# Understanding Asset Classes

Investing is a great way to generate a passive income or even serve as a secondary income. While mainstream media may generate a picture of quick riches, investing is a dynamic industry that is always evolving. If you are interested in becoming a serious investor, it is important to understand asset classes in order to secure long-term gains. Today we will go over asset classes and the risk ladder.

Asset Classes Defined

The are several asset classes, each of which has a different level of risk. They are:

* Bonds
* Cash
* EFT's
* Mutual Funds
* Alternative Investments
* Stocks

Each of these asset classes has its own risks and rewards which we will cover in the next section.

Investment Classes & Types Explained

Bonds - this type of investment is generally a form of loan that is extended to an investor. The rate of return is fixed, and they are very common types of investment. After cash, this is the next safest investment type.

Cash - this type of investment is usually in the form of a bank deposit into a savings account or CD. Of all investments, this is the lowest risk. At the same time, it also has the lowest rate of return and must be left untouched for years before it shows a profit.

EFT's - this type of investment is one of the most popular. They are traded on the stock exchange during the day which also means that it is a riskier form of investment. The value can go up or down several times in a day with little to no warning. It is easy to trade efts, though many simply invest and leave their portfolio in the hands of a professional.

Mutual Funds - this type of investment is when several people purchased securities with a pool of money. They are usually managed by a portfolio manager and are more active forms of investment. They are easy to diversify and carry a slightly higher risk, but also tend to offer higher returns.

Alternative Investments - this type of investing ranges from real estate to commodities and hedge funds. These types of investments are lucrative but highly unstable in the short run. They are most suited to long-term investors.

Stocks - this type of investing is the most common. Investors can choose a specific company to back and share in their returns or their downfall depending on their overall performance.