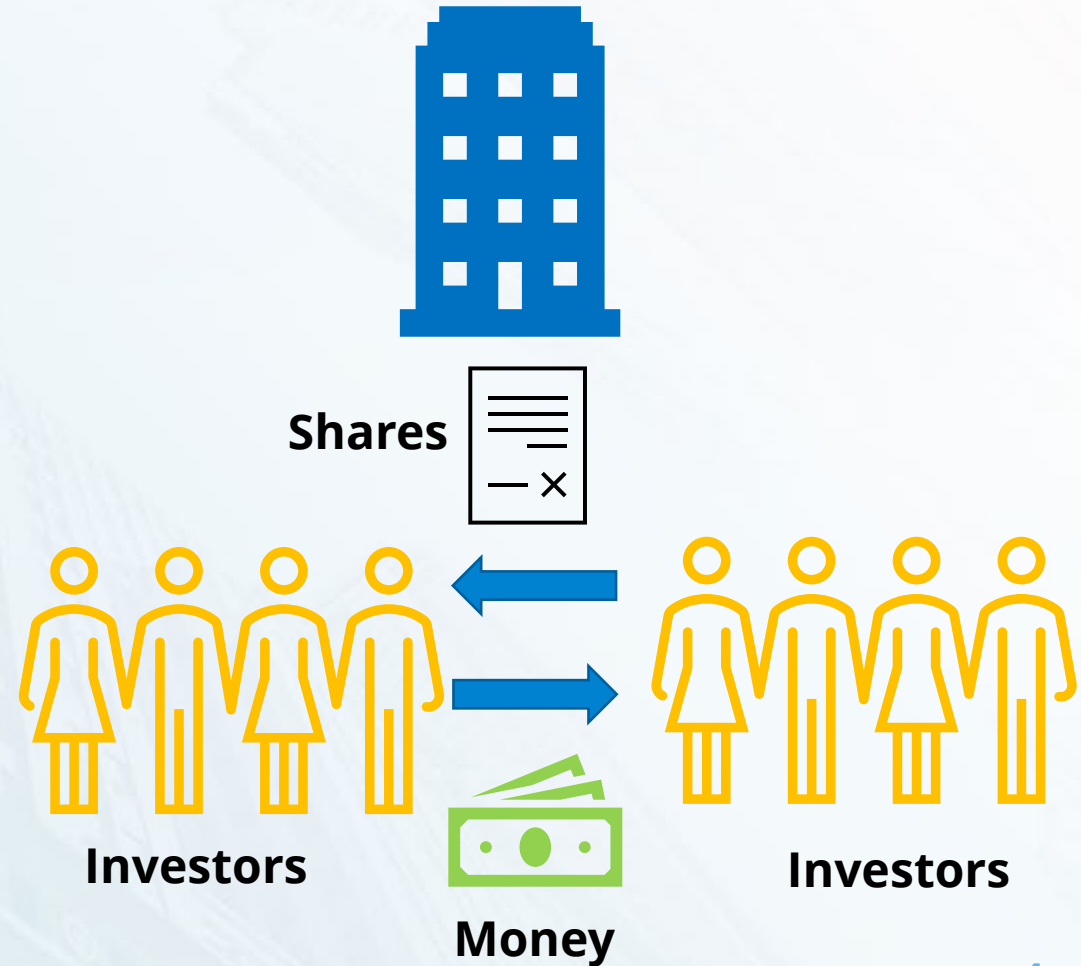


The Capital Markets – Primary and Secondary

PRIMARY MARKET



SECONDARY MARKET



Types of Investments

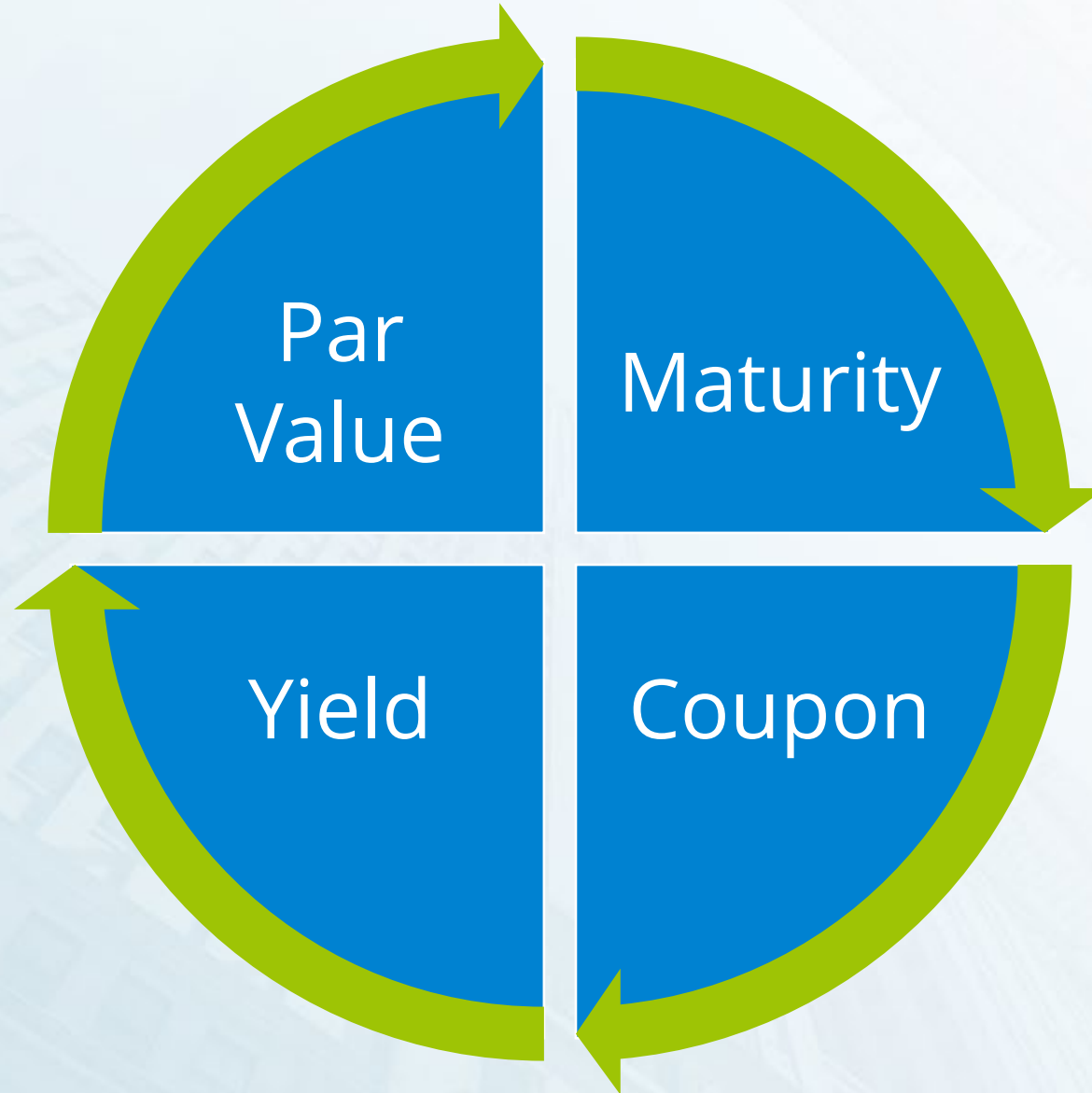
A security is a financial instrument that represent:

- Ownership
- Debt
- Rights



2 | Key Bond Concepts

Bond Basics



Impact of Interest Rates



When interest rates
rise—bond prices
generally fall



When interest rates
fall—bond prices
generally rise

Bond Risks

INTEREST RATE

Interest rates fall, bond prices rise

REINVESTMENT

Having to reinvest proceeds at a lower rate than what the funds were previously earning

INFLATION

Inflation increases dramatically, bonds can have a negative rate of return

DEFAULT

Issuer's inability to repay the debt

CREDIT

Lower credit rating may cause higher interest rates on future debt

LIQUIDITY

Unable to sell quickly due to few buyers and sellers for the bond

3 | Stocks

Become An Owner Of a Company

Equity or
ownership
interest in a
company

How stocks make money:

- Dividends
- Capital gains

\$

Factors impacting returns:

- Market conditions
- Sector- and company-specific risks



Types of Stock

Common vs. Preferred	
Common	<ul style="list-style-type: none">• Issued by all publicly traded companies• Dividends not guaranteed
Preferred	<ul style="list-style-type: none">• Not all companies issue preferred shares• Dividends generally guaranteed• Prices may fluctuate less

Classes (A, B, etc.)

Stock Characteristics

Subclasses or Categories		
Market Capitalization	<ul style="list-style-type: none">• Large-cap (>\$10B+)• Mid-cap (\$2-10B)	<ul style="list-style-type: none">• Small-cap (<\$2B)• Micro-cap (smaller)
Sector/ Industry	<ul style="list-style-type: none">• Energy• Utilities• Financials• Consumer Goods• Information Technology• Consumer Discretionary	<ul style="list-style-type: none">• Materials• Industrials• Healthcare• Communication• Real Estate
Defensive or Cyclical	How price responds to market changes	
Growth or value or both	<ul style="list-style-type: none">• Company expanding?• Price low vs. potential?	

4 | Mutual Funds

Defining a Mutual Fund

An investment company that pools money from many investors and invests the money in various investments, known as the fund's portfolio.

Basic Types of Mutual Funds




Stock

Bond

Balanced

Money
Market

Embrace Diversification

<i>Across Asset Classes</i>	<i>Within Asset Classes</i>
Stocks 	<ul style="list-style-type: none">- Different sectors- Company size
Bonds 	<ul style="list-style-type: none">- Types of issuer- Different maturities
Cash 	<ul style="list-style-type: none">- Money market funds- Deposit accounts

5 | Buying & Selling Securities

Various Channels



Phone

In-person



Online

Mobile app



Market Mechanics

Order

```
graph TD; A[Order] --> B[Execution]; B --> C[Settlement];
```

Execution

Settlement

- You place an order
- Brokerage firm processes
 - Wholesale broker (internalization)
 - Exchange
 - Alternative trading system
- You get a confirmation
- Trade info goes to clearing firm
- Trade settles within 2 days (T+2)

Where to Buy and Sell Securities

Full Service Brokerages

- Money management
- Research
- Order execution

Discount Brokerages

- Self-directed
- Order execution

Direct Stock Plan

- Buy or sell without a broker directly from company

Banks

- Offer mutual funds

6 | Where You Can Learn More

Investor Tools @ FINRA.org/Investors

- Smart Investing Courses
- Professional Designations Database
- Fund Analyzer
- Loan Calculator
- Risk & Scam Meter
- Investor Knowledge Quiz



Investing Basics
Smart Investing Courses

Every relationship involves taking that all-important first step. Your relationship with money and investing is no different. To learn more, select one of the topics below, or explore the full course sequence. All courses are designed to fit your busy lifestyle.

[Setting Investment Goals](#)

[Rate of Return](#)

[Defining Terms](#)

[Diversification](#)

[Risk and Return](#)

[Fees and Expenses](#)

A screenshot of the 'Fund Analyzer' tool interface. The title 'Fund Analyzer by FINRA' is prominently displayed. Below the title, it says 'Analyze and compare the cost of owning funds'. There is a search bar with the placeholder text 'Search by Fund Name, Family, Ticker or Keywords' and a red 'SEARCH' button. At the bottom, there are navigation links for 'Filtered Search', 'Favorites', and 'Help'. A small disclaimer at the bottom reads: 'By clicking SEARCH or otherwise using the Fund Analyzer, I agree to the Fund Analyzer Terms of Use.'

7 | Test Your Knowledge

In general, when interest rates rise, bond prices...

a) fall

b) rise

c) stay the same

In general, when interest rates rise, bond prices...

a) fall

b) rise

c) stay the same

If You Buy a Company's Stock...

a) You own a part of the company

b) You have lent money to the company

c) You are liable for the company's debts

d) Don't know

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A Mutual Fund Is...

a) Ownership in a company.

b) A loan to a company.

c) An Investment company that pools money

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Buying a Single Company's Stock Usually Provides a Safer Return Than a Stock Mutual Fund.

a) True

b) False

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a) True

b) False