

The Many Faces of Risk

With every growth opportunity, there is an element of risk; even not investing involves some degree of it. In the end, being aware of the various types of risks will make you a better investor in the long run.

Here is a list of the main types of investment risk that affect mutual funds:

Market risk: The risk that you will lose some or all of your principal. As markets fluctuate, there is always a possibility that the investments hold might be caught in a decline.

Inflation risk: The risk of losing purchasing power. If your investments gain 5% in a year and the cost of living goes up by 2%, you are left with a real return of only 3%.

Interest-rate risk: The risk that rising interest rates will cause your portfolio to decline in value. When interest rates rise, bond prices decline.”

Currency risk: The risk that a decline in the exchange rate will reduce your gains (or add to losses). Even if the value of a foreign-currency-denominated investment goes up, a decline in the foreign currency can reduce your returns when they are exchanged back into Canadian dollars.

Credit risk: The risk that the issuer of a bond or other security won't have enough money to make its interest payments or to redeem the bonds for face value when they are due. Securities with a higher risk of default tend to pay higher returns. Fortunately, not all investments are susceptible to every kind of risk. Equities, for example, are subject to market risk but help protect against inflation risk.

Similarly, fixed-income is susceptible to interest-rate risk, but offers some protection against market risk. The best defence against risk is a well-diversified portfolio.

National Bank Financial is an indirect wholly-owned subsidiary of National Bank of Canada which is a public company listed on the Toronto Stock Exchange (NA: TSX). The particulars contained herein were obtained from sources we believe to be reliable, but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell, the securities mentioned herein. National Bank Financial may act as financial advisor, fiscal agent or underwriter for certain companies mentioned herein and may receive remuneration for its services. National Bank Financial and/or its officers, directors, representatives or associates may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time on the open market or otherwise.