What is an investment? Essentially, it's something you buy for the purpose of making money.

Common Terms and Definitions

- **Bonds** – when a company or government needs a loan, they can sell pieces of the loan to the general public with a promise to pay it back, with interest. These are generally considered low-risk investments, and their rate of return is usually low.
- **Capital Gains** – earnings "gained" from "capital" (money). This includes interest on bank accounts, dividends, and profit made from selling stock at a price higher than what you paid for it. Capital gains are taxable income.
- **Dividends** – a portion of company profit that is given to stockholders. Companies are not required to distribute dividends, and not all companies do.
- **Mutual Fund** – an investment product in which an investment firm buys a combination of various investment properties. Shareholders invest by buying a piece of this combined product, rather than buying the individual pieces that make up the product.
- **Rate of Return** – how much your investment increases in value over time.
- **Share** – a unit of ownership in an investment, such as in a stock or bond.
- **Securities Investor Protection Corporation (SIPC)** – a non-profit corporation created by legislation that is tasked with ensuring that, should an investment firm go under, consumers of that firm will get as much of their investments back as possible, up to $500,000. Note that the SIPC does not guarantee that your investments will go up in value, nor does it protect against fraud.
- **Stock** – a small piece of a company that can be bought by an investor.
- **Tax-Deferred** – a tax advantage that applies to some money accounts (usually for retirement), in which a person doesn't have to pay income tax on money that is going into the account, but does have to pay income tax on the money when taking it out of the account.

How to Choose Investments

Providing specific advice about investments requires special training and can only be done by a licensed financial or investment advisor.

That said (and speaking generally), you should find a balance between risk and reward – higher risk investments usually produce higher returns in the long term, but in the short term their value can fluctuate wildly. If you're young and are able to ignore day-to-day fluctuations in the stock market, higher risk investments might be a better choice. As you get older, however, you'll want to be sure to reduce your risk over time.

While some people are able to manage their own investments, the majority of people use brokers and investment firms to manage their retirement and investment funds. If your employer offers retirement plans, you'll probably need to use their broker. If you are choosing to start your own retirement plan, be sure to do a lot of research before choosing a broker for yourself. Also be sure to compare costs between brokers and choose a person/organization that is a member of SIPC.