

What Are Investment Securities?

[Dori Zinn](#) November 16, 2022

When you're [starting to invest](#), you'll begin to take cash and buy different types of investments, or securities. There are many versions of securities you can invest in, and the ones you choose depend on what type of investor you are. Once you take your personal circumstances and risk tolerance into account, you can select the securities that best fit your portfolio. If you want to learn more about securities you can invest in, try speaking with a [financial advisor](#).

What Are the Different Types of Securities?

[Investment](#) securities are tradable financial assets that are purchased with the intent of holding them until they grow in value. There are multiple types of securities, but most fall under three categories: equity securities, debt securities and derivatives. Here's a brief breakdown of each:

- **Equity securities:** Equities are typically shares in a corporation, commonly known as stocks. That means you'll literally own a portion of that company.
- **Debt securities:** These are loans, or bonds, issued to the market by companies and governments. Because bonds are loans offered by reputable organizations, they are much safer than stocks.
- **Derivatives:** A derivative can be based on stocks or bonds, but also include futures contracts. Those contracts, including commodities futures, allow investors to bet for or against the price of a particular asset. However, derivatives contain far more risk than either stocks or bonds and may be a poor choice for a new investor.

Securities are traded through stock markets and secondary markets, though bonds are usually restricted to the latter. The [U.S. Securities and Exchange](#)

[Commission](#) oversees the sale and trade of securities with the help of Self-Regulatory Organizations (SROs). Those groups include the National Association of Securities Dealers (NASD) and the Financial Industry Regulatory Authority (FINRA).

There are more complex securities, like [convertible bonds](#), which can be converted into company stock. There are also different classes of securities, including certificated securities (literally on paper), bearer securities (which are negotiable), and registered securities (which bear the name of the holder). However, the securities listed below represent the most common securities in investor portfolios. They're also some of the most accessible securities for new investors.

Here are the four most well-known and traded securities available on the market today:

1. Stocks

[Stocks](#) give you, the shareholder, a portion (or share) of ownership in a company. When a stock price rises, your earnings also rise. The more shares you own, the more money you'll earn. Similarly, if a stock price falls, you'll lose more money. Stocks are risky compared to other securities. If you're young, investing in stocks for the long-term is a good idea. But if you're older and closer to retirement, you might consider something less risky, like bonds.

You can buy individual stocks through a brokerage or direct stock plans. You can also buy stocks through stock funds, which is a type of mutual fund that focuses on stocks.

2. Bonds

[Bonds](#) are debt securities. When you buy a bond, you're lending money to a company, government entity, or municipality. The lender promises to pay you

back by a certain time along with a specified rate of interest. Once the bond matures, it becomes due.

There are many different types of bonds, including:

- Corporate bonds
- Investment-grade bonds
- Municipal bonds
- U.S. Treasury bonds

Bonds can bring in steady income. They pay interest twice a year that's usually exempt from federal income tax. But they still carry risk. If the bond issuer doesn't stay up-to-date on interest or principal payments, they could default on their bonds. If bonds are sold before their maturity, they could be worth less than the face value.

3. Mutual Funds

[Mutual funds](#) consist of many different types of securities, including stocks and bonds. It pools the money of many different investors and the combined funds make up shares in a portfolio. Each share is part of your ownership in the fund.

There are a few different types of mutual funds, like:

- Money market funds
- [Bond funds](#)
- Stock funds
- Target-date funds

Mutual funds offer instant diversification. Since your money can go towards many different types of securities at once, you won't feel too much of a hit if you experience a loss in one security.

4. Exchange-Traded Funds (ETFs)

[ETFs](#) are like mutual funds in that investors pool their money into a fund made up of many different securities, like stocks, bonds and other assets. However, they also include mutual funds. They tend to cost less than mutual funds since they're low-cost index funds and are usually passively managed. ETFs are traded through the stock market like stocks, and you can buy and sell them throughout the day.

How to Invest in Securities

Choosing to invest in securities is only part of the process because you also need a vehicle to make those investments. This is typically done by opening your own account, investing in a retirement account at work or by hiring a financial advisor who can open and manage your investment accounts on your behalf.

Here are the most popular ways to invest in securities:

Brokerage Accounts

[Brokerage accounts](#), many of which are now online, provide investors with a direct line to the investment market. That makes them the preferred choice of most investors, as all they need to do is sign up with a brokerage, deposit money in their account, and begin investing.

Many different brokerages offer individual accounts, with costs and securities options varying between them. A few of the most popular options include Merrill Edge, [Charles Schwab](#), E*TRADE and [Vanguard](#).

Retirement Accounts

Retirement accounts, like individual retirement accounts (IRAs), and 401(k)s, offer some variation of mutual funds, stocks, and variable annuities. Some offer brokerage accounts, so you can invest in stocks, bonds and other assets.

The type of retirement account you choose depends on your job. 401(k)s are work-sponsored retirement accounts where you can contribute a portion of your earnings to your account. Sometimes, your company will offer to match those contributions up to a certain percentage.

IRAs come in a few different forms, like [traditional IRAs and Roth IRAs](#). Both are helpful options if you don't have a work-sponsored 401(k) plan. They offer different tax incentives, and your income could determine which option is best for you.

Annuities

[An annuity](#) is a financial contract you have with an insurance company to pay you at a specified date. Sometimes it's immediately; sometimes it's in the future. You can buy an annuity either with one payment in full or many payments, depending on the agreement.

Annuities allow retirees to receive a fixed income after they've stopped working and earning money. You can receive payments for a set amount of time, even up until you die. After that, your beneficiary can receive payment as well.

There are a handful of different annuities, including:

- [Variable annuity](#)
- Fixed annuity
- Indexed annuity

While it's a good idea to secure some funding in retirement, annuities can have some drawbacks. You could die before collecting all the money you're owed. Meanwhile, some annuities don't pay beneficiaries after your death.

Education Plans

Education investments can include [529 savings plans](#) or custodial accounts. However, 529 prepaid tuition accounts don't have investment options. For 529 savings plans, you can invest in either mutual funds or ETFs. Earnings grow tax-deferred and withdrawals are tax-free as long as they are used for qualifying education expenses, whether it's for K-12 school or college-related costs.

Uniform Gift to Minors Act (UGMA) custodial accounts allow you to invest in many different types of securities, including stocks, bonds, mutual funds, annuities and insurance policies. Parents can open up an account on behalf of their child and transfer ownership once the child reaches 18 or 21, depending on the laws of the state the plan is in.

The Uniform Transfers to Minors Act (UTMA) account is another [type of custodial account](#). It allows investments into other types of assets, including real estate and intellectual property.

The Bottom Line

You have a few different ways to invest in securities. It all depends on the options that best fit your finances and lifestyle. Before you take the plunge into investing in securities, review each one first. While some might not be a good fit, diversifying your portfolio is a great way to make sure you don't lose a lot of money at once.

Tips for Investing

- Navigating the investment landscape might not be as easy as many think, so it may help to talk with an expert who can help you weave through the process. Financial advisors often have expertise in investing, and finding the right one doesn't have to be difficult. [SmartAsset's free tool](#) matches you with up to three financial advisors who serve your area, and you can interview your advisor matches at no cost to decide which one is right for you. If you're ready to find an

advisor who can help you achieve your financial goals, [get started now](#).

- There are ways to invest outside of securities. If you're looking to minimize your risk as much as possible, you can explore [high-interest savings accounts](#) or [CDs](#). Your earnings might be less compared to investments, but you also get to keep all your money.

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Dori Zinn has been covering personal finance for nearly a decade. Her writing has appeared in Wirecutter, Quartz, Bankrate, Credit Karma, Huffington Post and other publications. She previously worked as a staff writer at Student Loan Hero. Zinn is a past president of the Florida chapter of the Society of Professional Journalists and won the national organization's "Chapter of the Year" award two years in a row while she was head of the chapter. She graduated with a bachelor's degree from Florida Atlantic University and currently lives in South Florida.