IIROC OCRCVM
Investment Industry Regulatory Organization of Canada
Organisme canadien de réglementation du commerce des valeurs mobilières

Investor Bulletin de l'investisseur

Risk and its impact on your investments

All investments carry some degree of risk. All investments, such as stocks, bonds, mutual funds and exchange-traded funds, can lose some or even all their value if market conditions change. It is important to understand the types of risk that may impact your investment returns before determining and implementing your investment strategy.

Types of Risk

There are many different types of risk. Some of these may include:

- ***Market risk*** - the risk that your investments are subject to a general market decline in response to changing domestic or global economic conditions. These market-wide changes can be unpredictable and beyond anyone's ability to forecast.
- ***Liquidity risk*** - the risk that a particular investment cannot be traded quickly enough in the market to prevent a loss (or make the planned profit).
- ***Inflation risk*** - the risk that the value of your portfolio does not increase to keep up with the rate of inflation.
- ***Product risk*** – the inherent risk associated with different investment products. For example, stocks generally carry a higher level of risk than bonds.
- ***Business risk*** – the risks associated with the underlying business of a particular investment, such as labour difficulties or competition, which can affect a company's profitability and value.
- ***Foreign exchange risk*** – the risk that foreign currency denominated investments in your portfolio are affected by fluctuations in foreign exchange rates.

How much risk are you willing and able to take?

There are two things you should consider when thinking about risk - ***your emotional willingness to accept risk*** and ***your financial ability to absorb loss***. Risk tolerance or risk appetite is finding that balance between these two concepts.

Generally, investors who are not willing or financially able to assume risk have less opportunity of achieving large returns, yet they are more likely to maintain the safety of their original investment.

Investors who are willing to take on more risks in their investments have the potential of receiving greater returns; however, they are also subject to the possibility of greater losses.

For example, Canada Savings Bonds (CSBs) are low-risk investments but the return is also low. On the other hand, an investment in a stock has higher risk than an investment in CSBs but also higher potential for returns.

The bottom line is that with certain products, you could lose part or all of your original investment. Every investment product or investment strategy has associated risks that your advisor, (if you have one), needs to discuss with you.

How comfortable are you with investment risk?

Ask yourself these questions to gauge your comfort level with risk and whether you can afford a financial loss.

- **When will I need the money?**
- **Do I have enough money set aside for emergencies and to cover debts?**
- **Is my employment situation secure?**
- **Can I tolerate investments where returns may be unpredictable or subject to sudden changes in value?**
- **How would I react if my investments declined in value?**
- **What decline in the value of my investments can I accept?**

Your risk tolerance is one of the key topics that your advisor is required to discuss with you under IIROC rules. Advisors must gather this information, along with other financial details, so they can recommend products and strategies that are suitable for you.

How can you manage risk?

You cannot eliminate investment risk; however, there are two basic investment strategies that can help you manage and minimize risks associated with a specific investment or with the marketplace as a whole.

Asset Allocation: By including different asset classes in your portfolio (for example stocks, bonds and cash), you increase the probability that some of your investments may increase, even if others are flat or losing value. Put another way, you're potentially reducing the risk of major losses that can result from over-emphasizing a single asset class.

Diversification: When you diversify, you divide the money you've allocated to a particular asset class, such as stocks, among various categories of investments that belong to that asset class. Diversification, with its emphasis on variety, allows you to spread your investments around. In short, you don't put all your investment eggs in one basket.

Investments involve varying levels and types of risks. Ask your advisor to learn more about the risks associated with investments, how they can impact your portfolio and the steps you can take to minimize these risks.

Be an informed investor!

For helpful tips, useful tools and more important information, visit the IIROC Investor Resource Centre at

www.iiroc.ca/investors

WHO WE ARE

The Investment Industry Regulatory Organization of Canada (IIROC) is the national self-regulatory organization which oversees all investment dealers and their trading activity in Canada's debt and equity markets. There are more than 28,000 individuals and approximately 200 investment firms regulated by IIROC across the country.