Stocks and Bonds are financial claims or contracts. They are also known as ­­­­­securities that investors can purchase.

Stocks are also known as equity. When you purchase shares of stock, you own a fractional part of a business. An investor can buy shares in any company as long as they are publicly traded, that is, listed on a stock exchange.

There are several benefits to owning stock:

You can receive dividends, which are cash payments from the company’s accumulated profits.

The price of the stock can go up, with results in capital gains (an increase in the value of your stock above the original cost).

You get voting rights in selecting the board of directors (group that represents the shareholders’ interests)

One of the most important reasons to own stock is that equity prices are unbounded on the upside. That is, a stock can go up forever; there is unlimited potential for capital gains.

Passive ownership allows investors to participate in a growing business without actually working for the company. All you need to do is purchase shares and you are an owner.

Additionally, the price of a stock is bounded on the downside by zero. You can only lose what you put into a stock, even if the company goes out of business.

Creating a portfolio of stocks is an important part of the STARS program.

Reasons to own debt (or bonds):

Suppose that you take your cash to the bank and purchase a certificate of deposit. This is an example of loaning money to a company (in this case, a bank). The bank promises to pay you interest and will return your original investment on a specific date. An investor who loans money is known as a creditor.

When an investor loans money (perhaps in the form of a bond), there is limited downside and limited upside, unlike stock. Even if a company goes into bankruptcy, the creditor usually gets something back, but not your original amount invested. As a bond investor, you accept a lower return for lower probability of loss.