Pros and Cons of Investing in Stocks

In a modern economy, most companies are held by private citizens as opposed to the public sector. This free disposal of ownership rights enables companies to sell their shares in the stock market to finance their activities. Companies, and especially large companies, rely on investment banks to place their shares on the market.

The stock market allows every participant to trade any shares. These shares represent an investment opportunity for households that do not want or have the means to start a business themselves. They can invest in a company, and share the risks of its activities as well as the gains. Often, households rely on experts to obtain a professional management of their investments in exchange for a fee.

Advantages of investing in stocks

Stocks have a number of advantages which make them a desirable investment:

- Stocks have the potential for delivering very large gains.
- The potential loss from stock purchased with cash is limited to the total amount of the initial investment.
- Most stocks are very liquid: they can be bought and sold quickly at their fair price.
- Although past performance is not a guarantee of future performance, stocks have historically offered very high returns in relation to other investments.

Disadvantages of investing in stocks

Stocks have some distinct disadvantages of which individual investors should be aware:

- Stock prices are risky and volatile. Prices can be erratic, rising and declining quickly, often in relation to companies' policies, which individual investors do not influence.
- Stocks represent ownership of a business, and hence investors are the last to get paid, like all other owners. A company must first pay its employees, suppliers, creditors, maintain its facilities and pay its taxes. Any money left can then be distributed among its owners.
- While investors are part of the group of owners of the company, they do not enjoy all of the rights and privileges that the owners of a private business do.
- Investors in a public company may not have access to all information about the company. This limited information can sometimes worsen the quality of investment decisions.