

Investment Risk

A man and a woman appear in front of a screen that displays investment prices and the words Understanding Risk.

Man: “Every investment choice you make includes an element of risk -- the possibility that something might not work out the way you’d planned.”

Woman: “Risk can affect many investments at once, as in a bear market. Or it can be specific, as when a company runs into business difficulty or it falls out of favor with investors.”

Man: “Understanding the risks of an investment lets you decide if its potential reward is worthwhile -- and helps you make smart investing decisions.”

The text changes to Market Risk. The woman walks toward another screen featuring line charts with peaks and valleys.

Woman: “When you invest in stocks, you may be hoping their prices will rise and you can reap the gains when you sell. But the prices of stocks can go down as well as up. This is known as market risk or volatility. And while it’s true that many stock values have tended to rise on average over time, it’s impossible to know what a particular stock investment might be worth in the future.”

The words Credit Risk and an image of a bond appear on screens behind the man.

Man: “When you invest in bonds, you face different kinds of risks. A bond requires the bond issuer to pay you predetermined amounts of money on set schedules. But when the issuer cannot meet its obligations, it defaults. This is known as credit risk, and its level varies from bond to bond.”

The woman stands in front of screens with the words Interest Rate Risk and pictures of bonds.

Woman: “Another kind of bond risk has to do with interest rates. The value of a bond goes down when market interest rates rise. This is known as interest rate risk. The longer the maturity of the bond, the greater the risk.”

The man and the woman appear together. In the background, screens show individuals reviewing paperwork and a man looking at a tablet.

Woman: “There are other risks of investing as well, such as the risk that your investment won’t keep up with inflation.”

Man: “Knowing the risks of a potential investment -- and weighing them against the potential gains -- is what smart investing is all about.”