The Stan Clark Financial Team's

PERSPECTIVES

An excerpt from "Perspectives" - Volume 8 - Issue 1

Financial Planning

Stocks vs. bonds: What's the difference?

By Brittany Kothlow, Client Services Coordinator

In our continuing millennial series, Johnny Lyall and Meghan Jones recently discussed Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs). But it's also important for us to talk about what to invest in.

This issue, I'd like to look at the two main groups of investments or asset classes: *stocks* and *bonds*. They're very different from each other and the balance between them can really affect your savings. So first, let's examine the difference between stocks and bonds. Then second, how we should allocate our money between them.

Each group has its advantages and drawbacks. Since everyone is different, the mix of how much to have in each also varies from person to person.

Stocks

In simple terms, stocks represent ownership in a company. If a company does well, it's likely that the stock price will go up. The reverse is also true. If business is bad, the stock price will likely go down. You might also get a *dividend*, the part of the profit that a company decides to pass on to its owners.

Basically, with stocks you will participate in the company's ups and downs. But future company results are uncertain. Add in human psychology and you get volatile stock markets. It's true that, over the short term, anything can happen with stocks. But over the long term – that is, over 10-year periods – stocks have been reasonably safe. That's because, over the long term, the wide swings tend to cancel each other out. Also, in the long term stocks have provided the best returns for any major asset class.

Bonds

With bonds, you are lending money to a government or company for a specified term. In the meantime, they pay you interest. Then, at the end of the term, you get your money back. Bonds are generally viewed as safe investments, as you should be getting all your interest payments and principal back. But bonds are not all the same, especially corporate bonds. Bonds have credit ratings to indicate the level of risk.

However, keep in mind that there's no free lunch! If the interest rate is a lot higher compared to an ultra-safe bond, it's a good indication that the risks are also a lot higher and things might not go as expected. That is to say, you might not get all your money back.

The right mix

Okay, so now we know generally what stocks and bonds are. But how do we decide how much to have in each? As a fellow millennial, I can understand that it might seem stocks are the way to go. They're often a more exciting route and the potential returns are attractive. But, as mentioned earlier, a good mix is really important and has a huge impact on your portfolio. The right mix depends on a lot of factors, but essentially revolves around your needs, how long you are investing for and how much volatility you can handle. One of the worst things that could happen is suddenly needing your savings and being forced to sell your stocks in a down market. It's a scenario you'd find very difficult to recover from.

When you are younger, you can usually take more risks. After all, you're likely going to be working for a long time! If you are saving for retirement, which may be a way down the road, you might be comfortable taking more risks with your investments. But others of you may be saving for something in the near future, like a car or a place of your own. In that case, you might want to be more conservative. That said, everyone is different, so we encourage you to contact our team to discuss your unique situation.

As we get older, things change and our mix can change, too. For that reason, it's important to pause every so often to reassess and see where things are at. ■

Brittany Kothlow is a Client Services Coordinator for the Stan Clark Financial Team

CIBC Wood Gundy | The Stan Clark Financial Team

Where planning, investing and behavioral finance meet

Phone: (604) 641-4361 Toll free: 1 (800) 661-9442 Fax: (604) 608-5211 Email: StanClarkFinancialTeam@cibc.ca www.stanclark.ca

Stan Clark is an Investment Advisor with CIBC Wood Gundy in Vancouver, BC. The views of Stan Clark do not necessarily reflect those of CIBC World Markets Inc. This information, including any opinion, is based on various sources believed to be reliable, but its accuracy cannot be guaranteed and is subject to change. Clients are advised to seek advice regarding their particular circumstances from their personal tax and legal advisors. Transactions in insurance products, including segregated funds, are made on your behalf by CIBC Wood Gundy Financial services Inc., or in the case of Quebec residents, CIBC Wood Gundy Financial Services (Quebec) Inc. If you are currently a CIBC Wood Gundy client, please contact your Investment Advisor. CIBC Wood Gundy is a division of CIBC World Markets Inc., a subsidiary of CIBC and a Member of the Canadian Investor Protection Fund and Investment Industry Regulatory Organization of Canada.