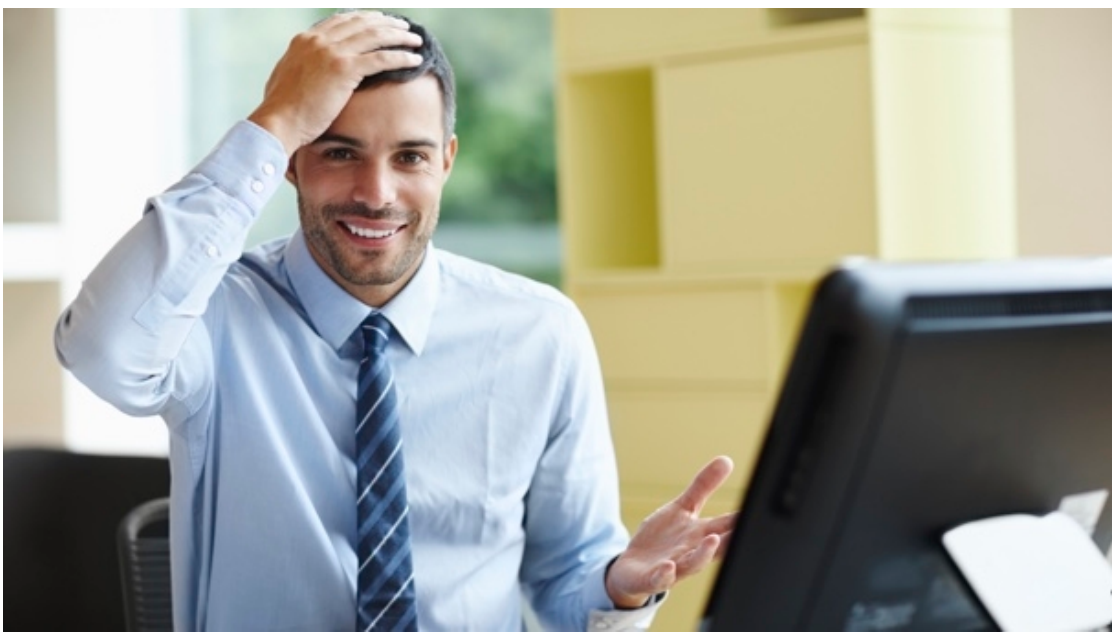
9 Investing Questions You're Too Embarrassed to Ask

By Tim Lemke | 26 April 2016



You can't build wealth through investing if you never get started. And sometimes, getting started is just a matter of overcoming your fear of asking a stupid question.

When it comes to understanding how to buy and sell stocks, invest in a mutual fund, or open a retirement account, it may seem like people are talking a different language. It sometimes feels embarrassing to ask basic questions about investing, but you're not alone in wanting to know how to get started.

"I get questions that are very simple," said Craig Ferrantino of Craig James Financial Services in New York.

Ferrantino and other financial advisers say there are no bad questions when it comes to investing, and that your fear of embarrassment should be more than offset by your fear of making money and achieving financial freedom.

Here are some common investment questions that you might be too embarrassed to ask (but shouldn't be).

1. I Have Some Money — What Do I Do With It?

Sometimes, you don't even know where to begin.

Chris McMahon, a financial adviser in Pittsburgh, said he advised a man who got a sizable royalty check from a new natural gas operation in Western Pennsylvania. McMahon said the man began with one simple question: "What do I do with the check?"

If you're fortunate to have some money that you'd like to invest, simply asking "What now?" is not a dumb question. It's certainly better than doing nothing. If you're in this situation, most financial advisers suggest first assessing whether you have paid off any high-interest debt and have a sizable emergency fund. After that, it makes sense to open an individual retirement account (IRA) and begin making regular deposits, investing primarily in index funds that mirror the performance of the broader stock market. Do this, and you're off to a great start.

2. Okay, But How Do I Open an Account?

A lot of people never get started in investing because they are unfamiliar with the actual mechanics of investing. So understanding how to open a brokerage account and how to buy and sell stocks or mutual funds is crucial.

The good news is that it's easier than ever to get started. Anyone can open a brokerage account online at places like Fidelity, E-Trade, or TD Ameritrade. There's plenty of step-by-step advice you can find on these sites, and if you're ever confused, there is usually someone to call.

"There are friendly people who are employed to help you with this," McMahon said.

3. What Is a Stock?

When we first start learning about investing, the lingo and terminology can be confusing. But we're too embarrassed to stop someone mid-conversation and ask them some basic questions. There's no shame in asking people to back up and explain themselves. After all, this is all about you and your financial future.

One of the basic concepts in investing is owning shares of stock. In this situation, you literally have an actual share of ownership of a company. So the value of your shares can go up and down just as the value of the company does. This knowledge can serve as the basis for understanding mutual funds and exchange-traded funds, in which money from investors is pooled and then invested a variety of securities.

4. What Is a Bond?

Bonds, like stocks, make up a key component of most investment portfolios. And they are also a big driver of the economy, as companies and governments use them to finance big projects.

With bonds, an investor is essentially loaning money to a company or a government. An investor makes money by receiving interest payments from the borrower.

So for example, let's say the city of Duluth wants to build a new bridge. The government will issue bonds, which investors can then buy, thus financing the bridge construction. Investors make money on interest from the bonds. Interest rates depend on how likely the company or government is to repay the bonds.

Bonds don't increase or decrease in value like stocks, so they are commonly used by older investors who still want some income but have less tolerance for risk.

5. Can I Buy Just a Few Shares?

One of the biggest misconceptions about investing is that you need a lot of money to get started. Thus, people wait too long to get started.

Believe it or not, most discount brokerage firms will let you buy just a single share of stock. Don't be embarrassed! A single share of McDonald's stock is going to be worth more in the long run than that quarter pounder you just bought. And while some brokerages do require sizable minimum balances in your account, there are many that don't.

There is one important caveat to this, which is that you usually have to pay some fee each time you make a transaction. At discount brokerage firms, this is about $7–$10. So it does make sense to save up and buy larger quantities of stock if you can, otherwise transaction fees can cut into your returns. To avoid this, explore whether your broker offers some investments without transaction fees. Fidelity, for example, allows customers to trade most iShares ETFs for free.

6. What's the Difference Between a Roth and a Traditional IRA?

We hear these terms thrown around so much that you may feel little dumb for not knowing the answer. But don't. Ferrantino said he gets this question most of all, and he's glad that people ask it.

Individual retirement accounts allow people to invest in stocks, bonds, and other securities and see the money grow, without paying a lot of taxes along the way. Individuals can contribute up to $5,500 per year (or more if you're closer to retirement age). With a traditional IRA, the money you deposit is subtracted from your taxable income. (Savings up front!) With a Roth IRA, you pay tax up front but will not have to pay tax on any gains when you withdraw money when you retire. (Savings later!)

A financial adviser can help you decide which account is right for you, and may even advise you to have one one of each. Ferrantino said that one you understand the basics of IRAs, you can start to grasp more complex maneuvers, like converting a traditional account into a Roth. So it never hurts to ask.

7. My Company Offers a 401K. What Is It? How Do I Sign Up?

There are many workers who have a vague awareness that their company offers a retirement plan. But they often don't understand how plans work, and are too embarrassed to ask.

"The foreign language is scary," McMahon said.

McMahon said the good news is that most companies offer enrollment periods for their retirement plans, where employees can meet with plan representatives and ask any questions.

In simple terms, a 401K is a retirement plan that allows workers to set aside a portion of their salary and invest it in a variety of stocks, bonds, and mutual funds. The deposits are subtracted from taxable income, and most companies will match contributions up to a certain level. In other words, your company is *giving* you free money for signing up. So don't be embarrassed to get the ball rolling!

8. What Is an Asset?

Financial advisers say this question comes up a lot when people are applying for loans. Lenders will often want information on a borrower's "asset-to-debt" ratio. Meaning, how much you own versus how much you owe.

Young people, especially, are often baffled by the asset question because they are much more focused on reducing debt. In short, an asset is something that a person or company can own that counts towards their net worth. The equity in your home is an asset. Cash in the bank is an asset. Stocks and bonds are assets. Once you understand the definition of an asset, you can learn about the role they play in building wealth and helping you achieve financial freedom.

9. Do I Need a Financial Adviser?

At what point do you need outside help with your money? Well, that depends on your goals and the complexity of your investment portfolio. But by asking yourself this question, you can at least examine whether your situation would benefit from professional advice.

"If you're at a point where you think you need a plan, you probably need somebody," McMahon said.

Of course, financial advisers are biased here. But professionals like McMahon also said that it's easier than ever now for individuals to invest on their own using discount brokerage firms, and get great advice along the way. Sites like Fidelity, Charles Schwab, and E-Trade have a wealth of online tools and people to call if you you have questions.

"There are so many resources now, you almost can't screw it up," McMahon said.