

Financially SPEAKING

Investment risk should be diversified

by Williams and Company Principal Richard C. Williams



In the investment world, risk and reward often go hand in hand. Generally, in an effort to achieve greater returns, an investor must be willing to accept increased risk. All investments carry some degree of risk. Even an investment that may be perceived as “safe,” such as one with a guaranteed rate of return, is subject to inflation risk. Below are some of the risks investors may face.

- **Market risk** – associated with a change in the value of an investment due to a change in market conditions. Market risk includes the potential to lose a portion of your principal.
- **Liquidity risk** – assets that are easily converted to cash are referred to as “liquid.” Investments for which the market has a small capacity and investments that are not readily salable on the open market, such as commercial property, face liquidity risk because of the time it may take to sell them.
- **Inflation risk** – the loss of purchasing power due to continually increasing prices. For someone with long-term investment goals, such as saving for retirement, achieving a rate of return that exceeds the rate of inflation is important.
- **Interest rate risk** – the risk that changes in interest rates will affect bond and other fixed income investment prices and the amount of income they generate for investors.
- **Credit risk** – the possibility that a fixed income issuer will default by failing to repay interest and principal in a timely fashion.
- **Company risk** – poor earnings reports, management changes, increased competition, legal actions or the possibility of bankruptcy can influence the price of a particular company’s securities.
- **Currency risk** – the potential for invested assets held in another currency to be affected by movements in the value of the currency.
- **Geographic risk** – the effects of political and economic developments, weather conditions, health issues, and other events occurring in a specific region or country can influence the value of its securities.

The good news is that a well-diversified professionally managed investment portfolio can help mitigate many of these risks. By selecting and holding a variety of investments representing a broad range of asset classes, geographic regions, countries and companies, you may be able to minimize the effects of a poorly performing security on your portfolio.

Diversification does not assure a profit or protect against market loss. Investments in foreign securities involve risks relating to political and economic developments, foreign taxation, exchange rate fluctuation and differences in accounting standards.

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