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# Systematic Risk

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## What is Systematic Risk?

Systematic risk refers to the risk inherent to the entire market or [market segment](#). Systematic risk, also known as “undiversifiable risk,” “volatility” or “market risk,” affects the overall market, not just a particular stock or industry. This type of risk is both unpredictable and impossible to completely avoid. It cannot be mitigated through diversification, only through hedging or by using the correct [asset allocation](#) strategy.

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## Understanding Systematic Risk

Systematic risk underlies other investment risks, such as industry risk. If an investor has placed too much emphasis on cybersecurity stocks, for example, it is possible to diversify by investing in a range of stocks in other sectors, such as healthcare and infrastructure. Systematic risk, however, incorporates interest rate changes, inflation, recessions and wars, among other major changes. Shifts in these domains can affect the entire market and cannot be mitigated by changing around positions within a portfolio of public equities.

### KEY TAKEAWAYS

- Systematic risk refers to risk affecting the entirety of the market or a segment thereof.
- This type of risk is distinguished from unsystematic risk, which impacts a specific industry or security.
- Systematic risk is largely unpredictable and generally viewed as difficult to avoid.

To help manage systematic risk, investors should ensure that their portfolios include a variety of asset classes, such as fixed income, cash and real estate, each of which will react differently in the event of a major systemic change. An increase in [interest rates](#), for example, will make some new-issue bonds more valuable, while causing some company stocks to decrease in price as investors perceive executive teams to be cutting back on spending. In the event of an interest rate rise, ensuring that a portfolio incorporates ample income-generating securities will mitigate the loss of value in some equities.

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specific industry or security.

## Systematic Risk and the Great Recession

[The Great Recession](#) also provides an example of systematic risk. Anyone who was invested in the market in 2008 saw the values of their investments change drastically from this economic event. The Great Recession affected asset classes in different ways, as riskier securities (e.g., those that were more [leveraged](#)) were sold off in large quantities, while simpler assets, such as U.S. Treasury bonds, became more valuable.

If you want to know how much systematic risk a particular security, fund or [portfolio](#) has, [you can look at its beta](#), which measures how volatile that investment is compared to the overall market. A beta of greater than 1 means the investment has more systematic risk than the market, while less than 1 means less systematic risk than the market. A beta equal to one means the investment carries the same systematic risk as the market.

The opposite of systematic risk, [unsystematic risk](#), affects a very specific group of securities or an individual security. Unsystematic risk can be mitigated through [diversification](#).

## Related Terms

### Market Risk Definition

Market risk is the possibility of an investor experiencing losses due to factors that affect the overall performance of the financial markets. [more](#)

### Risk

Risk takes on many forms but is broadly categorized as the chance an outcome or investment's actual return will differ from the expected outcome or return. [more](#)

### Hey, What's Making That Stock Go Crazy? Could Be Idiosyncratic Risk

Idiosyncratic risk refers to the risk inherent in an individual asset or asset group, due to the unique characteristics of that asset. Idiosyncratic risk can be mitigated through diversification in an investment portfolio. [more](#)

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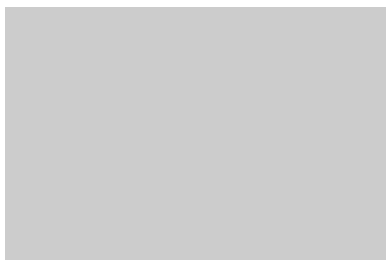
mitigation of uncertainty in investment decisions. Risk management occurs anytime an investor or fund manager analyzes and attempts to quantify the potential for losses in an investment. [more](#)

## Company Risk

Company risk is the financial uncertainty faced by an investor who holds securities in a specific firm. Learn strategies for how it can be mitigated. [more](#)

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