Risk in the Investment World

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There are many different kinds of risk in the investment world. No investment, including cash is completely safe from any risk. You can't eliminate risk when you invest. But you can understand it and take steps to manage it. I'll briefly explain some of the different kinds of risk that you might encounter and should be aware of as you manage your investments.

1. Market risk – Market risk is the risk that an investment's value will rise or fall with changes in economics, politics, or sociological changes. Investments move up and down in value creating volatility in a portfolio. Equity investments (stocks) are generally more volatile than debt investments (bonds).
2. Company risk – Company risk is the risk or uncertainty that a particular company may go bankrupt, be unable to pay dividends or interest, or fail to meet earnings expectations.
3. Industry risk – Industry risk is the risk that events in an industry will cause investors to shun investments in an entire industry. The internet industry in the late 1990's is an example of positive risk, while the same industry today is an example of negative risk.
4. Interest rate risk – Interest rate risk is the risk that an investment's value will rise or fall with changes in interest rates. Bonds and other fixed income investments are subject to interest rate risk. The payments to investors carry a fixed rate of return that does not change as interest rates rise.
5. Credit or default risk – Credit or default risk is the risk that a borrower cannot repay a loan, note, or bond.
6. Inflation or purchasing power risk – Inflation or purchasing power risk is the risk that higher costs will erode your dollars, or purchasing power in the future. Inflation or purchasing power risk is generally associated with holding cash and short term debt investments where the return less the taxes due does not cover the rate of inflation. Each dollar held will buy less and less in the future.
7. Liquidity risk – Liquidity risk is the risk that you may not be able to convert your investment to cash when you need the money. Real estate and other tangible asset investments generally have low liquidity.
8. Currency or exchange risk – The value of the US dollar rises and falls relative to other world currencies. Currency or exchange risk is the risk that the value of an investment in a foreign currency will rise or fall due to changes in relative currency values.
9. Country risk – Country risk is the risk that unforeseen events in a country such as war, inflation, or natural disasters will cause a change in the value of investments in that country.
10. Opportunity cost (risk) – Opportunity cost (risk) is the risk that by investing in one investment, you give up the chance to earn a higher or (lower) return on another investment

11. Manager risk – Manager risk is the risk that a fund's investment manager or a portfolio manager will not perform well compared to their market benchmark.
12. Timing risk – Timing risk is the risk that you will buy or sell an investment before or after the ideal time for the transaction.