Chapter 1: Investing Concepts

Video 2

Setting goals and time horizons

Bonds

A bond is a loan made to a company or government when it needs to raise money, often in exchange for interest, otherwise referred to as the "coupon." You can think of it as an IOU. Bonds generally have a predetermined lifespan and eventually mature, at which point the borrower will repay the principal back to the lender. Bonds are generally considered to be lower-risk investments.

Long-term goals

Goals you want to achieve in the distant future, like ten years from now or longer. Given the long time horizon, you can consider allocating a large portion – or even all of your portfolio, if you're comfortable – to riskier investments, like stocks, in return for the potential of making better returns.

Mid-term goals

Goals you want to achieve within three to five years. Given the longer time horizon, you can consider allocating a portion of your portfolio to investments that are generally deemed riskier, like stocks, in return for the potential of making better returns.

Short-term goals

Goals you want to achieve in the immediate future, usually within the next few years. When working toward a short-term goal, you should only consider investments that are very safe, because if you lose money with a riskier investment, you may not have enough time to make it back, putting reaching your goal in jeopardy.

Stocks

A stock represents partial ownership of a company. Stocks are generally considered higher-risk investments and can offer better potential returns over the long term.

Time horizon

In the context of investing, your "time horizon" refers to the amount of time you intend to stay invested. Generally speaking, the longer a time horizon, the more risk you can afford to take in your portfolio with the goal of achieving higher returns.

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