What is Risk?

Risk is the potential that your investments will lose money or will not grow fast enough to meet the savings targets that you expect. Volatility is the most commonly known investment risk factor and is most widely associated with market-based funds. These investments carry no guarantees and have unit prices that fluctuate according to the market. Volatility is a measure of these fluctuations.

Risk and return generally move hand-in-hand – the lower the risk, the lower potential return. Likewise, as you take on more risk, the potential for higher returns is greater. The amount of risk you want to take on is a personal decision and will vary depending on your own circumstances. Selecting investments that match your comfort level with risk is critical in building an effective retirement savings plan. If you're the type of person who loses sleep worrying about your investments, you might want to consider a more conservative portfolio. If you have the patience to weather the market's ups and downs, you may have a greater tolerance for risk.

Throughout our material, risk and volatility are defined on a scale of low, medium, high and very high.

Your willingness to accept risk will likely change over time. Every 12 to 18 months, you should reexamine your comfort level with risk and re-shape your portfolio as required.

There are many types of risk. They include: capital, inflation, credit, interest rate, liquidity, currency and foreign market risk.

Balance Your Risk

There is risk associated with every investment decision. You need to determine which type of risk you are most comfortable with. Stocks are more volatile, but they offer more protection from long-term inflation risk. Guaranteed investments eliminate short-term volatility, but they carry an interest rate risk and may not provide the higher returns you need to achieve your long-term retirement goals.

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