



CION Concepts: Investment Risks

When you set out to invest, you do so as a means to pursue your individual goals, however big or small. Regardless of what you may be working towards you will of course have the expectation of returns, but you must also have the expectation of risk. Finding the right balance of risk and returns for your unique situation is the most important part of your financial professional's job.

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While your financial professional may do the heavy lifting for you on this front, it is vital to know and understand the types of investment risk that your portfolio may be exposed to. Though all investors have to manage risk exposure, the specific risks you face will be determined by the assets in your portfolio. Below we will examine the most common examples of investment risk you can expect to come up against on your way to your investment ambitions.

EXAMPLES OF INVESTMENT RISK

1. Business Risk

Business risk refers to the risks associated with owning securities of a particular company. A great number of scenarios could result in a change in value for the securities of a single firm as opposed to an industry-wide event. For example, shareholders may expect the share price of a company's stock to change if the company had to recall a product.

2. Concentration Risk

Concentration risk is a type of investment risk related to owning too much of one single type of security. As we discussed in our article on diversification, spreading out capital across numerous companies, market sectors, asset types, and geographies can reduce the potential impact of a market event on your portfolio.

3. Credit Risk

Credit risk is something investors must be aware of when investing for income purposes. For example, if you were to purchase a bond for your portfolio, you assume the risk that the issuer may run into financial difficulties and lose the ability to make interest payments or repay the principal at the bond's maturity.

4. Currency Risk

Investors may purchase foreign assets to increase the overall diversification of their portfolios. Those who do introduce the risk that the exchange rate between the foreign currency and their home currency may change, altering the value of the investment. For example, an American investor who owns a stock traded in Japan would lose money if the value of the Japanese Yen should depreciate relative to the dollar.

5. Inflation Risk

Inflation risk is something all consumers must be aware of, whether they hold a diversified investment portfolio or have a simple cash savings account. Inflation risk pertains to the possibility that the value of your investments may not keep pace with inflation. In order to deliver a positive return for shareholders, an investment must first keep up with inflation.

6. Interest Rate Risk

One of the key fundamentals of investing is the inverse relationship between interest rates and the price of fixed income investments. Interest rate risk refers to this concept, that the value of a fixed-rate investment can change due to a shift in interest rates.

7. Liquidity Risk

Liquidity risk refers to the possibility that an investor may not be able to sell their investment when they decide to exit their position for an appropriate value, if at all. Some investments, such as public equities, are not as exposed to this risk as other vehicles like thinly-traded private stocks or real assets.

8. Market Risk

As much as we would like to, it is impossible to structure a portfolio that has absolutely no exposure to market risk. There are certain economic developments or geopolitical events that could affect the entire investment marketplace, some more than others, public or private. Market risk refers to such possibilities.

9. Regulatory Risk

It's no secret that financial markets are under the microscope for governments around the world. Regulatory risk refers to the risk that changes in policy could potentially negatively impact the investments domiciled in a given country.

HOW TO MANAGE INVESTMENT RISK

Investment risk is an inescapable part of being an investor and while you cannot avoid it completely, there are measures that you and your financial professional can take to reduce its impact. By staying informed about financial markets and the forces that can move them, you can have more informed conversations about your portfolio with your financial professional.

The best way for you to mitigate the risk exposure of your portfolio is to make sure it is well diversified. A diversified portfolio containing a variety of asset types, market sectors, and geographies will help you work towards your goals and avoid the potential of a significant loss from any single event.

To learn more please contact your financial professional.

The information contained herein is intended to be used for educational purposes only and is not exhaustive. Diversification is not a guarantee against investment losses.

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