



# E Guide

## The Risk Guide

(5 page sample)

**FinanceCube**  
Academy



Author  
Lasse Meholm  
CEO FinanceCube



General .....	3
Risk and age .....	4
Types of risk .....	5
Market Risk .....	5
Operational Risk.....	<b>Error! Bookmark not defined.</b>
Credit Risk.....	<b>Error! Bookmark not defined.</b>
Reputation Risk.....	<b>Error! Bookmark not defined.</b>
Risk of long living .....	<b>Error! Bookmark not defined.</b>
Management Risk .....	<b>Error! Bookmark not defined.</b>
Volatility .....	<b>Error! Bookmark not defined.</b>
Volatility formulae.....	<b>Error! Bookmark not defined.</b>
A deep example .....	<b>Error! Bookmark not defined.</b>
Correlation .....	<b>Error! Bookmark not defined.</b>
Correlation examples .....	<b>Error! Bookmark not defined.</b>
Diversified portfolios.....	<b>Error! Bookmark not defined.</b>
Efficient Frontier.....	<b>Error! Bookmark not defined.</b>
Risk adjusted Performance.....	<b>Error! Bookmark not defined.</b>
Sharps Ratio.....	<b>Error! Bookmark not defined.</b>
Treyners Ratio.....	<b>Error! Bookmark not defined.</b>
Information Ratio (IR) .....	<b>Error! Bookmark not defined.</b>
Jensen's Alpha .....	<b>Error! Bookmark not defined.</b>
Monte Carlo Simulations.....	<b>Error! Bookmark not defined.</b>
Value at Risk.....	<b>Error! Bookmark not defined.</b>
Basel II.....	<b>Error! Bookmark not defined.</b>
Stop Loss.....	<b>Error! Bookmark not defined.</b>
How to reduce risk in your portfolio.....	<b>Error! Bookmark not defined.</b>

## General

Wherever you are in the financial market, you are exposed to risk.

Currency rates, stock prices, the price of commodities and interest rates changes many times per second, 24 hours a day. This leads to change in value of mutual funds, unit trusts, your house and your pension.

**Risk and expected return are like Ying and Yang in the Asian philosophy.** Two counter values in balance. If you increase one of them, the other most often follow to bring back the balance. If you for example reduce the risk, you will also reduce the expected return.



## Risk and age

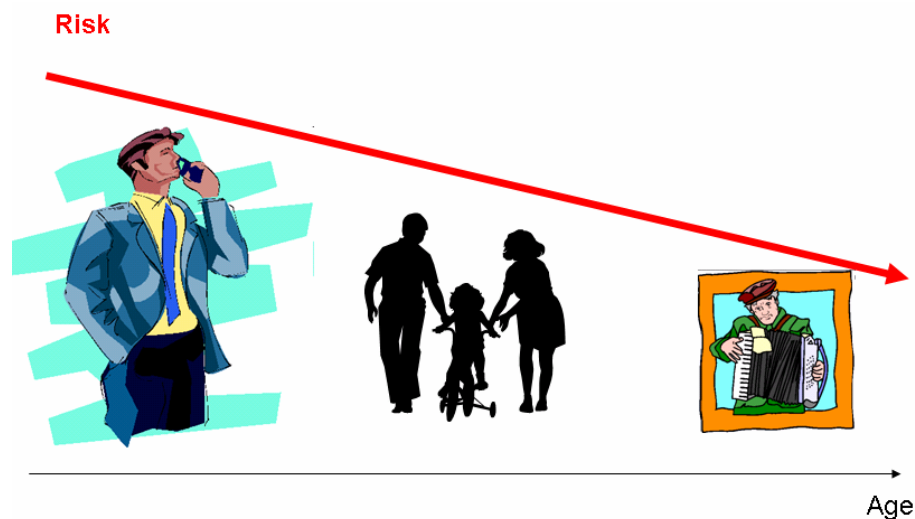
If you are planning a pension plan for yourself, or a client, you have to take into consideration the age of the investor. Some countries have a good state pension system that secures a high income after retirement, while some other countries do not have any state pension at all. Another risk is that the system may change after the person retires.

Let say you start the pension plan when you are 25, just out from the university and started to work. The salary amount is OK. If you do make a mistake and loose all your pension money, you still have many years to recover and also you would not have managed to save too much before you lost it.



The image from the "Economist"

When you are older you will have saved a lot more, and if you make a mistake or loose money, you are not in a situation to recover so easily. This means your risk should be close to zero when you have only a few years left to retire.



## Types of risk

There are a large number of types of risk, may be as many as 50, but we would like to mention only a few here.

### **Market Risk**

All financial markets are moving every second of the day. This applies to currency rates, interest rates, equity rates, housing price etc. There is a risk that the market will move down today, tomorrow, and next week or later this year. We call this the market risk, simply the risk or possibility of the market moving down.



This is the graph of Dow Jones Industrial Index from 2002 to 2006.

Some investments are moving more than the index and some are moving less than the index, but almost all investments are moving during the day or year.



