What Is Stock?
A stock is a type of investment that represents an ownership share in a company. Investors buy stocks that they think will go up in value over time.

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A stock is an investment. When you purchase a company's stock, you're purchasing a small piece of that company, called a share.

Investors purchase stocks in companies they think will go up in value. If that happens, the company's stock increases in value as well. The stock can then be sold for a profit.

Definition: What are stocks?

Stocks are securities that represent an ownership share in a company. For companies, issuing stock is a way to raise money to grow and invest in their business. For investors, stocks are a way to grow their money and outpace inflation over time.

When you own stock in a company, you are called a shareholder because you share in the company's profits.

Public companies sell their stock through a stock market exchange, like the Nasdaq or the New York Stock Exchange. Investors can then buy and sell these shares among themselves through stockbrokers. The stock exchanges track the supply and demand of each company's stock, which directly affects the stock's price.

Stock prices fluctuate throughout the day, but investors who own stock hope that over time, the stock will increase in value. Not every company or stock does so, however: Companies can lose value or go out of business completely. When that happens, stock investors may lose all or part of their investment. That's why it's important for investors to spread their money around, buying stock in many different companies rather than focusing on just one.

If you have a 401(k), you probably already own stock, though you might not realize it. Most employer-sponsored retirement plans invest in mutual funds, which can hold a large number of company stocks pooled together.

How to make money in stocks

Stocks carry more risk than some other investments, but also have the potential to reap higher rewards. Stock investors earn money in two main ways:

- If the price of a stock goes up during the time they own it, and they sell it for more than they paid for it.
- Through dividends. Dividends are regular payments to shareholders. Not all stocks pay dividends, but those that do typically do so on a quarterly basis.

Over the last century, the stock market has posted an average annual return of 10%. The word "average" is important here: Not only is that return an average for the market as a whole — rather than a specific individual stock — but in any given year, the market's return can be lower or higher than 10%. for more details.

You can buy individual stocks through an online broker. The process of opening a brokerage account is similar to opening a bank account. The commissions charged by online brokers for stock trades vary, so it's important to shop around. See NerdWallet's picks for the best brokers for stock investors for more details.

Key things to know about stocks

Investors who do best over the long term buy and hold. That means they own a diversified portfolio of many stocks and hold on to them through good times and bad.

Investing in individual stocks takes time. You should research each stock you purchase, which includes a deep dive into the bones of the company and its financials. Many investors opt to save time by investing in stocks through equity mutual funds, index funds and ETFs instead. These allow you to purchase many stocks in a single transaction, offering instant diversification and reducing the amount of legwork it takes to invest.

There are two main types of stocks: common and preferred. Most investors own common stock in a public company. Common stock may pay dividends, but dividends are not guaranteed and the amount of the dividend is not fixed.

Preferred stocks typically pay fixed dividends, so owners can count on a set amount of income from the stock each year. Owners of preferred stock also stand at the front of the line when it comes to the company's earnings: Excess cash distributed by dividend is paid to preferred shareholders first, and if the company goes bankrupt, preferred-stock owners receive any liquidation of assets ahead of common-stock owners.