



VARZA SCHOOL · THE FOUNDATIONAL 100

Stocks, Bonds, Funds, and Indexes: What You Own and How You Earn

Chapter 97 · Track 10 — Markets, Investing, and Financial Intelligence with Varza

THE QUESTION IT ANSWERS

What legal and economic claim does an investor hold through a share, bond, mutual fund, exchange-traded fund, or index-linked product?

CONCEPTS DEFINED

Share or equity security · Bond · Mutual fund · Exchange-traded fund · Market index · Investment fund · Income return · Total return

Edition 2026.1 · Reviewed through 2026-08-31

Varza · varzaone.com · varza1.com

© 2026 Original Varza educational content. All rights reserved.

Varza promise: clear enough for a first-time learner, exact enough for a professional conversation, and practical enough to support a real decision.

Why this chapter matters

This track introduces markets and investing as systems for allocating capital and risk. It emphasizes ownership, evidence, time horizon, liquidity, fees, behavior, and downside capacity rather than prediction or excitement.

Central question: What legal and economic claim does an investor hold through a share, bond, mutual fund, exchange-traded fund, or index-linked product?

Stocks are residual ownership claims, bonds are contractual debt claims, and funds pool assets under a structure and mandate. An index is a measurement rule, not an asset by itself. Return, priority, voting, maturity, fees, liquidity, custody, tax, and underlying exposure differ.

Varza approaches the subject from life to ledger and from ledger to decision. We begin with what actually happened, identify the rights, obligations, resources, timing, and uncertainty, and only then choose the correct term, calculation, document, or account. This order protects the learner from a common error: learning a label without understanding the economic reality that the label is supposed to describe.

Learning outcomes

- Define and distinguish share or equity security in plain and professional language.
- Define and distinguish bond in plain and professional language.
- Define and distinguish mutual fund in plain and professional language.
- Define and distinguish exchange-traded fund in plain and professional language.
- Apply the concepts to a numerical case and explain the result rather than only calculate it.
- Identify evidence, workflow, controls, and Varza entities required for reliable use.
- Recognize when jurisdiction-specific or licensed professional advice is required.

The Varza mental model

A financial concept becomes decision-ready when six questions have answers: **what, who, when, how much, based on what evidence**, and **under which assumption or rule**. A seventh question—**what should happen next**—turns knowledge into management.

This chapter uses internationally recognized terminology, but it remains jurisdiction-neutral unless explicitly stated. Accounting standards, tax rules, contract law, consumer protection, labor requirements, and investment regulation can produce different legal outcomes in different countries. The global foundation gives the learner a stable map; local collections must add the binding rules.

Core concepts

1. Share or equity security

Working definition. Share or equity security is an instrument representing a residual ownership interest in an enterprise.

Shareholders participate in upside and downside after higher-priority claims. Voting, dividends, class rights, dilution, and market liquidity differ. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. Ordinary shares may appreciate or pay dividends but have no fixed repayment promise.

Decision test. Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

2. Bond

Working definition. Bond is a debt instrument under which an issuer promises defined interest, principal, or other payments subject to contractual terms and credit risk.

Bond value changes with market rates, credit quality, duration, liquidity, currency, and embedded options. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. A five-year corporate bond pays a coupon and returns principal at maturity if the issuer performs.

Decision test. How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

3. Mutual fund

Working definition. Mutual fund is a pooled investment vehicle whose shares are generally issued and redeemed with the fund according to its structure and net asset value rules.

Understand mandate, holdings, pricing frequency, fees, tax, liquidity, and distribution policy. The concept should be measured at the smallest level that still supports a real action.

Simple example. Investors buy units in a diversified bond mutual fund.

Decision test. Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

4. Exchange-traded fund

Working definition. Exchange-traded fund is a pooled investment vehicle whose shares trade on an exchange during the day and generally seek exposure to a portfolio or strategy.

ETF liquidity, spread, underlying assets, tracking, creation mechanism, fees, tax, and structure matter. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. An equity index ETF trades intraday while holding or replicating index exposure.

Decision test. Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

5. Market index

Working definition. Market index is a rules-based measure representing the performance of a defined set of securities, assets, or market segment.

An index is a measurement methodology, not an investable asset by itself. Weighting and constituent rules shape exposure. This is where operational activity and financial reporting meet.

Simple example. A capitalization-weighted share index gives larger companies greater weight.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

6. Investment fund

Working definition. Investment fund is a pooled vehicle that combines money from multiple investors to hold a portfolio under stated mandate and legal structure.

Understand assets, strategy, benchmark, fees, liquidity, custody, leverage, tax, and investor rights. The fund name alone is insufficient. In Varza language, the concept becomes useful when it changes a decision.

Simple example. An index fund holds a rules-based basket of listed shares.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

7. Income return

Working definition. Income return is the portion of investment return arising from interest, dividends, rent, distributions, or other periodic cash yield.

High stated yield can be accompanied by falling asset value, return of capital, credit risk, or unsustainable payout. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. A bond coupon provides income but market value may still decline.

Decision test. Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

8. Total return

Working definition. Total return is the combined investment result from income, price change, distributions, reinvestment, and relevant costs over a period.

State whether return is gross or net, nominal or real, time-weighted or money-weighted, and in which currency. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. A share returns dividends plus price appreciation minus fees and tax under the selected measure.

Decision test. How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

How the concepts connect

The concepts in this chapter are a system, not a vocabulary list. Share or equity security, Bond, Mutual fund, Exchange-traded fund, Market index, Investment fund, Income return, and Total return describe different parts of the same decision. Confusing them usually creates one of three failures: the wrong amount is measured, the right amount is assigned to the wrong period or person, or a correct report is used for a decision it was never designed to support.

A useful analysis therefore preserves both **classification** and **relationship**. Classification tells us what an item is. Relationship tells us what caused it, what it affects, and what could change it. Varza should store both. A report that shows only totals may be suitable for orientation; a controlled decision requires traceability to the underlying relationships.

Formulas and quantitative relationships

Current bond yield

Current yield = Annual coupon cash ÷ Current bond market price

The measure relates coupon to price.

Boundary: It ignores maturity value, reinvestment, default, tax, calls, and time; yield to maturity is a different measure.

Fund expense drag approximation

Annual cost $\approx$ Investment value $\times$ Expense ratio, before compounding and other fees

The approximation makes recurring fee effect visible.

Boundary: Trading cost, spread, tax, performance fee, and changing value require separate analysis.

Worked case — The same index exposure through different funds

Two funds track a similar index. Fund A charges 0.15% annually and trades with 0.10% spread; Fund B charges 0.60% and trades with 0.04% spread. An investor expects to hold CU 100,000 for ten years with little trading.

Item	Amount or observation
Fund A annual expense approximation	CU 150 initially
Fund B annual expense approximation	CU 600 initially
Initial round-trip spread approximation	A CU 100; B CU 40, ignoring market movement
Holding horizon	10 years
Other differences	tracking, tax, lending, custody, liquidity, structure must be compared

Calculation and reasoning

1. For a long holding period, the annual expense difference can compound far more than the one-time spread difference.
2. Do not multiply the initial fee by ten without considering changing value and compounding; use a scenario model.
3. Compare actual tracking difference, underlying holdings, tax, liquidity, structure, and provider risk.
4. Confirm both truly provide the intended exposure rather than selecting from labels.

What the result means

The lowest spread is not automatically the lowest long-term cost, and the lowest expense ratio is not automatically the best product. Structure and realized tracking matter.

The case is deliberately compact. In practice, Varza would preserve the supporting documents, currency, dates, counterparty, project or cost center, approvals, and links to the resulting records. The lesson is not merely to reach a number; it is to make the path to that number reviewable.

Practical workflow

1. **Define the decision, responsible person, economic unit, period, and acceptable uncertainty.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
2. **Read the instrument, issuer, rights, priority, maturity, and governing documents.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
3. **For funds, inspect mandate, holdings, benchmark, fees, liquidity, custody, leverage, and tracking.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
4. **Separate income distribution from total return and return of capital.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
5. **Monitor credit, valuation, duration, concentration, fee, tax, and structural change.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
6. **Reconcile the result to source evidence and investigate exceptions rather than forcing agreement.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
7. **Approve the decision or record at the authority level required by value, risk, and legal consequence.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
8. **Monitor the outcome, compare it with the original assumption, and retain the learning for the next cycle.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.

How this concept should appear in Varza

The minimum Varza data model for this chapter includes security, issuer, share_class, bond_terms, fund, index_methodology, holding, distribution, fee, custodian, market_price, net_asset_value. These names are not merely interface labels. Each entity should have a stable identifier, status history, responsible owner, applicable currency or unit, effective dates, evidence links, and access controls.

A useful Varza screen should answer four questions without forcing the user to reconstruct the story manually:

1. **What happened or is expected to happen?** Show the operational event, obligation, or decision in plain language.
2. **What changed financially?** Show cash, asset, liability, equity, income, expense, commitment, or risk effects.

3. **Why should the user trust it?** Show source documents, calculations, approvals, and revision history.
4. **What requires attention now?** Show exceptions, due dates, thresholds, and the next responsible action.

The Varza design principles most relevant here are:

- Keep value, cash, profit, and ownership distinct until their relationship is proven.
- Attach every important number to a source, period, currency, entity, and responsible person.
- Prefer a traceable estimate with stated assumptions to an impressive number with hidden assumptions.

Varza AI may explain, classify, compare, simulate, and prepare a proposed action. It should not silently change a legal record, post a material transaction, close a period, release a payment, or make an investment decision on the user's behalf. Material actions require visible evidence, permissions, validation rules, and an accountable human approval path.

Controls and professional boundaries

1. **Exact security and share-class identification.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
2. **Fund look-through and fee disclosure.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
3. **Bond maturity, call, currency, and credit review.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
4. **Index methodology not treated as permanent or neutral.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
5. **Stable definitions, versioned assumptions, and consistent units across plans, records, and reports.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
6. **Traceability from every material total to evidence, calculation, owner, and change history.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
7. **Access and approval rights aligned with responsibility and the possible consequence of error or misuse.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

A control is effective only when it operates in practice. A policy that everyone can bypass is a statement of hope, not a control. Likewise, a control that blocks ordinary work without distinguishing

low-risk and high-risk cases encourages hidden workarounds.

Common mistakes and better responses

Mistake 1: Calling a dividend guaranteed income

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 2: Assuming bond principal cannot fall before maturity

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 3: Believing an ETF price must always equal underlying value

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 4: Buying an index product without understanding weighting concentration

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 5: Using a technically correct number outside the period, entity, currency, or decision boundary for which it was calculated

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 6: Accepting an automated result without reviewing the evidence, assumptions, exceptions, and required professional judgment

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Decision checklist

- ☐ Can I explain share or equity security in plain language and in professional terms?

- ☐ Can I explain bond in plain language and in professional terms?
- ☐ Can I explain mutual fund in plain language and in professional terms?
- ☐ Can I explain exchange-traded fund in plain language and in professional terms?
- ☐ Have I stated the entity, currency or unit, date or period, and decision boundary?
- ☐ Can another person reproduce the number from retained evidence?
- ☐ Have I separated actuals, estimates, commitments, and scenarios?
- ☐ Have I tested timing, liquidity, risk, and at least one adverse outcome?
- ☐ Is the required approval proportional to the possible loss or legal consequence?
- ☐ Does the final output lead to a specific action, owner, and review date?

Practice lab

1. **Explain it.** Describe Share or equity security to a person who has never studied finance. Then add the professional definition and identify one boundary your simple explanation omitted.
2. **Classify it.** Create five examples from your household or a small business and classify each using Bond. State any assumptions.
3. **Calculate it.** Rebuild the worked case with amounts 20% higher. Identify which conclusions change and which remain structurally true.
4. **Challenge it.** Describe a situation in which Mutual fund could be measured correctly but still lead to a poor decision because timing, risk, or incentives were ignored.
5. **Design it.** Sketch a Varza screen or report for this chapter. Include fields, evidence links, status, owner, exceptions, and one AI-assisted action.

Answer guidance

A strong answer uses consistent definitions, reveals assumptions, distinguishes fact from estimate, and connects the result to an action. More than one conclusion may be reasonable when the learner clearly states the decision objective and uncertainty. The worked-case recalculation should preserve the method even when the numbers change.

Varza AI knowledge capsule

This capsule is intentionally explicit so that a retrieval system can distinguish canonical teaching points from examples and commentary.

```
{
  "chapter_id": "VARZA-F100-097",
  "canonical_topics": [
    "Share or equity security",
    "Bond",
    "Mutual fund",
    "Exchange-traded fund",
    "Market index",
```

```

    "Investment fund",
    "Income return",
    "Total return"
  ],
  "facts": [
    "Share or equity security: an instrument representing a residual ownership interest in an enterprise.",
    "Bond: a debt instrument under which an issuer promises defined interest, principal, or other payments subject to contractual terms and credit risk.",
    "Mutual fund: a pooled investment vehicle whose shares are generally issued and redeemed with the fund according to its structure and net asset value rules.",
    "Exchange-traded fund: a pooled investment vehicle whose shares trade on an exchange during the day and generally seek exposure to a portfolio or strategy.",
    "Market index: a rules-based measure representing the performance of a defined set of securities, assets, or market segment.",
    "Investment fund: a pooled vehicle that combines money from multiple investors to hold a portfolio under stated mandate and legal structure.",
    "Income return: the portion of investment return arising from interest, dividends, rent, distributions, or other periodic cash yield.",
    "Total return: the combined investment result from income, price change, distributions, reinvestment, and relevant costs over a period."
  ],
  "formula_names": [
    "Current bond yield",
    "Fund expense drag approximation"
  ],
  "jurisdiction_scope": "global-foundation",
  "required_answer_qualifiers": [
    "entity",
    "date_or_period",
    "currency_or_unit",
    "source_or_assumption",
    "jurisdiction_when_relevant"
  ],
  "human_approval_required_for": [
    "posting_material_transactions",
    "closing_periods",
    "changing_master_data",
    "releasing_payments",
    "submitting_filings",
    "individual_investment_execution"
  ],
  "source_ids": [
    "S014",
    "S015",
    "S016",
    "S019",
    "S020"
  ],
  "edition": "2026.1",
  "review_date": "2026-08-31"
}

```

Suggested questions for Varza AI

- Explain this chapter using an example from a household, a shop, and a service business.
- Ask me five diagnostic questions before applying this concept to my situation.
- Show the difference between cash effect, accounting effect, and decision effect.

- Recalculate the worked case using my currency and assumptions, but preserve the original definitions.
- Identify which parts require local accounting, tax, legal, labor, or investment rules.

Sources and standards horizon

This chapter is original Varza educational content. It paraphrases and synthesizes concepts; it does not reproduce a standard or third-party article. The following sources were used to establish terminology, scope, and current professional context:

- **S014 — U.S. Securities and Exchange Commission, *Introduction to Investing*.** accessed 2026-08-31. Risk tolerance, time horizon, diversification and investor basics. Source: <https://www.investor.gov/introduction-investing>
- **S015 — U.S. Securities and Exchange Commission, *Asset Allocation and Diversification*.** accessed 2026-08-31. Asset allocation and diversification. Source: <https://www.investor.gov/introduction-investing/getting-started/asset-allocation>
- **S016 — U.S. Securities and Exchange Commission, *Understanding Fees*.** accessed 2026-08-31. Effect of fees and expenses on investment returns. Source: <https://www.investor.gov/introduction-investing/getting-started/understanding-fees>
- **S019 — FINRA, *Investing Basics*.** accessed 2026-08-31. Securities and investment-product fundamentals. Source: <https://www.finra.org/investors/investing/investing-basics>
- **S020 — FINRA, *Risk*.** accessed 2026-08-31. Investment-risk categories and loss potential. Source: <https://www.finra.org/investors/investing/investing-basics/risk>

Standards horizon. Reviewed through 2026-08-31. IFRS 18 and the third edition of the IFRS for SMEs Accounting Standard are included as transition knowledge where relevant; both have mandatory effective dates beginning in 2027, with early application permitted under their respective requirements.

Jurisdiction note. Global educational foundation; local law, tax, reporting, consumer-protection, licensing, and professional requirements must be checked separately.

Professional-use note. This learning material does not replace advice from a qualified accountant, lawyer, tax adviser, licensed investment professional, or other regulated specialist who has reviewed the user's facts and jurisdiction.