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MONEY GAINS MAKING IT COUNT

Chapter 2: Building an investment portfolio

Video 4

Types of securities

Capital structure

Refers to how a company finances its operations and growth through a mix of debt (like loans and bonds) and equity (like stocks). Short-term debt is also considered in the capital structure.

Commercial paper

Commercial paper is an unsecured, short-term debt instrument issued by corporations. It's typically issued by companies to finance their payrolls, payables, inventories and other short-term liabilities. It involves a specific amount of money that is to be repaid by a specific date. Terms to maturity extend from one to 270 days, but average 30 days.

Common stock

Common stocks are a form of equity that represent a small portion of ownership in a company and that can be traded on a stock exchange. Common stock shareholders are last in line when it comes to company assets, which means that if the company is liquidated, they are paid after creditors, bondholders and preferred stock shareholders. Common stock shareholders have the right to vote at company meetings.

Convertible

Convertibles are securities, typically bonds or preferred shares, that can be converted into common stock. They are considered to be a hybrid of an equity security and a bond.

Corporate bonds

Corporate bonds are debt securities issued by a company to raise money for business needs, such as growing the business. They are typically considered to be higher-risk investments than government bonds, so they usually have higher interest rates to compensate for the additional risk.

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Types of securities (continued)

Derivatives

Derivatives are financial contracts whose value is based on the price of an underlying asset such as stocks, bonds or commodities. They are often used for hedging risk or speculation. There are three main types:

- Futures: Agreements to buy or sell an asset at a predetermined price on a specific date.
- Options: Contracts that give the buyer the right, but not the obligation, to buy or sell an asset at a specific price before a certain date.
- Swaps: Contracts in which two parties exchange cash flows or financial instruments. Often used to manage interest rate or currency risks.

Equities

“Equities” is a broad term referring to shares of ownership in a company. There are two main types of equity securities: common stock and preferred shares.

Floating rate loans

A floating rate loan, also known as a “variable-rate loan,” is a loan with an interest rate that varies over the life of the loan. The interest rate “floats” based on market conditions, such as the economy, and is often linked to a benchmark or index.

Government bonds

Government bonds are debt securities issued by a government to support spending. They are usually considered to be low-risk investments, because governments are likely to repay their debts. They typically pay lower interest rates than bonds issued by companies.

High-yield bonds

High-yield bonds are debt securities that have a lower credit rating and a higher risk of default. They are known as “non-investment-grade bonds” or “junk bonds.” They tend to offer higher yields than investment-grade bonds, to compensate for their higher risk.

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Types of securities (continued)

Investment-grade bonds

Investment-grade bonds are debt securities issued by governments or companies that are considered to have a low risk of default and that are likely to be paid back with interest. Credit agencies, such as Standard & Poor's (S&P), evaluate bonds and assign them a credit rating. Bonds with an S&P rating of BBB or higher are considered investment grade.

Money markets

Money market funds are often collectively called "money market securities." They are known for being quite safe but offer fairly low rates of return over time compared with stocks or bonds.

Preferred shares

Like common stocks, preferred shares give the holder ownership in the company, but preferred stock shareholders have priority in receiving the company's income, meaning that they are paid dividends before common shareholders. They are also given payment preference if a company liquidates. Preferred stock shareholders are not given voting rights at company meetings.

Securitized debt bond

Securitized debt bonds are financial securities that are created by pooling a group of loans and selling them as bonds.

Security

A security is a financial instrument that holds some type of monetary value. Stocks, bonds and ETFs (or exchange-traded funds) are all examples of financial instruments and securities.

Term deposits

A term deposit is a fixed-term investment that includes the deposit of money into an account at a financial institution for a set period of time. They are usually short-term deposits with maturities ranging from one month to a few years. When they buy a term deposit, investors can only withdraw their funds after the term ends.

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