Articles Program

Introduction to investing

You've got some additional cash on hand and want to put it to work. The problem is, you're not sure where to start.

"Begin by deciding how much you want to invest and how much risk you're willing to take on," says Anish Chopra, a Chartered Accountant and Managing Director of TD Asset Management. Some investments promise to pay a guaranteed amount. Other types of investments may offer to pay higher amounts, but they usually involve greater risk, including the chance that you may lose some or all of what you've invested.

"Many investors spread their money over a range of investments and approaches," Chopra says. "They'll put some into higher risk investments in hopes of getting higher returns. For security, they'll also invest in safer investments."

Lower risk investments include:

- **Treasury Bills** - A short-term loan you make to the government which is repaid, at a set rate of interest, when it matures.
- **Guaranteed Investment Certificate (GIC)** - Usually at least $1,000, which you deposit at a set rate of interest, for a fixed period of time. Generally you can not take your money out early.
- **Fixed income securities** pay interest at a set rate, and repay the amount you invest on a set date. **Bonds** and **debentures**, for example, are types of certificates for loans you make to a company or government. Investment grade securities are higher quality bonds with a lower probability of default (you don't get back the money you invested or the interest on it). Non-investment grade securities, also known as high yield or junk bonds, have a higher risk of default.

Stocks, or shares, are considered to be a riskier class of investments since the amount you receive depends upon the performance of the business which, at worst, may fail. Shares come in different classes:

- **Common shares** give you part ownership of a company and allow you to vote on major decisions affecting the company.
- **Preferred shares** entitle you to receive a fixed dividend before the common shareholders receive a dividend, and to receive any excess funds ahead of common shareholders if the company fails. Preferred

shareholders are usually not allowed to vote at the company's annual general meeting.

- **Income trust** units generally pay you cash distributions that are higher than common share dividends.

Derivatives are another class of investments that include securities, such as options and futures, whose value is derived, in part, from the value and characteristics of an underlying asset. Derivatives appeal to investors who are willing to assume additional risk and look to them to make certain bets or to protect their stocks or portfolios from anticipated swings in price.

Many people invest in **mutual funds**, which are professionally managed by an investment company. Investors purchase units in the fund, and the investment company uses the money they invest to purchase stocks, bonds, options, futures, commodities or other securities.

“Mutual funds come in a wide range of types to suit different investing styles and expectations around risks and returns,” says Chopra, who is the lead manager of the TD Canadian Value Fund. “They’re popular with many investors since the fund managers make a lot of the investment choices for the investor. They choose from a range of investment vehicles, which provides fund investors with diversification.”

Once you start looking at investments, you’ll soon encounter a variety of words and phrases used to describe various investment vehicles. Here are some of the ones you’ll encounter:

- **Value** is an investing style that focuses on quality companies that are out of favour or trade at a discount to its peers. This style of investing has been popularized by investors such as Warren Buffett.
- **Growth** is an investing style that focuses on businesses with exposure to rapidly-growing industries and positive macroeconomic trends.
- **Blue chip** is a leading, well-known company's stock from which you could expect consistent growth and dividend payments over the long term.
- **Callable** is an investment, such as a bond, that can be “called in” and repaid by the company or government that issued it, before its maturity date.
- **Coupon** is the portion of the bond that provides the holder an interest payment at a pre-determined rate. Most bonds pay interest semi-annually.
- **Yield** refers, in general, to a return in the form of dividends or coupons on an investor's capital investment. For bonds, the coupon rate of interest divided by the purchase price is called the current yield.

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