**The Key Differences between Stocks and Bonds**

Strong investment portfolios incorporate a great degree of diversification to mitigate risk. Diversification generally means investment in riskier vehicles, such as stocks, as well as more reliable options, such as bonds. Stocks represent an ownership stake in a business. Thus, as the business increases in value, the worth of the stock climbs. The potential for gain is virtually limitless. From the counter perspective, however, the potential for loss is also great. If the business does not perform well, the value of the stock plummets. On the other hand, bonds act as a sort of “I.O.U.” from the business. A bond states that the business will pay back the amount lent plus a set amount of interest. Thus, while bonds have less risk associated with them than stocks, the returns also prove smaller.

[Stocks](http://en.wikipedia.org/wiki/Stock), or equities, play an important role in the portfolio of any serious investor, since they have a higher potential for growth than other asset classes. Investors tend to become suspicious of stocks when other asset classes outperform them, and may pull out in favor of more stable investments. To focus only on bonds, however, severely limits the earnings potential of a portfolio. At the same time, even investors willing to accept a very high level of risk should not invest solely in stocks.