

What Are the Different Investment Choices? From Condos to Gold to Just Plain Cash

Date : March 1, 2012



In February 2012, thousands of students across the nation began a 14-week simulation called The Stock Market Game—Capitol Hill Challenge, sponsored by the Securities Industry and Financial Markets Association (SIFMA) Foundation for Investor Education. Some 400 high schools are participating in the ninth annual game, designed to promote financial literacy. Last year’s winners were students from Neuqua Valley High School in Naperville, Ill., who produced a portfolio that grew to a virtual \$171,640.60. They beat out a group of students from Oak Hill High School in Maine, whose portfolio totaled \$132,328.66.

An investment portfolio is a collection of investments constructed to meet a financial goal. In the case of The Stock Market Game—Capitol Hill Challenge, students amass an investment portfolio of common stocks and mutual funds. While stocks and mutual funds are popular investments, people also have other choices when it comes to investing their money. Following is a look at some basic investment choices:

Stocks

Stocks enable investors to become part owners. When someone purchases a share of stock, they are purchasing a piece of the company. In a simplified example, if a company had 100 shares of stock, and an investor purchased one of those shares, the investor would now own one-one-hundredth of the company.

Stocks fall into two categories: common and preferred. Common stocks, which are most familiar, allow holders the right to vote at company meetings, and sometimes to receive dividends, which are regular payouts based on the company’s profits. Preferred stock holders don’t generally have voting rights, but they often come with other perks, such as guaranteed dividends for a specified time. In general, preferred stocks are less risky but also come with less potential for reward.

As with any investment, stocks have both benefits and challenges. “As economies and companies grow and expand, you are sharing in that upside [potential for gain],” says Eric Tyson, author of five national best-selling books, including

Personal Finance for Dummies and *Investing for Dummies*. “Of course, you share in the downsides [potential for losses], too. Short-term, you have more market value risk [the chance that the market will go down and the stock will lose value], but in the long-term, stocks are less risky than people realize, especially if you have a diverse portfolio of stocks.”

Bonds

Another common investment is bonds. “With a bond, what you are effectively doing is lending your money to the bond issuer, which could be a corporation or a government entity,” notes Tyson. With some bonds, earnings are fully taxable, whereas other bonds have tax exemption benefits.

A person may choose to invest in bonds over stocks when a short-term income is desirable. “If a person is trying to maximize or get more investment income, bonds will generally pay a higher yield [income return on an investment] than stocks. But long term, they don’t offer the appreciation potential of stocks,” adds Tyson.

Mutual Funds

Unlike buying a stock or a bond, purchasing into a mutual fund does not ally the investor to one specific organization. Mutual funds are already a diverse portfolio that someone else has put together. Mutual funds can be comprised of only stocks, only bonds, a mixture of both or include a wider range of investments. For the novice investor, Tyson sees mutual funds as an economical way to get a professionally managed portfolio.

Real Estate

Property is yet another investment vehicle. Although real estate-driven investments can include complicated ventures involving multiple parties, at their most basic level, they involve the purchase of residential or commercial real estate. As the names suggest, residential real estate refers to homes, townhouses, condos and the like, while commercial real estate is for business use. There are also mixed-use properties, which have space allotted for both activities, as well as retail. Profits are often realized from two different sources: the increase in property value over time, and regular rental income generated from tenants.

Commodities

Most people interact with commodities on a daily basis. Commodities are essential to modern living, and include a wide range of items — from oil and gas to grain, food and metals.

Also called futures trading, the main objective is to purchase a commodity when it is priced low and sell it when it is priced higher. It can be complicated to predict if the commodity you buy will, in fact, go up in price. “In recent years, things like gold have gotten more exposure,” says Tyson. “There’s more interest in a commodity when it’s having a good run. But if you buy something like gold, you don’t have an ownership stake. I’m not a big fan of individual investors putting their money into things like that.”

Cash Equivalents

The cash equivalent category includes a number of “safe” solutions for your money, including bank savings accounts, money market mutual funds and CDs (certificates of deposit). Many of these products are backed by the federal government and offer a guaranteed rate of profit. The drawback, however, is that earnings potential is capped low. You would put your money into this vehicle “if you want to have complete confidence that you can get the money out the next day and get 100% back,” says Tyson.

Long-term investors should take inflation into account when deciding to put money into cash equivalents. Inflation is a rise in prices in a given area over a period of time. For example, soda that costs \$1.50 today in the U.S. was at one time priced at 5¢. This is an important consideration in investing. Tyson says, “The rate of inflation right now is 2%. If you stick your money in a money market fund that is essentially growing at zero, you are losing 2% a year.”

Want to comment on this story? Answer one or more of these questions to start the conversation:

What are the benefits and challenges of investing in stocks?

Why might you invest in a commodity? Do you agree with Eric Tyson’s assessment of this type of investment?

What is inflation and how might it impact investing in cash equivalents? (Need help understanding inflation? Check out this [KWHS story](#).”

Do you belong to an investment club or organization? Share your story with other teens on KWHS’s Facebook page at <http://www.facebook.com/whartonhs>.

Related Links

- [Securities Industry and Financial Markets Association](#)
- [Financial Rate Information and Financial Education](#)
- [Resource Investing News](#)
- [New York Stock Exchange](#)
- [Real Estate Investing](#)
- [Securities and Exchange Commission: Your Investment Options](#)
- [New York Times Topics: Investments](#)
- [The Future Investor Clubs of America](#)