SECURITY

STOCKS AND SHARES

1/ Definition Of Security

The term "security" refers to a multitude of different investments, such as stocks, bonds, investment contracts, notes, and derivatives. For example, a security can represent ownership in a corporation in the form of stock, a creditor relationship with a governmental body or corporation in the form of a bond, or rights to ownership in the form of an option.

*****Key Takeaways**

- Securities are fungible and tradable financial instruments used to raise capital in public and private markets.
- Securities are financial instruments that hold value and can be traded between two parties.
- There are many kinds of securities, with equity, debt and hybrid among the most common.
- Stocks are a form of security, but there are many other types of security.
- Trading with and investing in securities carries a level of risk.

2/ Types of securities

There are several different kinds of securities in finance.

-Equity securities

Equity securities represent ownership of a company in the form of shares of capital stock. People who hold equity securities do not get a regular payout, although in the case of some shares they may be entitled to dividends, but they are able to be sold for a capital gain if their value has increased over time. Equity securities often entitle their holders to have voting rights in a company.

-Debt securities

Debt securities, meanwhile, are borrowed money which must be paid back at the end of a fixed term. Examples of debt securities are corporate and government bonds, collateralised debt obligations and certificates of deposit.

Holders are usually entitled to regular interest payments and repayment of principal, though not to voting rights. Debt securities can be secured or unsecured.

-Hybrid securities

Hybrid securities are, as their name suggests, something of a cross between equity and debt securities. An example of a hybrid security would be convertible bonds – bonds that can be converted into shares of common stock in the issuing company. Equity warrants are also hybrid securities – these are options issued by a company giving shareholders the right to buy stock within a specific period at a particular price.

- **Derivatives**

3/ Shares vs. Stocks: An Overview

In American English, both words are used interchangeably to refer to owning part of a public company, but there are differences.

Key Takeaways

- Stocks and shares both represent ownership in a company, with "shares" typically referring to specific units of a company's stock
- Stock is often used as a broader term to discuss market investments, while shares usually refers to a specific company's equity units
- To start investing, you'll need a brokerage account - but don't worry about whether to ask for "stocks" or "shares" as brokers understand both terms
- Different types of shares (common and preferred) offer varying rights and benefits, though both represent ownership in a company

Stocks, shares and equities are terms used to describe units of ownership in one or more companies. The owner – known as a shareholder – will receive dividend payments, as well as voting rights, if the company grants them.

The terms are often used interchangeably, but there are some technical differences between stocks, shares and equities that can cause confusion.

- ‘Stocks’ is generally used to refer to portions of ownership of multiple companies – for example, you could say that you own stock in Amazon and Microsoft

- ‘Shares’ usually refers to units of ownership in a specific company – for example, you could say that you own ten Amazon shares
- ‘Equity’ is the term for a total ownership stake in the company – for example, if a company had 10,000 shares, and you owned 1000 of them, you could say that you held a 10% equity stake in that company

4/ Types of Shares:

- Common Stock

This is the most popular type of stock ownership—the default type you're buying when you execute an order on a brokerage platform:

- **Voting rights**: Usually one vote per share to elect board members and vote on company policies
- **Dividend potential**: Can receive dividends, but they're not guaranteed
- **Risk level**: Higher risk than preferred stock, but more potential for price appreciation
- **Last in line**: If a company goes bankrupt, common stockholders get paid last

- **Preferred Stock**

These are often considered a cross between shares and buying bonds (debt) offered by a company:

- **Fixed dividends**: Regular dividends that must be paid before common stockholders get anything
- **Less volatility**: Price typically stays more stable than common stock
- **No voting rights**: Usually can't vote on company matters
- **Better bankruptcy protection**: Get paid before common stockholders if company goes bankrupt
- **More like bonds**: Behaves similar to fixed-income investments