

# Know Your Risks

- ▶ Risk can be defined in many ways. This short article reviews some of the risks investors face.
- ▶ Life is full of risks--investments are no different. However, some investment risks can be mitigated with proper investment management.

Risk is the chance that you won't be able to meet your financial goals or that you'll have to recalibrate your goals because your investment comes up short. Investors face many forms of risk depending on the kinds of investments they choose.

**Market, industry, and company risk:** General market fluctuations can affect securities trading in that market. Stocks tend to fluctuate more than other asset classes, and may pose more risk over short periods of time. Investors looking to time the market run the risk of jumping into the market during the worst times, and out of the market during the best times. Security values can also decline from negative developments within an industry or company.

**Credit and interest-rate risk:** Credit risk is the possibility of a bond issuer not being able to make timely payments of principal and interest. The value of

a bond may also decrease due to financial difficulties or the declining creditworthiness of the issuer. Interest-rate risk relates to how bonds tend to rise in value when interest rates fall, and to fall in value when interest rates rise. Typically, bonds with longer maturity exhibit greater price volatility.

**Inflation risk:** Inflation is a rise in the general level of prices for goods and services. If investments do not keep up with inflation, an investor's money will purchase less in the future than it did in the past.

**Liquidity risk:** Some investments may not be widely held by the public and may be difficult to sell if prices drop dramatically.

**Currency risk:** Returns achieved by local investors are often different from returns achieved by U.S. investors because of foreign exchange rates, even though both are investing in the same security.

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Louis E. Conrad II, CFA  
President

COMPASS Wealth Management  
Post Office Box 250  
Lexington, Massachusetts 02420

lconrad@compassinvest.com  
www.compassinvest.com

Tel: (978) 828-5681  
Fax: (781) 862-7030

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