Risks

When deciding on an investment, it is important to understand the expected risk and likely returns from the investment and determine how this fits with your personal situation and financial needs.

Understanding risk and return

Risk can be described as the chance that you will not achieve the investment returns needed to meet your financial objectives. While some people may be more comfortable with accepting low levels of risk, the potential consequence may be that the returns achieved are insufficient to meet their financial objectives. All investments are subject to some risk. The type of investment determines the associated risk.

Risk types

Credit risk

The risk the issuer of a debt investment may not be able to repay the capital at the end of the investment term or that they are unable to make interest payments.

Currency risk

The risk that currency movements will reduce your investment returns.

Economic risk

The risk that economics or associated policies may reduce your investment returns.

Financial risk

The risk of losing funds through the structure of the investment, such as the debt management of the investment.

Inflationary risk

The risk that your investment returns will be less than the inflation rate and therefore, the net return received by you will be negative.

Information risk

The risk that information about an investment is incorrect or not freely available to all investors. This gives some investors an unfair advantage over others in making investment decisions.

Legislative risk

The risk associated with governments changing policies and rules. This can impact the success of investments, particularly where, for example, the tax status of those investments is affected.

Interest rate risk

The risk that changes to interest rates will negatively impact the performance of your investments.

Liquidity risk

The risk of not being able to sell investments quickly. Investments that take time to sell, or have a limited resell market, are called illiquid investments.

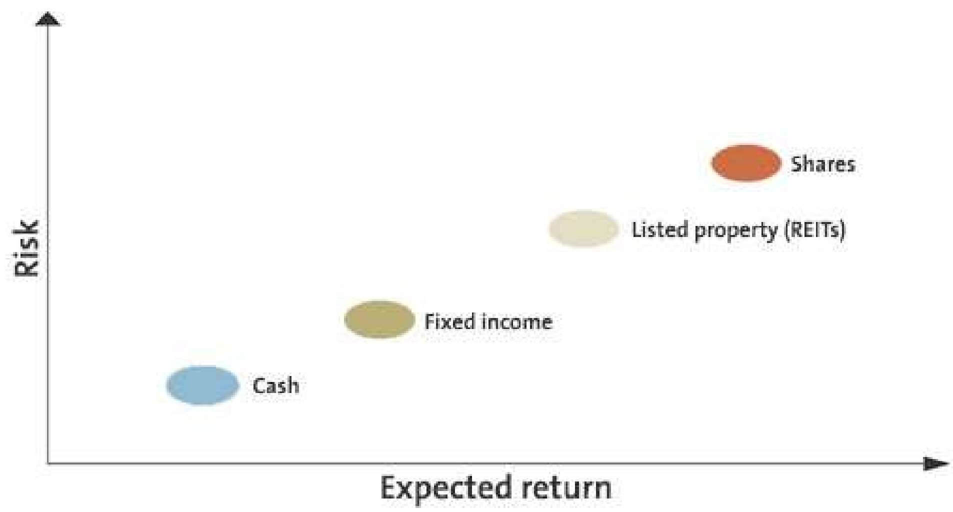
Opportunity cost

The risk of not investing at all or investing in an alternative asset that doesn't perform as expected. An investor may miss out on potential returns of the investment they did not choose.

Timing Risk

The risk of investing at the wrong time is commonly referred to as buying high and selling low. As a general rule, the higher the potential return from an investment, the greater is the investment risk and the probability of experiencing capital losses.

The relationship between risk and return is demonstrated in the graph below. By investing in higher-risk investments, investors want to be compensated for this risk. As such, they require a higher rate of return.



Source: AMP Capital

Generally, the more stable the return each year, the lower the risk of a negative return. This will result in a lower return. The longer an investment is held, the greater the likelihood that volatile returns will smooth out over time.

Diversification

With investing, it is important to not put all your money into one investment or type of investment (put all your eggs in one basket). All investments are subject to some level of risk. By placing your money into different types and categories of investments, you reduce the overall risk and smooth out returns.

No one type of security; asset class or investment manager provides the best performance over all time periods. So, a range of investments should reduce the risk of each of the investments within a portfolio experiencing drops in performance at the same time. This is simply because one asset class or manager may perform well to counter the poor performance of another.

This document contains general information about the benefits, costs and risks associated with certain product classes and strategies. It is designed for use in conjunction with a Statement of Advice that takes into account the circumstances and objectives of an individual. Before making a commitment to purchase or sell a financial product, you should ensure that you have obtained an individual Statement of Advice. As legislation may change, you should ensure you have the most recent version of this document.