Education Series

Managing Investment Risks

Examples of risk types:
- Market risk
- Business/corporate risk
- Interest rate risk
- Inflation risk
- Currency risk
- Economic risk
- Political risk

It is important to revisit your portfolio and reassess your risk profile regularly as your personal circumstances and fi nancial situations may change from time to time. Remember not to invest in anything riskier than you are willing to accept.

Every investment carries risks and it would be impossible to avoid risks totally. Before you invest, you must understand the possible downside and be prepared for the risks that you may face.

What are investment risks?

There are many types of risks. Here are some major ones:

■ Market risk

The market is unpredictable and supply and demand often cause the market to fluctuate. You may have seen how stock prices can go up and down. The level of volatility often depends on the type of investment tools, for instance, stocks typically fluctuate more than bonds.

■ Business/corporate risk

You are trusting on the potential and financial health of a corporation when you invest. The management quality and the profits that the corporation generates also have an impact on your investment return.

■ Interest rate risk

The change in interest rates can have positive or negative impact on investment tools including money market vehicles, stocks and bonds. Besides, the change may have greater impact on one industry and less on another. For instance, banks and properties stocks are probably more affected by the upward and downward adjustments of interest rates than other industries.

■ Inflation risk

The increase in price can affect the value of your money and purchasing power. You therefore need to take that into consideration when planning your investment.

■ Currency risk

If you invest overseas, exchange rate levels can enhance or reduce the value of your investments.

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How do I manage risks?

While you cannot eliminate investment risks, you can limit your exposure to risks and manage them better by:

- **Diversification**

  It is always wise to spread your eggs into different baskets. There are various ways to diversify your investments.
  - **By asset types** – invest in stocks, bonds and cash to even out the volatility. For instance, while stocks are more volatile, having bonds in your portfolio can help to add stability.
  - **Through global exposure** – investing in different markets/regions can help increase your investment opportunities and reduce the risks of just investing in a single market/region.
  - **By the number of investments** – The risk of investing in a basket of stocks is smaller than investing in a single stock as the risks are more spread out across the portfolio.

- **Understanding the investment thoroughly**

  Study the products you are about to buy and seek professional advice if you are not sure whether it is suitable for you.

- **Taking a long-term view**

  Short-term fluctuations may even out over the long-term. So holding a long-term view and focusing on your goals is wise and less risky than speculations.

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