RISK - uncertainty of ACTUAL / REALISED return VERSUS EXPECTED RETURN

- MACRO RISKS
- MICRO RISKS

MACRO RISKS - MAJOR RISK FACTORS:

- Inflation risk: uncertaint of returns due to:

- Interest rate risk: uncertainty of returns due to:

- Market risk: uncertainty of returns due to

MICRO RISKS - MAJOR FACTORS.

- ISSUER RISK a.k.a specific risks
  - BUSINESS RISK: stems from
  - FINANCIAL RISK: stems from

- SECTOR RISKS a.k.a industry risks

QUANTIFYING RISK: many possible approaches, e.g.:

RANGE = HIGHEST RETURN MINUS LOWEST RETURN

→ indicator of: return uncertainty

NARROW RANGE

WIDE RANGE

! HIGHER VARIABILITY = GREATER POTENTIAL for LOSSES

→ investors require greater compensation for ↗ risk

IF investment offers HIGHER YIELD without additional RISK

IF investment offers LOWER YIELD despite additional RISK

↑ Mechanisms for maintaining