

INVESTMENT RISK

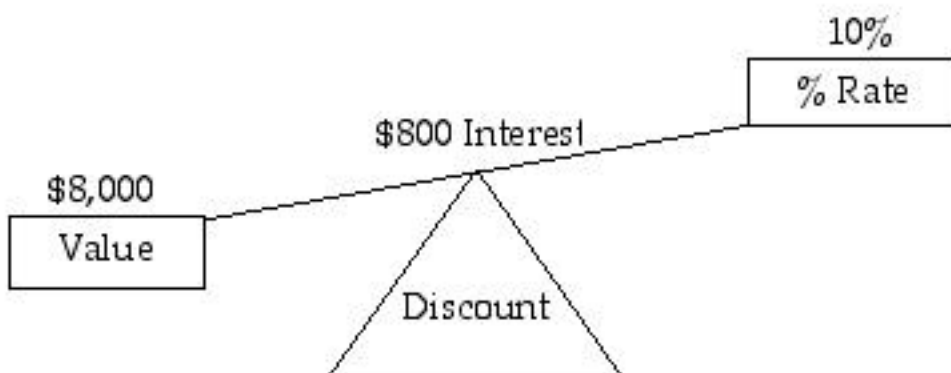
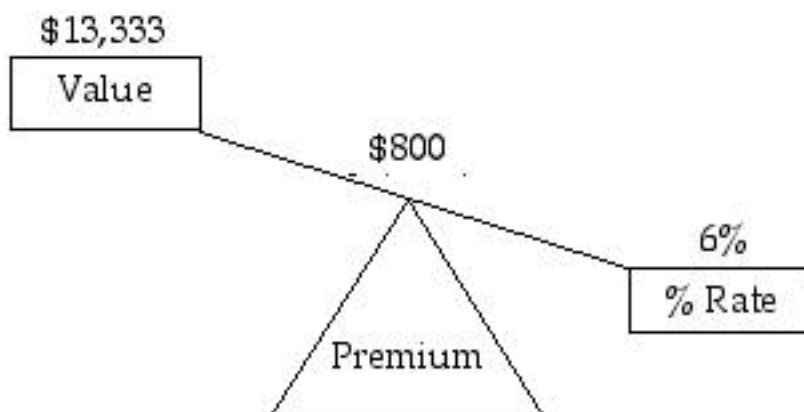
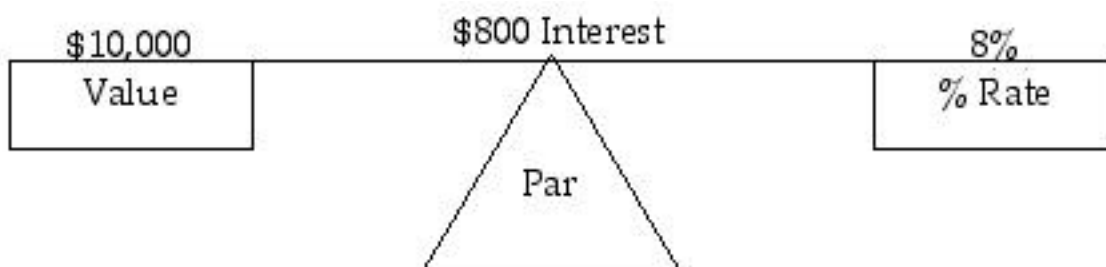
“YOUR KEY”



“TO UNDERSTANDING INVESTING”

TYPES OF LOSS

Interest Rate Loss – the risk of locking into a long term debt instrument and interest rates subsequently rise or the alternative, locking into a short term debt instrument and interest rates subsequently decline.



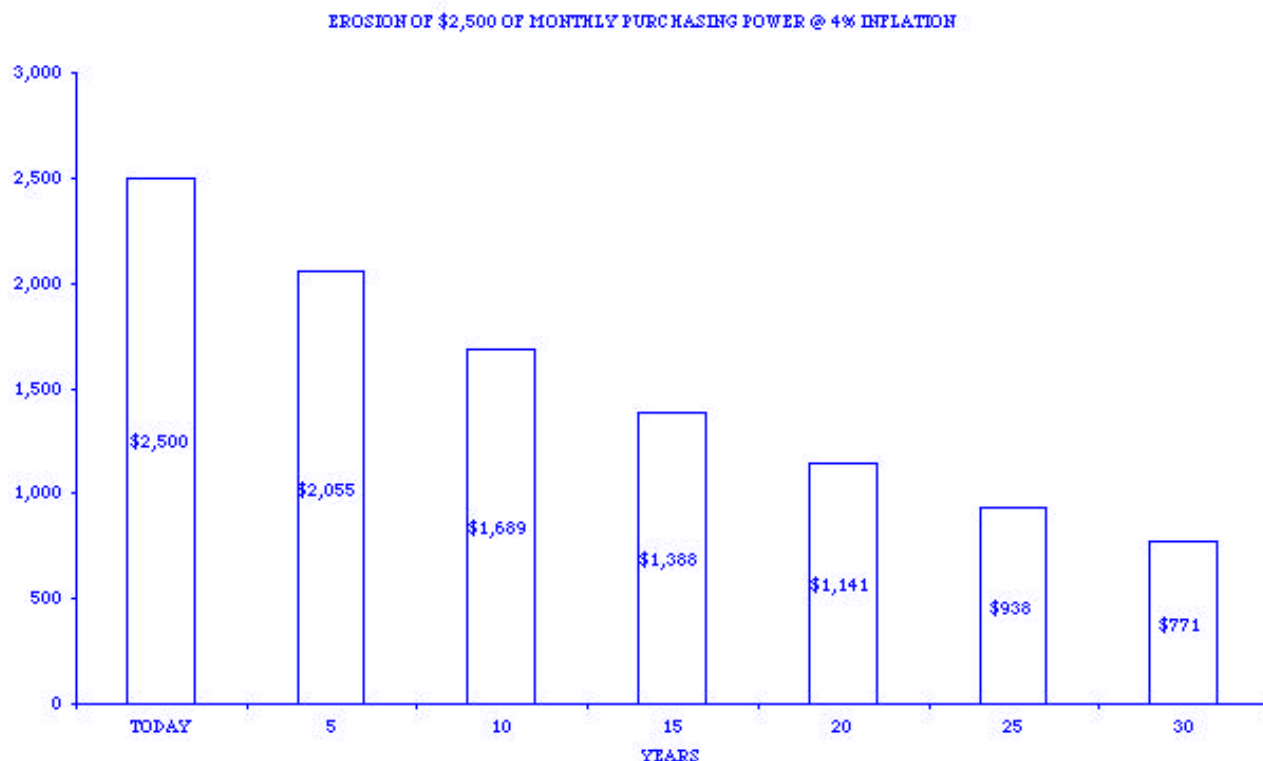
If interest rates increase, the value of your fixed income investments decrease and if interest rates decline, the value of your fixed income investments increase.

Capital Loss - the loss of a portion of your investment capital due to declining share value; the type of risk that most investors think of initially and is their biggest concern.

Capital Default Loss - similar to capital loss, but represents the nonpayment by a debtor of principal on a debt instrument such as a GIC or bond; usually not thought of by investors because default on debt instruments does not occur frequently, although more often than most investors realize.

Currency Loss - the decline in the value of your investment, whether fixed income or equity, as it is located in a country whose currency is declining in value against the Canadian dollar; a two edged sword, as the increase in the value of the foreign currency will increase your rate of return.

Inflation Loss - loss of purchasing power; this is a fact of life and typically investors underestimate its impact on their assets, thus, portfolios with long term time horizons must be designed to preserve purchasing power.



ELEMENTS OF PORTFOLIO RISK

Unique Risk:

- represents about 40% of portfolio risk
- management competence, financial stability, product development, labour relations, consumer preferences, security market appeal

Market Risk

- represents about 60% of portfolio risk
- economic cycle, interest rates, inflation, politics, capital market conditions

Investors are rewarded for accepting market risk.

Investors are not rewarded for accepting unique risk since it can be diversified away.

Conclusion: non-diversified investors accepting unique risk are taking an unwarranted and unrewarded risk (known as portfolio concentration – often happens as a result of profit sharing or stock options).

