

Investment Vs. Insurance

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by Brian Hill



Invest and insure for the future.

The words are vaguely similar, both start with "in," both have three syllables, both are nouns and both involve money. But that's where the similarity ends. Investment and insurance are two different animals. Investing can be scary for the first time and insurance can be confusing. However, financially savvy couples recognize the need for both in their lives: investments for the future and insurance for protection.

Vice But Not Versa

You can insure an investment but you can't invest insurance. Sounds confusing but look at it this way. If you buy artwork, jewelry or antiques in the hope that the value will increase, those are considered investments. Those tangible items could, and should, be insured against theft, fire or flood. So you are insuring an investment. Unfortunately it's not possible to insure against a loss in value. If the diamond cartel folds, that diamond bracelet you thought you got a great deal on may plummet in value. There's no insurance for that. The only way to invest in insurance is to buy stocks in a company whose business is providing insurance.

Hedge Your Bets

When you invest, whether it's in stocks, bonds, gold or mutual funds, you're betting the value of the asset will be more in the future than what you paid for it. When you buy insurance you're betting that an event will occur that causes harm to you or your property. Of course you're hoping that event doesn't occur. The insurance protects

against the financial loss of replacing the insured item. For example, when you buy renter's insurance you do so to make sure your belongings will be replaced in the event of catastrophe.

Ownership

You own the investment, whether it's real estate, stocks or pig belly futures. You don't own anything when you buy insurance, with the exception of whole life insurance which does have some value if you terminate the policy and cash it in. That's because it's a combination of life insurance protection and investment. In most cases, if you stop paying the premiums, the insurance coverage ceases and that's the end of that. You can't sell an insurance policy, it's issued only to you. You can sell an investment.

Requirements

There are no legal requirements to have any type of investments. However, there are statutes in many states requiring some sort of auto liability insurance if you drive or own a car. If you finance the car, the financing company will require you obtain insurance for the value of the car. Your mortgage company will require that you obtain homeowner's insurance. If you don't, they will, and tack the insurance premium onto your mortgage payment.

Intangibles

It's difficult to invest in intangibles. It is not difficult to insure intangibles. Life insurance is insuring your loved ones against the loss of future income production in the event of your death. Disability insurance insures against the loss of income due to the inability to work. Health insurance doesn't insure against poor health, but against the probability of poor health, injury and disease treatments eating away at your assets.

Video of the Day

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References

- [Money Central: Investing 101: Buy Your First Stock or Fund](#)
- [CNN Money: Money 101 Life Insurance](#)

About the Author

Brian Hill is the author of four popular business and finance books: "The Making of a Bestseller," "Inside Secrets to Venture Capital," "Attracting Capital from Angels" and his latest book, published in 2013, "The Pocket Small Business Owner's Guide to Business

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