Five types of investment risk

Are market worries keeping you up at night?

All investments – from cash and bonds, to stocks and cryptocurrencies – come with their own risk and reward characteristics. Understanding the relationship between risk and reward, and your comfort level with both, is a crucial part of building your investment portfolio. Here are five common risks that could impact your investments.

Inflation risk

The potential loss of your purchasing power if the value of your investments doesn't keep pace with inflation (a rise in the price of consumer goods and services). Most relevant for cash, bonds or other fixed income securities.

Market risk

The risk that your investments will lose value because of events or developments in the financial markets. Market risks affect the entire market simultaneously, and include interest rate movements, currency fluctuations and capital risk (the possibility that you could lose some or all of your investment).

Credit risk

This risk applies to bonds and other debt securities, and whether a company or government issuer could experience financial difficulties and fail to repay its interest or principal obligations. Bonds and their issuers are given credit ratings by rating agencies based on their creditworthiness.

Currency risk

Also known as "exchange-rate risk," currency risk applies if your investment is in a foreign currency. As exchange rates fluctuate, it can reduce the value of your investment. For example, if the U.S. dollar weakens against the Canadian dollar, a U.S. stock held in your portfolio will have less value in Canadian dollars.

Political risk

Also known as "geopolitical" risk, it arises from changes in government, monetary and fiscal policy or legislative bodies. Your investments could decline in value because of political instability, for example, or international policies that affect the supply and demand dynamics of various commodity prices, such as oil.

Write Your Own Future QTRADE

Assess your own investment risks with Portfolio Score™ including credit, currency and inflation risks. Expand your knowledge of risk exposure by comparing your portfolio's performance against domestic and global benchmarks.

2100358E AODA 06/21