What are asset classes?

SUPER:
Manulife logo
What are asset classes?
Part of Manulife's investment basics video series.
The Manufacturers Life Insurance Company

ACTION:
Two men are standing next to each other on a white-screen background. JIM is an everyday guy wearing jeans and a casual button-down shirt. CHIP is a Financial professional with a neat haircut wearing a business suit.

JIM: Hi, I’m Jim.

CHIP: And I’m Chip. Today we’re going to be talking about asset classes.

JIM: Oh great, another “investment” term you like to throw around.

CHIP: I’m pretty sure most people know what asset classes are.

JIM: I just learned about them for this video, so let’s assume they don’t.

CHIP: Okay. Well, if you don’t know what asset classes are, you’ve probably at least heard the words: Stocks, Bonds, Cash, Property and Commodities.

SUPER:
Stocks
Bonds
Cash
Property
Commodities

CHIP: (Cont’d) These are the five main asset classes and represent the most common things you can invest in.

JIM: You’re still talking like an investment guy though. Let’s try to explain what these things are in real life. If you buy stocks, you’re generally investing in a company, like the Umbrella and Sunscreen companies that we discussed in the last video.

CHIP: Stocks are also referred to as equities or shares.

JIM: Right. If you buy stock, you’re actually buying shares in that company. So technically you become part-owner, or what’s known as a shareholder. How well stocks perform depend on many things, like how much money the company is making or how the market is doing in general.

CHIP: Can we move on now?

JIM: Sure, do you want to try explaining bonds to our audience?

CHIP: Yes! Bonds are basically loans that you make to companies or governments and they pay you back with interest, in a set amount of time. So, with bonds you generally get your money back with interest. But keep in mind that bond rates can be heavily impacted by interest rates and there are no guarantees.

JIM: That was good.

JIM: (Cont'd) The next one on the list is called cash. Now, we pretty much know what this means, but when you invest in cash, you would do something like save money in a bank account and collect interest.

CHIP: Or a cash like vehicle like a Money Market fund. Cash investments are generally safer and you can get your money back quickly.

JIM: Uh, yeah.

CHIP: Property is also fairly straightforward. You could buy an actual piece of property and hope that the price goes up over time, or you could rent it out to generate income. You could even buy shares in a Real Estate Investment Trust that owns many properties!

JIM: Okay, let's stay away from overly complex concepts. Can we just say there are many ways to invest in property?

CHIP: Sure, but we should mention that investing in property also comes with risks... liquidity risk, market risk and interest rate risk to name a few.

CHIP: Do you want to try commodities?

JIM: Sure. Commodities are things like gold, silver, coal or even coffee. And you can invest in these too, right?

CHIP: That's right, but just so you know, their prices tend to have a lot of ups and downs in short timeframes. But these are the Big 5 in terms of asset classes.

CHIP: (Cont'd) Stocks, Bonds, Cash, Property and Commodities. In our next video we'll talk about mutual funds and how they mix different asset classes together to create various strategies.

JIM: But we'll make it easy to understand, I promise.

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