A Look at the Different Asset Classes

The word "asset" is a familiar one. Sometimes, it's too familiar to warrant any serious study or understanding. In layman's language, an asset can be defined as something of value that is owned by a person. For example, if you own a house, then that house becomes an asset of yours.

In the world of investments, assets are classified depending on a number of factors such as the degree of liquidity, the time it takes to recoup one's investments, the amount of returns, and others. There are generally four types of asset classes:

Bonds

Bonds can be described as loans that are issued to the public by governments and large companies. When you invest in a bond, you're essentially "lending" money to the bond issuers; and in return, you get interest payments over the loan period. In general, bonds are considered low-risk assets because they are usually issued by the authorities and established entities. On the whole, bonds have low level of returns compared to other assets such as property and shares.

Cash

The second asset is one that everyone knows about – cash. Cash does not simply refer to the money in your wallet; in the broader term, it also includes investments that could be easily turned to cash, such as money in your bank deposit accounts. Being legal tender that is guaranteed of acceptance, cash is considered a low-risk asset. However, investments in cash usually yield very low level of returns compared to other assets.

Property

The third major category of assets is property. Property refers to the brick and mortar assets such as houses, apartments, shop-lots and so on. In addition to the appreciation (or depreciation) of value over time, a property usually generates a recurring income in the form of rent. Generally, a property is considered a medium-risk, medium-return asset.

Shares

A share refers to a minimum unit which a company's ownership can be divided into. A company with one hundred issued shares and with one person (i.e. a shareholder) owning ten shares will see that shareholder owning 10% of the company. Generally, although not always, this 10% implies that the shareholder will be entitled to 10% of the dividends generated by that company.

Additionally, the shareholder will also get to enjoy returns in the form of capital growth (i.e. growth in share price).

Choosing the kind of asset that you should invest in depends on a number of things. But ultimately, it depends mainly on your financial ability and preferences.

Characteristics	Cash	Bond	Property	Share
Return / Profit	Low	Lower	Medium	High
Risk	Low	Lower	Medium	High
Recommended Length of Investment	Short	Short	Medium to Long	Long
Income Focused	Yes	Yes	Yes	No
Growth Focused	No	No	Yes	Yes
Inflation Protection	No	Little	Yes	Yes
Easy to turn to cash?	Yes	Yes	No	Yes

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