Test Your Investing IQ

How much do you know about market basics? Put your investing IQ to the test with this quiz on stocks, bonds, and mutual funds.

Questions

1. What does it mean to buy stock in a company?

a. The investor loans money to the company

b. The investor becomes a part owner of the company

c. The investor is liable for the company's debts

2. Which of the following statements about stock indexes is correct?

a. A stock index is an indicator of stock price movements

b. There are many different types of stock indexes

c. They can be used as benchmarks to compare the performance of an individual investment to a group of its peers

d. All of the above

3. What is a bond?

a. An equity security

b. A nonnegotiable note

c. A debt investment in which an investor loans money to an entity

4. What kind of bond pays no periodic interest?

a. Zero-coupon

b. Floating-rate

c. Tax-exempt

5. What is a mutual fund?

a. A portfolio of securities assembled by an investment company

b. An investment technique of buying a fixed dollar amount of a particular investment regularly

c. A legal document that provides details about an investment

6. What is the difference between mutual fund share classes?

a. The investment advisers responsible for managing each class

b. The investments each class makes

c. The fees and expenses charged by each fund class

Answers

1. b. The investor becomes a part owner of the company. Stocks are often referred to as equities because they represent an ownership position. As part owners, shareholders assume both the potential financial risks and benefits of this position, but without the responsibility of running the company.

2. d. All of the above. A stock index measures and reports value changes in representative stock groupings. A broad-based stock index represents a diverse cross-section of stocks and reflects movements in the market as a whole. The Dow Jones Industrial Average, NASDAQ Composite Index, and S&P 500 are three of the most widely used U.S. stock indexes. There are also more narrowly focused indexes that track stocks in a particular industry or market segment.

3. c. A debt investment in which an investor loans money to an entity. Unlike shareholders, bondholders do not have ownership rights in a company. Instead, investors who buy bonds are lending their money to the issuer (such as a municipality or a corporation) and thus become the issuer's creditors.

4. a. Zero-coupon. Unlike many types of bonds, zero-coupon bonds pay no periodic interest. They are purchased at a discount, meaning the purchase price is lower than the face value.

When the bond matures, the difference between the purchase price and that face value is the investment's return.

5. a. A portfolio of securities assembled by an investment company. A mutual fund is a pooled investment that may combine dozens to hundreds of stocks, bonds, and other securities into one portfolio shared by many investors.

6. c. The fees and expenses charged by each fund class. A mutual fund may offer various share classes to investors, most commonly A, B, and C. This gives an investor the opportunity to select a share class best suited to his or her investment goals.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.