Types of Common Stocks

An investor selects the type of stock that meets his or her investment goals and risk profile. Some of the items below may fall within more than one category.

Income Stocks

These types of stocks primarily generate dividend income. Companies generally will have a stable form of income and focus on consistent or growing dividends. A utility income would be a firm that would primarily fall within this category. Income stocks focus on income rather than capital appreciation. Yield on income stocks would be generally higher than yield from other types of stocks.

Growth Stocks

These types of stocks primarily generate capital appreciation. They represent firms that have high growth rates, which are reflected in the earnings and increasingly higher stock prices. Growth stock may not pay any dividends, or it may pay some dividends, but the focus is on capital appreciation. Technology companies are generally considered to be in this category. Growth companies represent companies with sales and earnings that are growing or that exceed the overall market.

Value Stocks

These types of stocks are a classification made based on several characteristics to distinguish the stock from a growth stock. It is mostly related to the price of the stock. Value stocks are considered to be priced lower in relation to the fundamentals of the company, such as its assets, current earnings, and expected future earnings. The stock could even be a growing company, but its growth is not being reflected in the stock price. Thus, the prices of these companies may have fallen significantly. These stocks are said to be undervalued. Value stocks are a method for a classification of an investment strategy rather than a true characteristic of the company itself. Value investors seek to purchase undervalued stock for less than its investment or intrinsic value.

Cyclical Stocks

These types of stocks represent companies like construction and airlines industry stocks, whose prices move with the business cycle. When the business cycle is up, these stocks are up. When the business cycle is down, these stocks will decrease. Thus, they have greater risk.

Defensive Stocks

These types of stocks represent companies (e.g., companies that sell consumer goods) that are less affected by the business cycle than cyclical companies. They are countercyclical stocks. They have less risk and provide more safety, but they would generally provide less return.

Blue Chips

These stocks include many of the well-established, large companies. These generally have a long history of stable earnings and of paying dividends. They may also have very good long-term growth opportunities and have less risk. These stocks have low risk to some of the more cyclical stocks or market changes.

Penny Stocks

These stocks generally sell for under $1 and are not listed on any exchanges. They are considered over-the-counter and are listed on pink sheets. Penny stocks are considered high risk for new and developing companies. The offering sizes are generally very small, and there are many cases of fraud. They are often issued by financially weak and risky companies.

Speculative Stocks

These stocks offer large opportunities for return but at a high risk. There are generally high fluctuations in the stock prices. This type of stock would be issued by a smaller company with a critical capital shortage. Some would classify any stock that had wide swings in the stock price as speculation stock.