The 4 Basic Types of Investments

Here we cover all of the investments in the world to give readers a view of their investment alternatives – the big picture – that should put it all together for you. While there may appear to be billions of investment choices out there, we melt this down to just 4 basic investment types. Any investment can be fit into one of these 4 types based on certain investment characteristics – what you want the investment to do for you – and how much risk you can accept. Buckle up for a surprisingly easy ride that could double your investment IQ in less than 10 minutes.

Each investment type is classified based on these characteristics: risk, liquidity, income and growth potential.

**RISK:** The likelihood that you could lose money, and how extreme your losses could be.

**LIQUIDITY:** How quickly and easily you can sell (liquidate) an investment you own without having to accept significant costs, penalties or a loss due to your timing.

**INCOME:** Money you receive or earn periodically because you hold an investment; like interest, dividends, or rent payments.

**GROWTH POTENTIAL:** An investment’s ability to produce higher rates of return or to be highly profitable in a good investment environment.

Note: THE PERFECT INVESTMENT would be LOW RISK with HIGH LIQUIDITY, paying HIGH INCOME with HIGH GROWTH POTENTIAL. I challenge you to find this investment. If you do, please share it with me.

**4 BASIC INVESTMENT TYPES**

**#1 SAFE INVESTMENTS** include: bank savings and checking accounts, money market accounts, Savings Bonds, Treasury bills and other money market securities, fixed accounts in 401k programs and other retirement plans including retirement annuities, and
money market mutual funds. Ranking: LOW RISK – HIGH LIQUIDITY unless in a tax-advantaged retirement account like 401k, IRA – LOW to MODERATE INCOME in the form of interest – LOW to no GROWTH POTENTIAL after deducting inflation and income taxes.

#2 BONDS include long-term debt securities issued by the U.S. Treasury, state and local governments, corporations, foreign governments. Investors have many choices; like high quality or junk bonds, intermediate-term or long term, taxable or tax-exempt. You can buy individual bonds, but most folks simply invest in bond mutual funds and let the fund management team deal with the details. Ranking: MODERATE RISK – GOOD LIQUIDITY – relatively HIGH INCOME from interest earned – LITTLE GROWTH POTENTIAL. You can sell a bond or bond fund at either a profit or a loss depending on market conditions and bond quality.

#3 STOCKS include common stock and to a lesser degree preferred stock issues (relatively rare). Examples: growth stocks, value stocks, blue-chip, penny, mid-cap, industrials, utilities, hi-tech stocks etc. and stock mutual funds that can be divided into many categories as well. Ranking: relatively HIGH RISK with GOOD liquidity – LOW to MODERATE INCOME in the form of dividends – HIGH GROWTH POTENTIAL in general, varies with type of stock or fund you buy.

Liquidity is actually very high for individual stocks and bond issues because they can be bought or sold quickly at low cost on any business day. IF, however, you sell or liquidate when the markets are weak you can take a loss simply because your timing was bad. This does not happen with SAFE INVESTMENTS, so I rank them as HIGH liquidity and stocks and bonds as only GOOD due to the timing issue.

#4 ALTERNATIVE INVESTMENTS include real estate, gold, silver, oil, copper, other commodities, mineral rights, and collectables like coins, stamps, precious stones, baseball cards, guns, dolls and any other asset of value bought and sold as an investment. Many can be held in the tangible or physical form and some can be owned as a financial asset; like a gold stock or commodities futures contract – both of which trade on an organized market or exchange.

Example: you can own gold or real estate properties in the physical form. Or, you can invest in them by owning stocks, options, contracts or funds like mutual funds that manage a portfolio of stocks related to the gold or real estate industry. Ranking: relatively HIGH RISK because the value of your investment will change or fluctuate – POOR to MODERATE LIQUIDITY unless an active market exists for the investment in question (if owned in physical form). GOOD liquidity if the investment trades on an organized and regulated exchange as a financial asset (stock exchange, commodities exchange). INCOME is generally LOW or nonexistent – with real estate being the notable exception, where income can be MODERATE to HIGH. GROWTH POTENTIAL can be very HIGH if you know and have a feel for the market you are investing in.
Notice that no basic investment area ranks the best in all 4 investment criteria. LOW RISK with HIGH LIQUIDITY, HIGH INCOME and HIGH GROWTH POTENTIAL can not be found in any single investment type. Any time you consider making an investment you need to rank it based on YOUR PRIORITIES.

ON THE OTHER HAND … you can put together an investment portfolio that ranks well OVERALL as a package deal, tailored to the level of risk you are willing to accept. How can the average investor do this? Notice that all 4 investment areas can be covered by investing in the appropriate mutual funds. Once you have all the bases covered with mutual funds you have a diversified and truly balanced investment portfolio that should serve you well in both good times and bad.

That’s why we give a lot of attention to mutual funds at Investor Educators. Once you learn investment basics you can easily get a handle on mutual funds, the investment of choice for the average investor.

Jim Leitz

Learning the basics of investing can be easier than you think (with the right education). If you have not yet read my book Invest Informed I highly recommend you go…

Learn more about my 10 step investing guide >>