Understanding Asset Classes

A variety of customers sit at a coffee shop bar. **Narrator:** “Are you familiar with the different types of investments available to you?”

One of the customers looks at his smartphone, which shows charts and buttons on its screen. He pushes one of the buttons and three icons pop up to fill the screen, labeled Stocks, Bonds, and Cash. **Narrator:** “The three main categories -- called asset classes -- are stocks, bonds, and cash. Each has different features and risk characteristics that you’ll want to understand before you invest.”

The camera zooms in on the Stocks icon. A stock tickertape appears in the background, and then a fluctuating line is added, representing stock volatility. **Narrator:** “First, let's take a look at stocks. A share of stock represents a portion of the ownership of a company. Shares are typically traded on an exchange such as the New York Stock Exchange, and prices fluctuate as investors buy and sell.”

The scene goes back to the three icons -- Stocks, Bonds, and Cash -- which stack vertically with Stocks on top, Bonds in the middle, and Cash on the bottom. Upward-pointing arrows appear on either side, representing risk and potential return and how they are highest with stocks and lowest with cash. **Narrator:** “As a result, stocks are typically more volatile than bonds or cash and carry a higher risk that their market value could decrease. However, over the long term, stocks have historically earned higher returns when compared to other asset classes and inflation.”

The Bonds icon is highlighted and the other icons and arrows disappear. **Narrator:** “A bond is a different type of investment. In general, bond prices are less volatile than stock prices and bonds can be less risky than stocks. Here's how they work.”

The camera zooms in on a schoolhouse. The top forms a slot and a coin is deposited. **Narrator:** “When you purchase a bond, you are loaning money to an entity -- such as a corporation, a government, or a municipality.”

The front door of the school opens and out comes a banner that says Interest Income, followed by the coin. **Narrator:** “In return, you receive regular payments in the form of interest income. When the bond is paid off you receive your principal amount back.”

The scene changes to two stacks of coins, one labeled Stocks and the other Bonds. Both stacks grow as new coins are added. Eventually the Bonds stack grows higher than the Stocks stack. **Narrator:** “And while stocks, on average, have outperformed bonds over the long term, there have been times when bonds produced stronger returns.”

The three icons -- Stocks, Bonds, and Cash -- reappear and the camera zooms in on the Cash icon. **Narrator:** "Finally, cash. While cash itself might have no potential for investment return, there are investments that carry very low risk and are considered cash alternatives."

A stack of coins appears on the left, with banners on the right saying Bank CDs, Treasury Bills, and Money Market Funds. **Narrator:** "Cash alternatives are short-term investments, such as bank certificates of deposit and U.S. Treasury bills. Money market funds are a common vehicle for investing in cash alternatives. These funds are considered conservative investments and historically have produced lower returns than stocks or bonds."

The Stocks, Bonds, and Cash icons reappear and a man walks across the screen in front of them. He pauses, deciding which to choose, then walks off the screen. **Narrator:** "The asset classes you choose can make a big difference in the performance of your investment portfolio. When deciding which asset classes are right for you, be sure to consider your investment goals, time horizon, and tolerance for risk. And remember, past performance does not assure future results."

The final screen appears, which reads, It's your future. Start planning today. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund.

© 2021 SS&C. Reproduction in whole or in part prohibited, except by permission. All rights reserved.