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Bonds

Bonds are essentially IOUs. The issuer promises to pay the bond buyer a certain sum of money at the end of a stated period, plus interest payments at specific intervals or when the bond matures. A bond fund pools money from many investors. Unlike stocks, bonds do not represent ownership in the issuer's corporation, the government, or a government agency.

Savings Accounts and Certificates of Deposit

Savings accounts carry low risk because most bank and credit union accounts are insured by the government (Federal Deposit Insurance Corporation or FDIC), or by the National Credit Union Administration (NCUA) for up to $250,000 per savings account. Savings accounts pay a small interest rate, less than what stocks or mutual funds yield, but you can take your funds out at any time without penalty. Banks also offer Certificates of Deposit (CDs), which are safe and offer higher interest rates than savings accounts. CDs often require that you commit larger amounts of money for longer periods of time.

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Money Market Accounts

Money market accounts are interest-earning accounts offered by an FDIC-insured financial institution. **Money market accounts** usually pay a higher interest rate than savings accounts in exchange for a larger deposit. These accounts may include check-writing privileges.

Stocks

Stocks represent a fractional ownership in a company. Traditionally, they pay higher average returns than most any investment based on the company's performance. **Stocks** are sold in shares, and their prices can change daily. They are long-term investments because they are meant to gain value over a longer period of time (although **stocks** can be bought and sold anytime). Some companies pay dividends to stockholders based on the company's profits.

Mutual Funds

A **mutual fund** is a professionally managed investment with money pooled from shareholders (plus interest earned) to buy a collection of stocks or bonds of various corporations. Each investor buys shares of the fund that represent partial ownership of the fund's collective holdings.

A **mutual fund's** goals are explained in the fund's published report, called a prospectus. Shareholders can elect to take the money earned (paid as dividends) or reinvest it to buy more shares.

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