Part One

Investments and Securities Explained

1 An Introduction to Financial Instruments

1.1 INTRODUCTION

The investment industry exists to serve its customers. There are two main groups of customers – investors and security issuers. Investors may be private individuals, charities, companies, banks, collective investment schemes such as pension funds and insurance funds, central and local governments or "supranational institutions" such as the World Bank.

Investors in turn have investment objectives, which may be to increase wealth (capital growth) or to provide income. Some investors will have only one of these objectives, some will have both. For example, a high earning private individual probably has all the income that he or she needs from employment, and wishes to invest surplus cash to provide capital growth. A charity, however, may need the maximum possible income that it can get from its investments in order to fund its activities.

There are four main classes of financial instrument that investors make use of to achieve either income or capital growth. These are:

- Equities, also known as *stocks* or *shares*
- Debt instruments, also known as *bonds* or *bills*
- Cash
- Derivatives.

Equities and debt instruments are collectively known as **securities**. In order for there to be any securities for the investor to invest in, then some organisation, such as a company, a bank, a government or a supranational institution, has to issue securities. Securities issuers are the other main customer group, and the reason that securities are issued is to provide capital for a business or (if the issuer of the security is a government) to fund government expenditure.

The next four chapters provide the basic details of each instrument type, and Chapter 6 summarises the features that are common to them all.