What Can You Invest In?

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ALEX

My Roth IRA is open. I know where the money goes. But if I tap “buy,” what actually becomes mine?

SAM

Depends what you buy. Imagine the company that made the bakery ovens sells you a share. You own a small piece of that business.

One company, two ways to invest



ALEX

Could the oven maker borrow money from me instead?

SAM

Yes. With its bond, you lend it money on agreed terms. With its stock, you share in how the business does. A struggling company might cut its dividend or even miss a bond payment.

Two labels on the same shelf



ALEX

The growth fund and the value fund both own stocks. What do the labels tell me?

SAM

A growth index looks for companies expected to expand quickly. A value index looks for companies priced low relative to measures like earnings or book value. The index rules tell you which qualify.

How far does the fund reach?



ALEX

This one says “international.” Does that include emerging markets?

SAM

Read the index description. One fund might cover developed countries outside the U.S. Another includes emerging markets too. Exchange rates can change what those holdings are worth in dollars.

A building, a bar, a share



ALEX

If I want to invest in property, do I have to buy an entire warehouse?

SAM

You could own shares in an equity REIT, a company that owns property and collects rent. Your shares can rise or fall. Gold and silver are physical assets too, but a bar of metal collects no rent.

What is behind the label?



ALEX

I see bitcoin, a gold product and a mining-stock fund. Are they three versions of the same idea?

SAM

Look inside. Bitcoin is a digital asset with sharp price swings. One gold product might hold bullion. A mining fund owns businesses whose costs and profits matter too. Each exposes you to something different.

Reading a fund description

1. What does it own?

A stock fund buys ownership stakes. A fixed-income fund holds debt, such as Treasury or corporate bonds. Bond fund prices can fall as interest rates rise or borrowers weaken. Cash and short-term bills can suit near-term spending. Inflation can erode their buying power.

2. How is it packaged?

Mutual funds pool investors' money and generally trade at an end-of-day price. ETFs also pool holdings and trade on an exchange during the day. Either can track an index or use active management. A fund tracking only gold or one industry gives narrow exposure.

3. What could move it?

A large-cap U.S. growth fund can fit three descriptions at once: company size, geography and investment style. Compare a small-cap or mid-cap fund's holdings before adding it. A global fund may already include U.S. stocks. Read the index, top holdings, risks and expense ratio, the annual fund fee as a percentage of assets.

Try it at the bakery

One building, three choices

The bakery rents its shop, borrows to buy an oven and sells bread. Which could pay rent, which promises loan payments, and which gives you a share of future business profits?

Follow the payment

An owner of the building can collect rent. A lender can receive interest and principal. An owner of bakery stock shares in the business's fortunes after its obligations are met. Even when all three investments depend on one bakery, their risks and rights differ.

Carry this into Lesson 5

An IRA or 401(k) is the account. Its available investments depend on the provider or employer plan. Now Alex can read a fund name and ask what she would actually own.

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