

Overview of Investment Asset Classes

SAFA Financial Literacy Lesson

Note:

SAFA also offers workshops for Investment, so if you want to know more in detail about Investment, especially in regards to Stocks and Cryptocurrencies, make sure to register for them.



What is investment?

Investment is when you grow your money using various asset classes. In essence, it is the creation of money using money.



Asset Classes: Stocks(Equities)

Stocks are financial assets that demonstrate the ownership of the fraction of a company. If you own more stocks, you own a greater percent of the company. Whenever the company does well, you profit, but you must also share the losses. The general technique is to buy stocks when the company is at a low and sell stocks when the company is at a high.



Asset Classes: Cryptocurrencies

Cryptocurrencies are digital currencies that can be used for various transactions, and they are not maintained by any central authority. Essentially, investors buy these currencies, and they wait for the price to rise in the market and then sell them to make money.



Asset Classes: Bonds(Fixed-Interest Stocks)

Bonds are essentially fixed rate stocks. You are loaning money to a borrowing company or government, and you receive interest on the money as the borrower utilizes the money for their own needs. The difference between stocks and bonds are that stocks give partial ownership of a company, whereas bonds are just loans.



Asset Classes: ETFs

Exchange-traded funds(ETFs) are a type of investment that can be exchanged like a regular stock. Rather than the single asset present with stocks(as you invest in one company with stocks), ETFs have multiple assets, allowing for you investment to be diversified. ETFs can consist of stocks, commodities, bonds, or any other mixed asset class.



Fraud



Due to the lack of government protection which savings accounts have with the FDIC, there can be fraud with investments. Some notable examples are the pyramid scheme and cryptocurrency fraud. In the pyramid scheme, the perpetrator highlights fake huge returns on the investment, but they take the money for themselves, and investors can lose all of their money that they invested. Cryptocurrency has risk because there is no central authority maintaining the currency, so transactions are usually irreversible and are not legally protected. Scammers will guarantee big returns, and they will demand payments in cryptocurrency. They might impersonate businesses or even governmental agencies. Some cryptocurrencies are not legitimate, so make sure to research into them.