Guide to investment risks

The purpose of this document is to provide both knowledgeable and less experienced investors with additional information on the respective risks a portfolio can be subject to. You must be aware that any investment involves a degree of risk and that some investments are riskier than others. Prices can fall as well as rise and there is a risk that you may lose some or all the money that you have invested. Past performance is no guarantee of future performance. The income which you receive from your investments can fluctuate and is not guaranteed.

- Market risk

The risk of investments declining in value because of economic developments or other events that affect the entire market. The main types of market risk are equity risk, interest rate risk and currency risk.

a. Equity risk: risk of losing money because of a drop in the market prices of shares;
b. Interest rate risk: risk of losing money because of a change in the interest rate; and
c. Currency risk: risk of losing money because of movements in the exchange rates.

- Liquidity risk

The risk of being unable to sell investments at a fair price. Depending on market conditions, there is the possibility of having to accept lower prices than the fair value of the investments. On certain occasions, it may not be possible to sell at all.

- Credit risk

The risk that the entity that issued the instrument will run into financial difficulties and will not be able to pay interest and/or repay the principal invested at maturity. Credit risk is mostly relevant to investments in debt instruments. Credit risk can be evaluated using rating agencies, who monitor the ability of entities to meet their obligations.

- Concentration risk

The risk that losses ensue when ‘placing all your eggs in one basket.’ Concentrating on one investment, or one type of investment places the portfolio at risk. Diversifying the portfolio to spread the risks remains an important aspect of your investment policy.

- Inflation risk

The risk that losses ensue because the value of your investments does not keep up with the prevailing rate of inflation. Inflation is the persistent rise in the general price level in an economy. Inflation erodes the value of money over time, as in real terms, the same amount of money buys less and less amount of goods and services. Inflation risk is particularly relevant if you own cash or debt instruments.

- Horizon risk

The risk that your investment horizon may be shortened because of an unforeseen event. Such unforeseen events notably includes loss of job, failing business ventures or untimely death. Such events could force you to sell off investments that you were expecting to hold for a defined period of time, causing your portfolio to face potential liquidity risks.

The list of the potential risks the portfolio can be subject to is not exhaustive. If you have any doubts as to the suitability of any strategy or transaction, you should consult your investment advisor.