Cash Equivalents, Bonds or Stocks

What's the Difference?

When saving for your retirement income, picking investments can be overwhelming. Here's something that can help you decide what's best for you. Did you know that most investments fall into three basic categories?

Cash Equivalents

This category typically includes money market or stable asset funds. Stable asset funds are somewhat similar to money market accounts but are known to offer higher returns with relatively little risk[1]. These investments are designed to maintain a principal value that doesn't fluctuate. *Cash equivalent options offer lower potential for returns and risk.*

[1]Source: Investopedia.com

Bonds

A bond is a loan an investor makes to an organization, such as the U.S. government or companies, in exchange for interest payments over a period of time plus repayment of principal when the bond matures. As interest rates rise, bond prices fall. *Bonds offer moderate potential for returns and risk.*

Stocks

When you buy shares of a company's stock, you own a piece of that company. Stocks vary widely and are often described based a company's size, type, performance in the market and potential for short- and long-term growth. *Stocks offer the highest potential for returns and risk.*

Which is Best for You?

The answer to this question will depend on how long you need to save and how much risk you're comfortable with. If you're younger and just starting to save, you'll likely have a greater tolerance for risk since your investments have more time to grow. If you're closer to retiring, you may prefer less risky investments to keep your account balance more constant.

Did you know that spreading your money across different types of investments — called diversification — can help reduce your investment risk?

Diversifying your investments helps balance out the risk between the investments, especially during changing market conditions.

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