Workshop: Furthering Your Financial Wellness

Investing in the Stock Market

Riskier investments with the possibility of bigger gains. Stocks and the stock market—intimidating for many people, a welcomed challenged for some. Stocks can yield big rewards over time, but they require willingness for risk and patience. In this lesson, we will discuss three options for investing in the stock market: mutual funds, exchange traded funds, and investing on your own in the stock market.

What Is A Stock?

A stock is a share in a company. When you purchase a stock you essentially own part of the company. As the company grows in value, so does the value of your stock. If the company decreases in value, the value of your stock will also decrease.

Making Money on Stocks

In most cases, selling your stock when its value is higher than what you paid for it is the manner in which you'll make money from your investment. When you sell stocks that increase in value, the money you receive over your initial investment is called capital gain. However, there are some companies that will pay dividends on stocks as they increase in value. Dividends are portions of profits paid to their stockholders. Not all companies pay dividends. If you receive dividends and are able to sell your stock for capital gain, you make more money.

QUICK TIP: Minimize your risk by practicing asset allocation by making various types of investments. This strategy can help offset the risk of low-performing investments.

Mutual Funds and Exchange-Traded Funds

Investing in mutual funds or exchange-traded funds (ETFs) provide you with the opportunity to invest in the stock market in a manner that is lower in risk, compared to investing on your own. Rather than choosing multiple individual stocks, mutual funds and ETFs allow you to purchase a stock "package." Both funds allow for broad investments in pre-selected stocks by a professional management team. This helps to take some of the guesswork out of investing in the stock market as your stocks are packaged for you, but you still have some choices as there are many, many offerings for both types of funds.

A good mutual fund or ETF investment will be diversified when you make your purchase and feature stocks from a variety of industries and various risk levels for optimal performance. At the same time, you'll have little to watch or manage as they are typically monitored for you and since they're pre-set, they generally remain the same. This convenience can cost you additional fees so be sure to shop around for the best investment and the best cost. Nevertheless, the costs may be minimal compared to the costs of buying and trading individual stocks.

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Self-Investing in Stocks

Investing in stocks on your own can require much time and effort. It entails significant understanding of the market, its influences, and familiarization of the companies in which you're interested in investing. Moreover, in order to achieve a diversified portfolio which can result in substantial growth, you'll also need a substantial amount of money to get started. Using your own aptitude to invest requires much more acceptance of risk.

There are two ways to buy stock on your own:

- Open a brokerage account through a brokerage firm.
- Purchase directly through the company of interest.

Purchasing directly generally has lower—if any—transaction fees. Using a brokerage provides you with the services of a broker that can advise you how to build your portfolio, what stocks may be in your interest, and help facilitate buying and trading. You are usually charged a commission fee for their services in addition to trading fees.

QUICK TIP: Financial advisors can make great partners when investing. Their expertise is growing the money of others. Working with a financial advisor will result in a fee for their work, but may also reduce your risk, especially if you don't have the aptitude for investing yourself. Additionally, they can help advise you in other areas of your finances, not limited to stocks.

Next Steps

1. Take Chapter 3 Quiz

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