

Types of financial instruments you need to know

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For people who are still new to investing, it is important to understand some basic investment options. Financial instruments can help people know where to put their hard-earned cash at minimal risk. At [Payday Depot](#), we do everything possible to help our customers achieve their financial dreams.



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Major categories of financial instruments

- Central banks
- Commercial banks
- Credit unions
- Brokerage firms
- Insurance companies

Important types of financial instruments

1. Savings accounts

The first option is a savings account. Savings accounts give you easy access to your funds. You can deposit your savings in a [Federal Deposit Insurance Corporation](#). A savings amount of up to \$100,000 is insured. One disadvantage with this option is that the interest earned is meager. Even so, the safety of your money is guaranteed.

2. Stocks

By buying stocks, you become a part of the company owners. Stocks attract dividends when the company performs well in a financial year. On the other end, if the company goes at a loss, the shareholders also lose some amount of the shares. One good thing about investing in stocks is that you can liquidate your shares when the price rises and repurchase when the price lowers.

3. Bonds

Governments may issue bonds when they want to raise money from the public. A bond means a certificate issued by the government as a promise to settle a specified amount of money in a specified time. Bonds earn some interest at a fixed rate. Bonds are safer since, in case of bankruptcy, the bondholders are settled before the stockholders.

4. Certificates of Deposit

Certificates of Deposits, also known as CDs offer a higher interest rate than regular accounts. Just like in the savings account, deposits made on CDs are also insured up to \$100,000. By purchasing this certificate, you invest some fixed amount of money for a fixed term. Longer periods attract higher interests, while early withdrawals attract penalties.

5. Money Market Deposit Accounts

Just like the CDs, MMDAs also attract higher interest rates than a regular savings account. They also give you easy access to your money. The number of withdrawals and transfers are limited within a given time to instill some savings discipline.

6. Annuities

An annuity is a contract offered by an insurance company to pay a regular income to the member at given intervals. You can buy it once or in several payments. There is a penalty pegged on any withdrawals before the maturity period to discourage regular withdrawals.

7. Mutual Funds

Mutual funds mean a pool of money from various investors. The account manager invests your money in stocks, bonds or other investments that are in line with your investment objectives. Investing in mutual funds helps in risk diversification. While this option involves some fees, you also pay income tax on the profits you earn.

Conclusion

It is vital to have a savings plan, but you must determine the safest way to save your money. There are many financial instruments, but you may lose your savings if you do not have the right information. Follow the above guideline and use it to determine the best method to save your money.

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