# Introduction to Investments

Investing can help you save money to do the things you want to do: go to college or university, help fund your retirement, or buy your first home. Read on to learn about different kinds of investments and how they work.

## Cash and cash equivalents

Cash includes the money in your bank account and other "cash-like" investments that can earn you interest. These include savings bonds, treasury bills and guaranteed investment certificates.

Cash investments are generally very safe, or "low risk," and give you quick access to your money. However, they often have lower rates of return than other types of investments.

## Bonds

When you buy a bond, you are lending your money to a government or company for a certain period of time. In return, they promise to pay you a fixed rate of interest at certain times and to repay the "face value" at the end of the bond's term (its maturity date). Bonds typically offer better rates of return than cash investments because you're taking on more risk by lending out your money for a longer period. Many bonds come with a guarantee and are relatively safe. Others offer much higher rates of return, but can be very risky and have no guarantees.

## Stocks (equities)

When you buy stocks or "equities," you become a part owner in a business. Depending on the size of the business, there could be hundreds or thousands of other part owners, or shareholders. You will receive any profits the company allocates to its shareholders. These profits are called dividends.

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You can make money on a stock in two ways: if the stock increases in value and if the company pays a dividend. However, there are no guarantees that a stock will make money or that the company will pay a dividend. The value of a stock can go up or down— sometimes frequently and sometimes by a lot. Stocks can provide higher returns than other types of investments, but you also have a higher risk of losing some or all of your investment.

**As a part owner of a company, you may be entitled to vote at the shareholders' meeting. However, you won't be involved in the company's day-to-day decisions.**

## Mutual funds

Mutual funds are a collection of investments from one or more categories. Each fund focuses on specific investments, like government bonds, stocks from large companies, stocks from certain countries, or a mix of stocks and bonds. The level of risk and return depends on what the fund invests in. Returns can include distributions to investors of dividends, interest or other income earned by the fund. You can also make (or lose) money if you sell a fund for more (or less) than you paid for it. These are called capital gains (or losses).

**When you buy a mutual fund, you're pooling your money with many other investors. You can invest in a variety of investments for a relatively low cost and leave the investment decisions to a professional manager.**

## Alternative investments

Alternative investments include more complicated types of investments like options, futures and forward contracts, income trusts, limited partnerships, hedge funds and foreign currency trading. These are typically meant for sophisticated investors who can afford to take more risks.

## Key Investing Terms:

**Risk:**
Possibility of losing money on your investment.

**Return:**
The amount of money that you earn on an investment. The higher the potential return, the higher the risk.

**Face value:**
The value the bond was issued at and is the value you receive when it matures. Interest payments are based on the face value.

For example, a bond that has a face value of $1,000 and an interest rate of 5% would pay you $50 a year.

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