Finance for Life™

Achieving Financial Success™

Finance for Life. Wealth for Living.™

Practical Wealth Creation Ideas

...for Simplified Financial Success™

Financium®.com

The Necessity OF RISK

Any successful business person or investor will tell you, "there is no such thing as gaining wealth without risk". In fact, within any business or investment, risk increases when the potential for gain is greater. When you are investing in equity mutual funds, the chances of both gain and loss are similar to investing in any given business because mutual funds actually invest in the stocks of many businesses. If any business succeeds, its stock will increase in value and pass that value onto the shareholders. If many businesses' stocks increase in value in a mutual fund, the investors' wealth can increase relative to the resulting net increase in value of each fund unit. In the short term a mutual fund, like any business, can fluctuate in value, so the risk of losing money in the stock market increases if equity fund investments are held for only a short period of time. In most cases, the risk decreases the longer you hold equity fund investments. Because economic performance is uncertain, an investor who seeks growth by investing in the ownership of companies via equity mutual funds cannot have zero risk. In fact risk is part of our lives. Any successful investor actually realizes that the following risks exist, yet invests in spite of them.

• **Interest rate risk** when increasing, could negate gains of certain income funds investing in bonds.
Solution: Maintain a balanced portfolio including equity funds along with different types of income funds: money market, short-term bond, and long-term bond funds.

• **Business failure risk** that could deplete the value of any one stock.
Solution: Invest in equity mutual funds because they hold many different stocks.

• **Purchasing power risk** is a reality faced by everyone due to inflation over time.
Solution: Calculate inflation into your retirement planning and invest in equity mutual funds over the long term, building sufficient wealth to meet increased future budget demands due to inflation.

• **Market risk** occurs as markets are cyclic, rising, correcting, and occasionally declining.
Solution: Diversify your funds investing geographically among Canadian and foreign funds as not all markets move together.

• **Opportunity risk** occurs when you cannot invest your money for a potentially better return, such as when you are invested in a locked-in type of investment such as GICs, or have tied up your income in monthly payments.
Solution: Try not to lock all of your money up over any given period of time.

• **Liquidity risk** occurs when you cannot quickly sell a given investment such as a large real estate portfolio.
Solution: Invest in mutual funds. If money is urgently needed, funds can be sold and money accessed on any business day with some possible costs incurred.