Stocks and equity are same, as both represent the ownership in an entity (company) and are traded on the stock exchanges. Equity by definition means ownership of assets after the debt is paid off. Stock generally refers to traded equity.  
  
Stock is the type of equity that represents equity investment. When you buy a stock, you expect returns in the form of dividend. Equity can also mean stocks or shares



## Understanding Dividends

Dividends must be approved by the shareholders through their [voting rights](https://www.investopedia.com/terms/v/votingright.asp). Although cash dividends are the most common, dividends can also be issued as shares of stock or other property. Along with companies, various mutual funds and exchange-traded funds (ETF) also pay dividends.

* dividend is the distribution of a portion of the company's earnings, decided and managed by the company’s board of directors, and paid to a class of its shareholders.
* Dividends are payments made by publicly-listed companies as a reward to investors for putting their money into the venture.
* Announcements of dividend payouts are generally accompanied by a proportional increase or decrease in a company's stock price.

**What are the common types of equity stocks?**.

Broadly speaking, there are two types of equity stocks:  
  
1) **Common or Ordinary Stocks:** These stocks can be bought and sold by anyone very easily in an electronic form through the stock exchange. When an equity stockholder sells the equity stocks of a company to another investor, he is no longer a part owner of the company; the other investor who has purchased the equity stocks of the company now becomes a part owner of the company. Being a part owner of a company implies carrying the risk of losses in the company’s business. At the same time, if the company earns profits, the equity stockholder benefits from it by getting a portion of profits in the form of a dividend. Hence, equity is said to be an investment that carries high risk but at the same time, offers potentially high returns.  
  
2) **Preferential Stocks:** The stockholders will have priority over ordinary stocks in the payment of dividends and upon a company’s liquidation. The rate of dividend on preferential stocks is fixed. Preferential stocks are redeemable after a fixed period of time (which can extend up to 10 years). The redemption is done from the profits of the company, or through issue of new preferential stocks or by way of conversion of the preferential stocks into equity stock (in case of convertible preference shares). However, unlike equity stocks, most preferential stocks do not carry voting rights.

**What are the advantages of investing in equity?**

*a)****Easy to buy and sell:***Stocks can be bought and sold very easily in an electronic form through the stock exchange and can be considered to have a high level of liquidity. In general, there is always demand in the market at the time you need to sell your stocks.

*b)****Potential for high returns:***The stock market values the ongoing success of a company by sending prices of the company’s stocks higher. Therefore, if you invest in companies that are growing and profitable, you are likely to make a good return.  
  
*c)****Helps build long term wealth:***If you buy the right stocks and hold them for a long period of time, they have the potential to build long term wealth.  
  
*d)****Can pay dividends:***Companies that are profitable can return profits to stockholders in the form of dividends as well.

**What are the disadvantages of investing in equity?**

*a)****Effort required to research on the company:***In order to track all company news announcements and stock market-related information, a non-professional investor needs constant and easy access to information sources. Sometimes, the information may not even be publicly available.  
  
*b)****Difficult to analyze the market, sectors and economic trends:*** It is very time consuming for any non-professional investor to analyze and read the information which is issued by companies and the markets, and assess economic trends  
  
*c)****Some stocks can be difficult to buy:*** Some stocks are difficult to buy either because they are costly, or they may be unavailable to purchase.  
  
*d)****May lead to incorrect actions based on market volatility and sentiment:*** The stock market can move sharply in either direction on the strength of market sentiment reacting to specific macro-economic issues such as interest rate movements or economic growth forecasts.  Action taken to enter or exit the market influenced by such sharp fluctuations can lead to incorrect decisions.  
  
*e)****Difficult to ignore market sentiment, due to behavioral biases:***Given the constant rise and fall in stock prices, your emotional makeup or behavioral biases can come in the way of right buying and selling decisions.  
  
*f)****No guaranteed return:*** Investing in stocks does not guarantee dividends or assured resale price

Now let’s look at bonds also known as fixed income securities. A company issues bonds (takes a loan from investors) with declared interest payments and also a specific repayment price at maturity. Investors make money from bonds either by selling it ahead at a more favorable price, or by receiving income from the coupon or interest payments on the debt. Certain bonds are bought at a discounted price - and the issuer buys them back at a later agreed date, usually at a higher price.

**What are the common types of bonds and debt instruments?**

Bonds come in many forms as well. Some have fixed interest rates, some have floating interest rates based on market movements and some have zero interest rates but come with a higher repayment value.  
  
1) **Corporate bonds:**This is company-issued debt which will have a contract attached to it, such as a specific repayment date and price, as well as regular interest payments (coupons).  
  
2) **Government bonds (including public sector units or PSUs):**Government bonds are also called government treasuries, or Gilts. These have the same structure as corporate debentures. Treasury bills are types of fixed rate bonds which carry very little to no risk. On the other hand, the prices of Gilts can fluctuate in the short term but are usually steady over the long term. Gilts generally come with no credit risk because the government will always pay the investors back. Some government / PSU bonds also offer tax benefits to investors.

**What are the advantages of investing in bonds and debt instruments?**

*a)****Regular assured interest payments with low volatility:***Investors make money from debt by receiving income from the coupon (interest) payments. For example, you could invest Rs 10,000 in a bond issued by the government with a 10-year term and receive a semi-annual coupon payment of 8 per cent. That means that you will receive Rs 400 twice a year, and at the maturity date, you will also receive back your capital of Rs 10,000. Bonds issued by the government are viewed as very low risk products, given the contractual terms of repayment and regular interest paid. Debentures issued by corporates carry a slightly higher risk than government bonds. Government bonds carry no risk of default; they only carry interest rate risk, i.e. the possibility of interest rates rising thereby reducing the value of existing government bonds. Corporate debentures, on the other hand, carry both default risk and interest rate risk.

*b)****Bondholders get priority in case of bankruptcy:***Since the companies have a contractual obligation, they need to prioritize payments to bondholders in case of bankruptcy which also reduces the investor’s risk to an extent.

**What are the disadvantages of investing in bonds and debt instruments?**

*a)****Limited return potential:***Returns earned from debt instruments are limited to the interest earned. The returns may rise if interest rates fall (market prices of existing bonds rise when this happens). There is also potential for penalties being charged on early redemption.

*b)****Credit risk may mean that the bond value may reduce (mainly for corporate debentures):***Corporate bondholders may face the risk of the corporate defaulting on its interest payments and/or debenture capital repayments in case its business performs negatively. For example: A company with a low credit rating may offer a high interest rate, but carries high credit risk- the risk that the company may default on payments to its bond holders.

*c)****Interest rate risk:***If interest rates rise, the price of the previously issued fixed rate bonds will fall because investors, if they wanted could have potentially earned more value out of newly issued bonds ; similarly, when interest rates fall, the price of the previously issued fixed rate bonds become more valuable, because investors cannot see the same value in the newly issued bonds.

*d)****Possibility of reinvestment risk:***If a bond has a ‘call’ option, it means that the bond issuer can repay the money to bond investors and cancel the bonds before maturity date. Issuers may do this when interest rates fall (they would be paying higher interest than the market interest rates). In this situation, the bond investor is left with cash and options to invest in new bonds carrying lower interest rates than what he was earning from the bond that was cancelled.

**How do you buy stocks or bonds?**

All of these instruments can be bought on the market that they are traded on (the National Stock Exchange or Bombay Stock Exchange - BSE), through a broker. Most smart investors buy a good mix of both, equity stocks and debt securities for their individual benefits. However, investing in both requires knowledge and time. Anyone can buy them - but they may find it difficult to know how long to hold them and when to sell.

Those investors who want to combine the benefits of stocks and bonds should consider investing in equity mutual funds or [debt mutual funds](https://invest.dspblackrock.com/mutual-fund-products/debt-schemes). This will help you gain from these asset classes at lower levels of risk due to the benefits of diversification and the expertise of the  also professionals who manage the funds.  You can also invest in them at the time of their initial public offering, or IPO.

Consult an investment advisor for further advice on which sort of investment matches your circumstances, how you can also gain from investing in various types of mutual funds or questions on tax efficiency.