Worksheet: Investment Risks

All investments expose you to a certain amount of risk. The primary risk is that you could lose some or all of the principal you invested because a company that has issued stock or bonds you own does poorly over an extended period or even goes out of business. At the other end of the scale, insured investments guarantee your principal, but in most cases the rate at which they increase in value or provide income cannot keep pace with the rate of inflation in order to maintain your buying power. That’s known as inflation risk.

As you choose investments for your portfolio, you’ll want to be aware of the level of risk each one could expose you to. But you should remember as well that taking some risk has the potential to increase your overall return.

This chart gives you an overview of different levels of risk, the types of investments that fit in each category, and the way in which those investments might contribute to your overall investment success.

To evaluate approximately what level of risk you are taking in your portfolio, make a list of all your holdings and match them against the examples in the chart. If you own mutual funds, you can find information in each fund’s prospectus about the level of risk it exposes you to.

	Major Characteristics	Examples	Uses
High risk investments	• Most volatile • Low-rated • Potential for greatest return but greatest loss of value • Can be illiquid	• Derivatives • High-yield bonds • Speculative stock, stock funds, and ETFs (for example, with stock in small technology or biotechnology stocks) • Gold and other metals	• Speculate with portion of portfolio • Add greater diversification • Can be used in balance with other investments for long-term goals

Moderate risk Investments	• Somewhat volatile • Potential for strong return but possible loss of value • Fairly liquid	• Growth stocks, stock funds, and ETFs • Investment-grade corporate bonds • Treasury bonds and notes • REITS	• Provide growth and income • Outpace inflation • Meet mid- and long-term goals
Low risk Investments	• Liquid • Often insured or backed by government • Vulnerable to inflation • May be subject to penalties for early redemption	• Treasury bills • CDs • Short-term bonds • Savings accounts • Money market funds • Fixed annuities	• Preserve principal • Provide income • Meet short-term goals • Emergency funds