

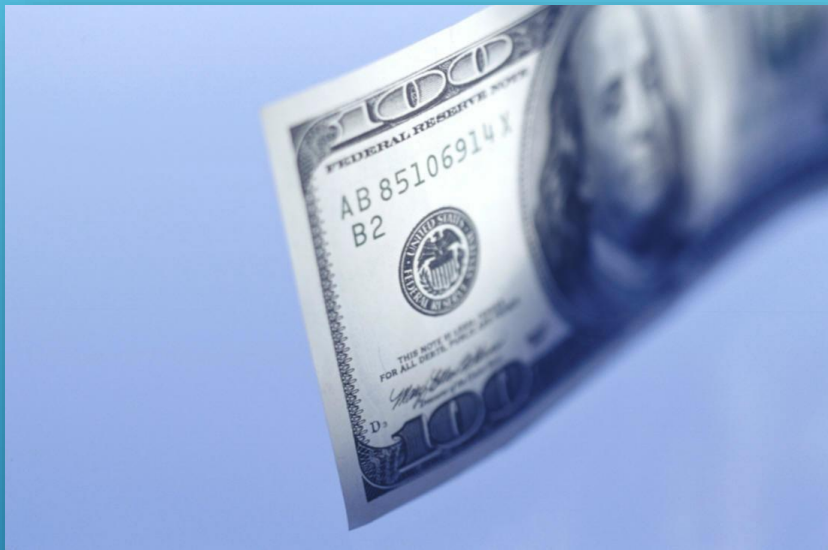
INVESTMENT RISK MANAGEMENT



- ▶ Market risk is the risk that the value of your investment will decrease due to moves in market factors. The four standard market risk factors include:
 - ▶ Equity risk
 - ▶ Interest rate risk
 - ▶ Currency risk
 - ▶ Commodity risk

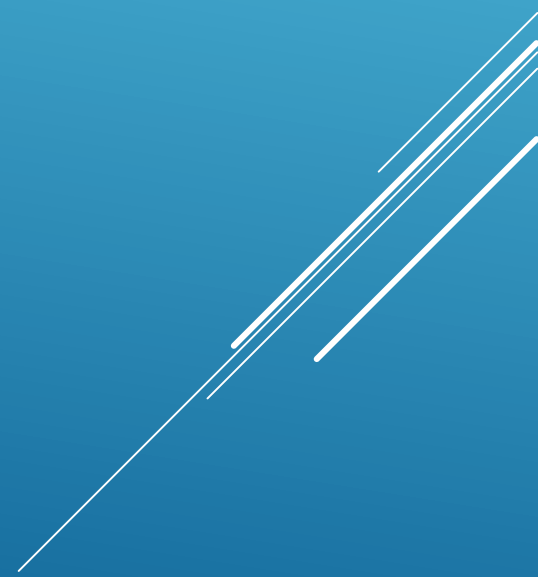
MARKET RISK

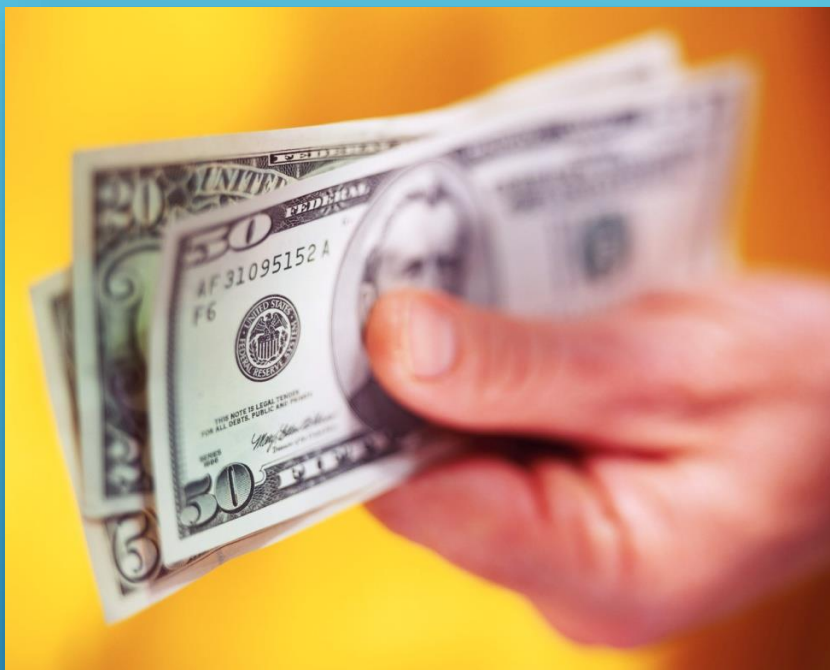




Inflation risk is the risk that the interest you're earning may fall below the inflation rate.

INFLATION RISK





Liquidity risk is defined as the ease with which an investor can convert an investment to cash without negative impact on either capital or return.

LIQUIDITY RISK

The best way to reduce risks is by diversifying your investments. Simply stated, don't put all of your eggs into one basket. Diversification can be defined as: An investment strategy that can reduce market risk by combining a variety of investments



WHAT IS THE BEST TO REDUCE RISKS?

- ▶ Risk tolerance can be defined as an investor's ability to withstand losses caused by one or more of the different types of risk.
- ▶ When dealing with investments and risk there is a simple rule of thumb: higher risk investments potentially produce higher returns.
- ▶ Your goal should always be to improve your returns (earnings) without taking on too much risk.

RISK TOLERANCE



- ▶ “No pain, no gain” - those words come close to summing up the relationship between risk and reward.
- ▶ The reward for taking on risk is the potential for a greater investment return.
- ▶ If you have a financial goal with a long time horizon, you are likely to make more money by carefully investing in asset categories with greater risk, like stocks or bonds, rather than restricting your investments to assets with less risk, like cash equivalents.
- ▶ On the other hand, investing solely in cash investments may be appropriate for short-term financial goals

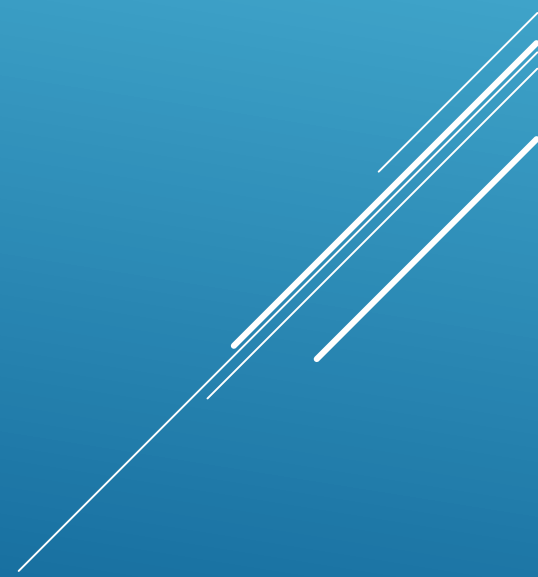
RISK VERSUS REWARD



Your investing style reflects your personality, but it is also influenced by other factors like your age, financial circumstances, investment goals, and experience.

How you decide to allocate your assets—whether you choose a conservative, moderate, or aggressive allocation mix based on your tolerance for risk—is sometimes called your investing style, or profile

INVESTMENT STYLES



The portfolios of conservative investors are typically heavily allocated in bonds, such as U.S. Treasury bills, notes, and bonds, highly rated municipal bonds, and insured investments, such as certificates of deposit (CDs) and money market accounts.

Conservative investors make capital preservation, or safeguarding the assets they already have, their priority. Because they normally aren't willing to put any of their principal at risk, conservative investors usually have to settle for modest returns.

CONSERVATIVE INVESTING STYLE

