

WHAT IS RISK?

Before you can become an informed investor, you must understand that every investment carries risk. As an investor, you should determine your risk tolerance—are you a conservative, moderate or speculative investor? All stocks carry some risk and the more information you have about a stock's risk level, the better you can determine whether it is compatible with your personal risk tolerance.

Conservative Risk (Low)

Low-risk investments carry limited risk on secure stocks and fixed income investments. The value or price of the stock does not change quickly. Low-risk investments usually pay the lowest yields but are far less volatile than many other types of investments. While low-risk investments do not offer high returns, they do offer stability and security for those who cannot afford to lose money or would just like to avoid as much risk as possible. Expect low-risk investments to pay out yields of 1 to 5 percent annually.

Moderate Risk

Moderate risk investments are perfect for those who are interested in investing for the long-term and would like to earn moderate yields. Moderate risk investments usually use the power of compound interest and time to create a nest egg from 10 to 40 years with regular savings. Growth stocks—stocks that grow faster and higher (value and price) than stocks of other companies with similar sales and earnings—are considered to be of moderate risk. Moderate risk investments can return yields of 5 to 12 percent.

Speculative Risk (High)

High-risk investments are those investments that if you are lucky can return huge yields; however, the downturn is that they can be extremely volatile. In many cases instead of getting rich off your investment, you find yourself losing some or all of it. These include stocks that carry major risks on investments with unpredictable results but the potential to earn very high returns. High-risk investments include penny stocks, international stocks and often new companies on the market. Some high-risk investments, if considered a winner, can return yields that range from 10 to 30 percent++.