

1 What are “stocks” and “bonds” in plain English?

A **stock** (or share) represents an ownership slice of a company. Holders participate in profits via price appreciation and, when declared, cash dividends. If the firm dissolves, shareholders stand last in line for residual assets. A **bond**, by contrast, is a loan turned into a tradable security. The issuer—government or corporation—promises to repay principal on a stated maturity date and to pay interim interest (the coupon). Bondholders rank ahead of stockholders in bankruptcy. Voya’s Asset Allocation brochure introduces these fundamentals in a single infographic: “Stocks = ownership, Bonds = lending.” [Voya Presents](#)

2 Capital-structure pecking order

When firms raise money, they move from safest to riskiest capital: secured bank loans → senior secured bonds → senior unsecured bonds → subordinated debt → preferred stock → common stock. Vanguard’s SAI explains that “holders of preferred stock take precedence over common,” but both sit below every class of bond when assets are carved up. This hierarchy drives expected return: the lower your claim priority, the higher the return you demand. [Vanguard](#)

3 How each instrument generates return

- **Stocks:** price gains (capital appreciation) + dividends. Total return compounds when dividends are reinvested.
- **Bonds:** coupon income + price change as yields move. Holding to maturity locks in the original yield (assuming no default). Fidelity’s introductory hand-out illustrates a 4 % coupon bond trading at 98; if yields fall, price may rise to 102, delivering both income and capital gain. Stocks, by

comparison, have no contractual payoff. [Fidelity](#)

4 Risk factors unique to stocks

- **Business risk** – profits can shrink or vanish.
- **Valuation risk** – P/E multiples compress in bear markets.
- **Dilution risk** – new share issuance slices your ownership.
- **Event risk** – litigation, regulation, or technological disruption.
Voya's Market Outlook deck highlights how large-cap tech faced antitrust probes in 2024, slicing 25 % off sector returns despite robust earnings. [Voya Investment Management](#)

5 Risk factors unique to bonds

- **Interest-rate risk** – bond prices fall when market yields rise; the sensitivity is measured by **duration**.
- **Credit (default) risk** – the issuer may fail to pay coupons or principal; tracked by credit ratings and spreads over Treasuries.
- **Reinvestment risk** – coupons must be reinvested at future (unknown) rates.
- **Inflation risk** – fixed coupons lose real purchasing power if inflation spikes.
Fidelity's Fixed-Income guide quantifies duration: a five-year duration bond drops roughly 5 % for every 1 percentage-point rise in yield. [Fidelity](#)

6 Historical long-run performance

Ibbotson data (cited in Vanguard's Bond Prospectus) show that from 1926-2024 U.S. large-cap stocks returned about **10 % nominal** per year with 18 % volatility, whereas long-term government bonds returned **5 %** with 10 % volatility. Over rolling 20-year periods, stocks out-earned bonds 91 % of the time but experienced deeper interim drawdowns—45 % in 2008 versus -12 % for bonds. [Vanguard](#)

7 Primary and secondary markets

Primary markets involve new issuance: IPOs for stocks, syndicate underwritings for bonds. **Secondary** trading occurs on exchanges (NYSE, NASDAQ) for equities and largely over-the-counter for bonds. The SEC's investor roadmap notes that corporate bond liquidity is thinner, which can widen bid-ask spreads during stress. [SEC](#)

8 Valuation toolkits

Stocks

- **Price/Earnings ($P \div E$)** – ratio of share price to trailing or forward earnings.
- **Dividend Discount Model** – intrinsic value = $\sum (D_t \div (1 + k)^t)$.
- **Price/Book, PEG, EV/EBITDA** – sector-specific multiples.

Bonds

- **Yield to Maturity (YTM)** – single discount rate equating present value of cash flows to price.

- **Spread** – YTM minus risk-free Treasury yield of comparable maturity.
- **Duration & Convexity** – first- and second-order price sensitivities.
Vanguard's SAI walks through present-value math for convertible bonds that blend stock and bond valuation logic.
[Vanguard](#)

9 Why mix stocks *and* bonds?

Over the past half-century the monthly correlation between U.S. large-cap stocks and intermediate Treasuries averaged **-0.20**, meaning bonds often rose when stocks fell. Voya's Asset Allocation brochure shows that a 60/40 stock-bond portfolio cut volatility by one-third and trimmed worst-case drawdown from -45 % to -28 % during 2008. Bonds act as ballast, letting investors stay the course through equity storms. [Voya Presents](#)

10 Tactical views and market cycles

Bonds rarely stay negatively correlated forever. In the inflation surge of 2022-23, stock-bond correlation flipped positive as both fell. Voya's Q1-2025 outlook expects correlation to gradually normalise as inflation drops toward the Fed's 2 % target. Tactical investors shortened bond duration and tilted equities toward value sectors that benefit from stable rates. [Voya Investment Management](#)

11 Types of stocks in more depth

- **Common vs. Preferred** – preferred pays fixed dividends and ranks above common but below bonds.

- **Growth vs. Value** – growth reinvests earnings; value trades at lower multiples.
- **Market-cap bands** – large (> \$10 bn), mid (-\$10 bn), small (< \$2 bn).
- **Domestic vs. International vs. Emerging-Market.**
- **Sector specialisation** – e.g., REITs, MLPs, utilities.
Vanguard's fund roster lists separate tickers for each category, underlining the asset-class granularity available to allocators. [Vanguard](#)

12 Types of bonds in more depth

- **Government** – U.S. Treasuries, G-Secs in India; lowest default risk.
- **Agency** – Fannie Mae, Freddie Mac; implicit or explicit government backing.
- **Investment-Grade Corporate** – BBB- and above.
- **High-Yield (“junk”)** – BB+ and below; higher coupons, higher default risk.
- **Municipal** – tax-advantaged; general-obligation vs. revenue bonds.
- **Mortgage-Backed & Asset-Backed** – pools of loans.
- **Inflation-Indexed** – TIPS or Indian Inflation Indexed Bonds.

- **Floating-Rate & FRNs** – coupons adjust with reference rate.
- **Zero-Coupon** – sold at discount, no coupons, duration equals maturity.
Fidelity's Fixed-Income guide uses colour-coded slides to explain duration and credit spectra across these categories.
[Fidelity](#)

13 Duration, convexity, and the math of rate moves

Duration approximates the **percentage price change for a 1 % yield move**; convexity refines the estimate for large moves. A 30-year zero-coupon has duration equal to 30, making it extremely sensitive. Vanguard's Bond Prospectus shows duration and convexity for every share class, reminding investors that long-bond rallies can be turbo-charged on the way up—and brutal on the way down. [Vanguard](#)

14 Credit spreads and economic signals

Credit spreads—the yield premium corporate bonds pay over Treasuries—widen ahead of recessions as default odds rise. Voya's outlook slide plots the BBB spread versus ISM Manufacturing; spikes above 250 bp have preceded the past six recessions. Stock investors watch spreads too because equity returns often sag when bond investors price in stress. [Voya Investment Management](#)

15 Dividend yield vs. bond yield—substitution effect

Income-seeking investors compare stock dividend yields to bond coupons. When the 10-year Treasury yields < 2 %, high-dividend stocks (utilities, telecom) attract flows, compressing their valuations. Vanguard's SAI cautions that chasing yield in equities raises sector concentration risk and does not eliminate market risk—dividends can be cut. [Vanguard](#)

16 Inflation: friend to stocks, foe to bonds

Over long horizons, corporations can raise prices, passing inflation into revenues; real equity returns therefore often remain positive. Fixed-coupon bonds, however, lose real value unless yields adjust. TIPS and floating-rate notes help mitigate this. Fidelity's beginner guide warns that "nominal bonds with long maturities suffer the most when inflation surprises to the upside." [Fidelity](#)

17 Taxes on stocks and bonds

In the U.S.:

- **Qualified dividends and long-term capital gains** taxed at 0 %, 15 %, or 20 % depending on income.
- **Bond coupons** taxed as ordinary income; munis generally exempt federally.

In India:

- **Equity LTCG > ₹1 lakh** taxed at 10 % without indexation after 12-month holding.
- **Debt funds and bonds** follow slab rates if held < 36 months; LTCG at 20 % with indexation beyond.

The SEC brochure emphasises checking after-tax returns—cost basis, holding period, and tax wrappers matter.

[SEC](#)

18 ESG and “green” bonds vs. sustainable equities

Companies issue **green bonds** to fund climate projects; coupons mirror investment-grade yields but proceeds are ring-fenced. ESG equity funds tilt portfolios toward companies with high environmental and governance scores. Vanguard's Bond Index

Prospectus now lists a dedicated Green Bond Index option launched 2024. Voya's fact book shows net flows into ESG-labelled equities quadrupled since 2021. [VanguardVoya Investment Management](#)

19 Leveraged versions: preferreds, convertibles, perpetuals

Preferred shares blur the line—fixed dividends like bonds, equity upside limited. Convertible bonds can be swapped into shares at a strike price, giving bondholders optional equity participation. Vanguard's SAI devotes a section to pricing convertibles as “bond + call option.” High-yield perpetual bonds act like equity in down markets but like bonds in rallies—hybrid risk. [Vanguard](#)

20 Portfolio construction techniques

- **Core-satellite** – broad index funds for core; satellite stock picks or high-yield bonds for alpha.
- **Liability-Driven Investing (LDI)** – match bond cash flows to pension promises.
- **Bond ladder** – stagger maturities yearly to manage reinvestment risk.
- **Barbell** – combine short and long bonds to target specific duration but exploit yield-curve shape.
- **Factor tilts** – low-volatility stocks paired with high-yield bonds to balance income and downside.
Fidelity's webinar shows Monte Carlo results for barbell vs. ladder strategies across rate regimes. [Fidelity](#)

21 Behavioral pitfalls

Equity euphoria leads to buying high and panic selling low (2010 tech, 2022 meme stocks). Bond investors chase yield, buying long maturities just before rate spikes. Voya's Outlook slides recount 2023 when \$200 bn flowed into long bonds at sub-2 % yields, then lost 15 % mark-to-market in 2024. Education about risk/return trade-offs tempers such mistakes. [Voya Investment Management](#)

22 Role in retirement products

Target-date funds, annuities, NPS life-cycle funds—all derive glide paths from the relative risk of stocks vs. bonds. Early savers load up on equities for growth; glide paths incrementally pour gains into bonds to lock in purchasing power before withdrawals commence. Voya's Index Solution 2025 fact sheet exemplifies this glide logic. [Fidelity](#)

23 Indian market specifics

India lists ~5 600 stocks on NSE/BSE and a sovereign bond curve from 91-day T-bills to 40-year G-Secs. Corporate bonds remain largely private-placement; liquidity clusters in AAA PSU and financial names. Equity dividends are taxed in shareholders' hands; interest from bonds is taxable unless under Section 10 exemptions for certain tax-free PSU bonds. The structural lessons—risk ranking, duration, diversification—apply universally.