What are stocks and why should you own them?

When you buy the stock of a company, you're effectively buying an ownership share in that company.

Does that mean you get to sit next to Tim Cook at Apple's next shareholder meeting? No. But in most cases, it does mean you get a right to vote at those meetings, if you choose to exercise it.

But the primary reason that investors own stock is to earn a return on their investment. That return generally comes in two possible ways:

- **The stock's price appreciates, which means it goes up.** You can then sell the stock for a profit if you'd like.
- **The stock pays dividends.** Not all stocks pay dividends, but many do. Dividends are payments made to shareholders out of the company's revenue, and they're typically paid quarterly.

Over the long term, the average annual stock market return is 10%; that average falls to between 7% and 8% after adjusting for inflation. That means $1,000 invested in stocks 30 years ago would be worth over $8,000 today.

It's important to note that that historical return is an average across all stocks in the S&P 500, a collection of around 500 of the biggest companies in the U.S. It doesn't mean that every stock posted that kind of return — some posted much less or even failed completely. Others posted much higher returns.

That's why it's wise to buy stock not in just one company, but to build a well-rounded portfolio that includes stocks in many companies across various industries and geographies.

How do stocks work?

Companies sell shares in their business to raise money. They then use that money for various initiatives: A company might use money raised from a stock offering to fund new products or product lines, to invest in growth, to expand their operations or to pay off debt.

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Companies typically begin to issue shares in their stock through a process called an initial public offering, or IPO. Once a company's stock is on the market, it can be bought and sold among investors. If you decide to buy a stock, you'll often buy it not from the company itself, but from another investor who wants to sell the stock. Likewise, if you want to sell a stock, you'll sell to another investor who wants to buy.

These trades are handled through a stock exchange, with a broker representing each investor. Many investors these days use online stockbrokers, buying and selling stocks through the broker's trading platform, which connects them to exchanges. If you don't have a brokerage account, you'll need one to buy stocks.

What does it mean when you own stocks?

Most investors own what's called common stock, which is what is described above. Common stock comes with voting rights, and may pay investors dividends. There are other kinds of stocks, including preferred stocks, which work a bit differently.

Again, owning a stock doesn't mean you carry a lot of weight within the company, or that you get to rub elbows with company bigwigs. It also doesn't mean that you own a piece of the company's assets — you aren't entitled to a parking spot in the company lot or a desk at the company's headquarters.

What you own, essentially, is a share in the company's profits — and, it should be said, its losses. The goal, of course, is for the value of the company — and as a result, the value of its stock — to go up while you're a shareholder.

But while stocks overall have a history of high returns, they also come with risk: It's entirely possible that a stock in your portfolio will go down in value instead. Stock prices fluctuate for a variety of reasons, from overall market volatility to company-specific events, like a communications crisis or a product recall.

Many long-term investors hold on to stocks for years, without frequent buying or selling, and while they see those stocks fluctuate over time, their overall portfolio goes up in value over the long term. These investors often own stocks through mutual funds, which pool many investments together. You can buy a large section of the stock market — for example, a stake in all of the companies in the S&P 500 — through a mutual fund or index fund.

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