Stocks and bonds
Information sheet

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In groups of 3, label yourselves Person A, B and C.
You will read different parts of the 'Information sheet'.
Person A will read 'Stocks part 1', Person B 'Stocks part 2' and person C 'Bonds'.
Each person will summarise their section into a table.

What are stocks?

Stocks part 1

A stock is a small piece, or a **'share' of a company** – so when we buy stocks we own a small slice of that company. Buying stocks and shares is a popular way of investing and there are thousands of stocks to choose from. When someone owns a share in a public limited company (PLC), they literally have a 'share' of the business. A shareholder has **certain rights and benefits**: for example the right to vote on company matters at the annual general meeting. Only shares in **listed companies** (not private companies) can be **traded.**

Buying stocks and shares from companies listed on exchanges is a popular way of investing and there are **thousands of stocks to choose from**. Examples of a **stock exchange** include the **FTSE 100** which tracks large UK companies (such as JD Sports Fashion, Tesco and Rolls-Royce) and the **S&P 500** which tracks 500 large companies in the US. When more people are wanting to buy shares than sell, the price goes up. When the company does not do well and people sell, the price goes down.

When shares are bought, money can be made in two ways:

1. The company may pay the investor a bit of profit the company makes, known as **'dividends'.**
2. Shares can be bought and sold. Money can be made if the shares are sold for a higher amount than a person bought them for (this is called **capital growth**). This relates to supply and demand and reflects how good or bad people think a company will do. However, if the company doesn't perform as well as expected, the value of their shares may fall, meaning the value of the investment would fall, too.

Some people care about the ethics or the sustainability of the companies they invest in, so may also choose a **'green' investment strategy** and invest in companies that work on, for example, green technologies like solar or wind energy.

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What are stocks?

Stocks part 2

Many investors aim to invest in the **long run**, such as for several years or more, so they want to lower their spending on annual fees and find investments that can weather the bumpy rides.

Buying and selling shares therefore comes with **risk** because stock prices are constantly rising and falling. That's why most investors do a lot of research before they buy shares and try to own a variety of different stocks to **diversify** their investment portfolio (a portfolio is a group of stocks or funds and different asset classes, such as bonds, stocks, property, art, etc.).

A more diversified portfolio **lowers risk** because it aims to **smooth out the volatility**. When one investment falls in a portfolio, another investment might rise, therefore balancing out the overall performance of the whole portfolio.

Lastly, people can invest either directly in **individual shares** (such as Nike, Burberry or Easyjet), via a **fund** (which is a bundle of shares managed by a fund manager for a fee) or an **exchange traded fund (ETF)** which tracks a bundle of companies (could be hundreds) in a market. Index funds have become a very popular way to invest. It's important to note that if an investment manager is professionally managing a portfolio they will charge ***management fees,*** which are an amount of money usually added as a percentage of the total value of the investments. Buying or selling stocks will also incur ***transaction fees.*** Index funds tend to have lower trading fees as investments are switched less often.

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What are bonds?

Bonds allow governments and businesses to get funding. They are essentially IOUs. **They are a form of a loan** and promise to pay back the money in a certain amount of time. For example, if a person buys £100 worth of bonds from the government, **effectively the government is issuing a debt.** This amount (£100), known as the **principal**, needs to be repaid in addition to regular interest payments (e.g. annually of 3 per cent). Interest is the amount the borrower pays the lender as a percentage of the loan.

The difference between owning a stock and a bond is a person has ownership in a company when owning a stock, but a bond is a loan.

In terms of **volatility** (how much something moves up and down in value over a period of time) and **risk**, generally bonds are more stable than stocks meaning they are lower risk. But this lower risk generally translates into lower returns - if the stock market rises significantly, for example, then the companies on the stock market will generally perform much better than the interest rate set on a bond, and investors generally will get a higher return from their stocks and shares than from the interest rate on their bonds.

Government bonds in particular are low risk as the bond (debt) is backed up by the government which is unlikely to fail to pay back the money (default on the loan). The risk on company (known as corporate) bonds is much more varied. The higher the chance that the company is going to go bankrupt, the higher risk the bond is because it increases the chance the company won't be able to continue paying interest. Nevertheless, an investor will receive a higher interest rate (more money back per year) on a riskier bond.

A company's ability to pay back debt is reflected in what's known as its **credit rating**, which is given by credit rating agencies such as Moody's and Standard & Poor's.