RO2 LEARNING OUTCOME 5

Chapter 6
Risk
(Learning outcome 5)

SYSTEMATIC RISK OR MARKET RISK

'The risk that there might be events that lead to a change in expected returns in the stock market generally'.

OTHER RISKS

- ✓ Interest rate risk
- ✓ Inflation risk
- ✓ Currency risk
- ✓ Political risk
- ✓ Regulatory risk

SHORTFALL RISK CHOICES

- ✓ Reducing the target amount
- ✓ Increasing the amount saved or invested
- ✓ Saving or investing for a longer term

NON-SYSTEMATIC RISK OR INVESTMENT SPECIFIC RISK

'The risk that there might be a change in expected returns as a result of some event or circumstance specific to a particular company or industry sector'

OPERATIONAL RISK

- ✓ Settlement or counterparty risk
- ✓ Fraud
- ✓ Misrepresentation
- ✓ Systems failure
- ✓ Cyber attacks
- ✓ Trading
- ✓ Staff errors
- ✓ Regulatory risk

CAPITAL RISKS

- ✓ Credit risk
- ✓ Liquidity risk
- ✓ Event risk
- ✓ Gearing risk

KEY FACTORS OF INTEREST RATE CHANGES

- ✓ The economic cycle
- ✓ Government fiscal policy
- ✓ Central bank monetary policy
- ✓ Inflation expectations
- ✓ Preference for liquid securities

CREDIT RISK

- ✓ Default risk
- ✓ Downgrade risk
- ✓ Credit spread risk
- ✓ Counterparty risk
- ✓ Bail-in risk

INCOME RISK

- ✓ Cash deposit income
- ✓ Bond income
- ✓ Dividend income
- ✓ Property income