STEP **4**

Know your risk tolerance

An important part of your financial planning is to evaluate your tolerance for risks.

Risk is the potential threat that may impact the expected outcome of your investments. Investments that deliver potentially higher returns are usually accompanied by higher risks. Are you willing to accept potential losses in exchange for greater potential gains?

Risk tolerance can be classified into five categories. Which one best describes you?

Conservative	Not willing to take up risk and see loss in investment and may rather forgo potential gains.
Moderately cautious	May be willing to accept a limited amount of risks to improve their long-term investment returns, but still try to avoid large short-term fluctuations.
Balanced	Weighting the risks and returns, balanced investors recognise that taking on a measured amount of risks will improve the probability of achieving their long-term financial goals.
Moderately aggressive	By taking on greater investment risks, moderately aggressive investors expect to see their investment portfolio outperform the market; and do not mind accepting a bit more risk or loss than the market bears.
Aggressive	Ready to take on higher levels of risks in order to substantially outperform the markets.

Understand investment risks

☐ **Market risk**	Market risk, also known as systematic risk, usually refers to that type of risk associated to a specific market. It stems from the economic, geographical, political, social or other factors of that market.
☐ **Interest rate risk**	Shifts in interest rates affect a wide range of investments – including bank deposits, stocks, bonds and property.
☐ **Business risk**	A company in which you invest may suffer a severe decline in profits or even go bankrupt.
☐ **Corporate misgovernance**	A company you invest in may conduct a corporate transaction that you deem detrimental to shareholders' interests.
☐ **Currency risk**	Overseas investments can be badly hit if currencies suddenly turn against you.
☐ **Inflation risk**	Increases in the price level can eat away the value of your capital and reduce your purchasing power.
☐ **Liquidity risk**	Tying up investments in products which are hard to liquidate, or carry heavy costs for liquidation, can prove a burden.
☐ **Policy risk**	Changes in government policies and regulations could have profound impact on your investments.
☐ **Scams risk**	The best way to keep away from investment scams is by using common sense and taking precautions. Avoid get-rich-quick schemes.
☐ **Broker failure**	If your broker defaults or goes bankrupt, you may find your investments at risk. It is best to deal with authorised and licensed brokers.