

What are stocks and shares?



Mentor in a minute

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When you become a shareholder in a business, you effectively own part of that business. It gives you a say in its future, and the chance to share in its success, and sometimes its failures. That's why buying shares will always have an element of risk.

If you buy a share and it goes up, you'll experience a capital gain. If it dips below what you paid for it, you'll experience a capital loss. But these are only classed as paper gains and losses – they only become real when you decide to sell.

So what's the difference between a stock and a share? Many people use the terms interchangeably. But technically, a share is a single unit of ownership. A collection of multiple shares is called stock. So if you've got a portfolio of several companies, you own a stock holding, made up of multiple shares.

When a company does well, it can decide to return profit to shareholders in the form of dividends. An investor can choose to receive the dividend as cash, or re-invest it to buy more shares.

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