

Market risk

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This risk everyone knows, even those that believe what they read in the papers each day. In a financial sense it means volatility, or more technically the standard deviation of returns. It is not a problem for long term investors (unless they are geared and margin calls could be an issue), mainly it is a short term concern.

It is because of volatility that short term investors should stay out of the stock market. The markets are not rational in their pricing, the insitutional traders buy and sell on news and rumours, causing waves that get hordes of technical analysts into the fray to exaggerate the price swings. No matter what the fundamental outlook of a company, unless you happen to have inside information and know in advance what an upcoming announcement will be, you can't really predict the market in the short term, it is too hard. Stay out unless you are more intending to speculate on prices - in which case knock yourself out.

Market risk and mismatch risk are intimately linked, a good understanding of either one will help you understand the other.