Investment

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## What Is an Investment?

An investment is an asset or item acquired with the goal of generating income or appreciation. Appreciation refers to an increase in the value of an asset over time. When an individual purchases a good as an investment, the intent is not to consume the good but rather to use it in the future to create wealth.

An investment always concerns the outlay of some capital today—time, effort, money, or an asset—in hopes of a greater payoff in the future than what was originally put in.

For example, an investor may purchase a monetary asset now with the idea that the asset will provide income in the future or will later be sold at a higher price for a profit.

## KEY TAKEAWAYS

* An investment involves putting capital to use today in order to increase its value over time.
* An investment requires putting capital to work, in the form of time, money, effort, etc., in hopes of a greater payoff in the future than what was originally put in.
* An investment can refer to any medium or mechanism used for generating future income, including bonds, stocks, real estate property, or a business, among other examples.

# How an Investment Works

The act of investing has the goal of generating income and increasing value over time. An investment can refer to any mechanism used for generating future income. This includes the purchase of bonds, stocks, or real estate property, among other examples. Additionally, purchasing a property that can be used to produce goods can be considered an investment.

In general, any action that is taken in the hopes of raising future revenue can also be considered an investment. For example, when [choosing to pursue additional education](https://www.investopedia.com/articles/basics/11/3-s-simple-investing.asp), the goal is often to increase knowledge and improve skills (in the hopes of ultimately producing more income).

Because investing is oriented toward the potential for future growth or income, there is always a certain level of risk associated with an investment. An investment may not generate any income, or may actually lose value over time. For example, it's also a possibility that you will invest in a company that ends up going bankrupt or a project that fails to materialize. This is the primary way that saving can be differentiated from investing: saving is accumulating money for future use and entails no risk, whereas investment is the act of leveraging money for a potential future gain and it entails some risk.