

Chapter 1: Investing Concepts

Video 6

Understanding investment risk

Aggressive investors

They are willing to use high-risk growth strategies in the quest for higher returns. However, aggressive investors must also be able to withstand substantial fluctuations in account value.

Conservative investors

They are willing to accept lower returns for the safety of their capital. Their investments often include bonds, cash and money market accounts.

Investment risk

Investment risk refers to the uncertainty related to investing. When investing, actual outcomes may differ from expected outcomes, and you may even lose some, or all, of your investment. Investment risk will vary with each type of security and asset class.

Moderate investors

They might be more inclined to balance their portfolio risk by using a diversified portfolio that contains a mix of lower-risk choices, along with a few higher-risk options.

Risk capacity

Risk capacity measures how much risk an investor can afford to take. People's age, income level and time horizon will influence their capacity to take on risk.

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Understanding investment risk (cont.)

Risk profile

A risk profile is an assessment of someone's willingness and ability to take on risk, and will differ individual to individual. Your risk profile is important in determining the suitability of securities and asset classes for your portfolio.

Risk tolerance

Risk tolerance refers to an individual's willingness to take risk. People's appetite for risk, or how much risk they are willing to take on, will influence what types of securities and asset classes they invest in.

Standard deviation

Standard deviation measures how much the value of an investment can change and is a common way of quantifying the risk associated with an investment.

Volatility

A statistical measure of the dispersion of returns for a given security or market index. (*Investopedia*)