In investing there is a close relationship between risk and return.
You could not only avoid unnecessary risk, but also make it work in your favour.

What is risk?

Risk is the possibility of **losing some, or all, of your capital** (your original investment).
Risk refers to uncertainty. All investments carry a level of risk.

So why take risk?

In general, higher risk investments have a higher potential return, whereas lower risk investments usually give a lower return. The more risk you take, the more your investment could grow. Conversely, the more it could fall.

Cash savings

A savings account is **low risk**. Up to £85,000 of your money (£75,000 from 1 January 2016) is secure in a bank or building society through the Financial Services Compensation Scheme. But your money will only grow in line with interest rates so there's **little chance of growing your capital**.

Bonds

Bonds are like **giving a fixed-term loan** to a company or government. You can take an income from interest on the 'loan'. At the end of the fixed term your capital should be repaid. **There is a risk of default on payments**, which varies greatly depending on the issuer.

Equities

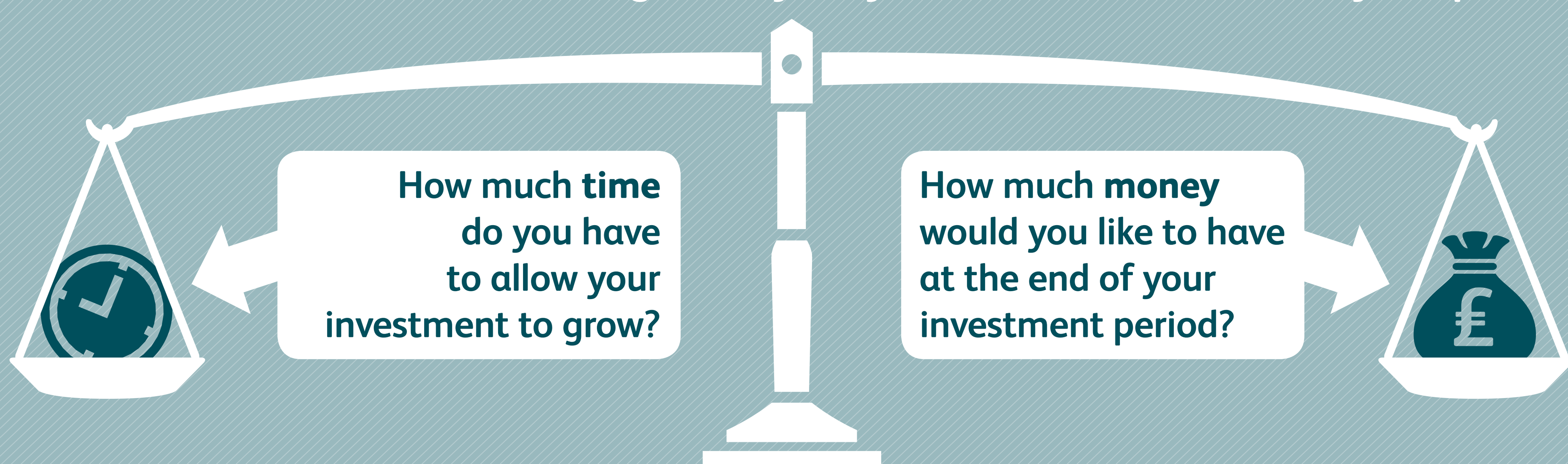
Equities are **shares in a company**. The growth of your investment depends on the fortunes of that company. Although there is no limit to how much your investment could grow, there is also no limit to how much a share price can fall as well. **You may lose your original investment.**

Property

The amount of income you can make from property can **fluctuate** according to the general trends of the housing market. Although property is considered more stable than equities, **your initial investment is still not secure.**

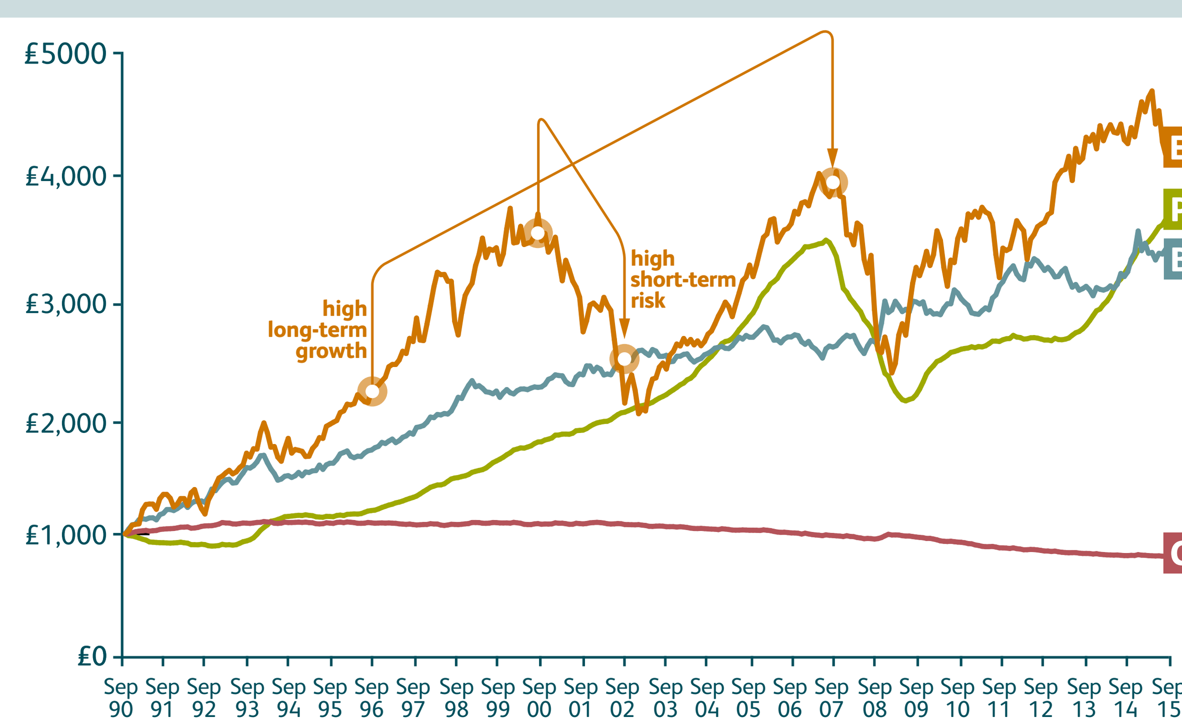
And **how much** risk to take?

To find the level of risk that's right for you, you need to think about your plans.



£1,000 invested over 25 years – after adjusting for inflation

Taking **too much risk** in the **short term** could prove problematic. A high-risk investment may grow your money over the long term because you have time to recover from the short-term dips. However, in the short term you could lose money.



Take **too little risk** in the **long term** and you may not have enough money for your needs. A low-risk investment may leave you with less money over the long term if the interest rate is less than inflation. But your savings would be safer in the short term.

Source: Morningstar, Datastream and M&G Statistics: FTSE All-Share Index; FTA British Government Fixed All Stocks; UK Savings 2500+ (NX); IPD Index.

Past performance is not a guide to future performance.

What **common types** of risk are there?

Capital risk
You may not get back your initial investment amount.

Credit risk
A company or government failing to make payments on a bond.

Currency risk
You invest overseas and need to convert your money back into sterling.

Inflation risk
Inflation may erode the value of your investment over time.

Interest rate risk
Changes may affect your investment.

Market risk
The market collapses from perhaps a major economic shock or institutional failure.

Different types of risk may affect investments to varying degrees.

Managing risk

A **diversified portfolio** could be more stable as the market rises and falls. Combining bonds, equities and property may reduce the impact of shocks.

Investing **the same amount over the long term on a regular basis** smoothes out the highs and lows in price movements.

Invest through a **managed fund** and you won't invest alone – you'll pool your money with others and spread it across a wider range of investments.

The value of investments will fluctuate, which will cause fund prices to fall as well as rise and you may not get back the original amount you invested.

We are unable to give financial advice. If you are unsure about the suitability of your investment, speak to your financial adviser.

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