Stocks and Stock Mutual Funds 101 - Video Transcript

Stock represents shares of ownership in a business.

Owners of stock, also known as shareholders or stockholders, actually own a piece of the company the stock represents.

When you buy shares of stock, your percentage of ownership depends on how many shares you hold in relation to the total number of shares issued by the company.

For example, say that Company A has 1 million shares of stock outstanding.

You decide to buy 100 of these shares.

This means that you own a tiny fraction – less than one percent – of the company.

The primary benefit of stock ownership is the potential to share in the company's success.

You can do this in a couple of ways.

First, if the company does well and is expected to continue doing so in the future, your stock shares may increase in value.

This is known as "capital appreciation."

If your stock appreciates in value, you may decide to sell your shares at the higher price.

If you do, you will have what's called a "capital gain."

Second, you may benefit from stock ownership through dividend payments.

Many companies distribute a share of their profits to shareholders through dividends.

If you receive dividends, you may choose to receive the payment in cash or reinvest the proceeds to buy more stock, which will increase your share of ownership in the firm.

On the other hand, if a company does not do well, the stock's price may decline, dividend payments may cease, and you run the risk of losing some or even all of your investment dollars.

To help manage market risk, some investors choose stock mutual funds, which are pooled investments that combine shares of many different stocks into one portfolio.

A stock mutual fund can provide greater diversification, spreading the investment risk among dozens to hundreds of stocks.

Professional managers choose individual stocks for the fund based on its stated objective, which can be found in the fund's prospectus.

The prospectus also includes information about the fund's underlying investments, risks, fees, and expenses, and should be read carefully before you invest or send money.

Investing in stocks and stock mutual funds can help you pursue long-term goals, as long as you fully understand both the potential risks and rewards.

Before choosing any investment, review your financial goals, time horizon, and risk tolerance.

Lastly, there are several other points to consider about the potential risks and tax obligations of investing in stocks and stock mutual funds.

Consider speaking with a financial professional before making any decisions.

The return and principal value of stocks and mutual funds fluctuate with changes in market conditions.

Shares, when sold, may be worth more or less than their original cost.

Selling shares at a profit may result in a capital gain, unless shares are held in a tax-advantaged account.

Investing in dividends is a long-term commitment.

In exchange for less volatility and more stable returns, investors should be prepared for periods where dividend payers drag down, not boost, an equity portfolio.

The amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events.

Dividends are typically not guaranteed and could be changed or eliminated.

Dividend payments may be taxable, unless they are received and reinvested within a tax-advantaged account.

Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

The return and principal value of mutual funds fluctuate with changes in market conditions.

Shares, when sold, may be worth more or less than their original cost.

Any losses incurred from the sale of stock or stock mutual fund shares may be used to offset gains for tax purposes, up to a maximum of $3,000 per year.

Additional losses may be carried over to future tax years.

You cannot offset gains or losses for investments in tax-deferred accounts.

Mutual funds are sold by prospectus.

Please consider the investment objectives, risks, charges, and expenses before investing.

The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional.

Be sure to read the prospectus carefully before deciding whether to invest.

There is no guarantee that working with a financial professional will result in financial success.