

How do I know what are the risks involved in my investment?

Investors should read carefully the offering document before investing because it is a legal document that provides investors with details of a fund's objectives, investment strategies, fees and charges and, most importantly, the risk factors of the fund.

The SFC requires all authorized products to have accurate and sufficient risk disclosures in their offering documents. Including a prominent disclosure of the key risks involved in a fund, in a few key bullets within a window on the front cover or first page of the offering document. And, under the SFC Advertising Guidelines, advertisements for a fund should be clear, fair and present a balanced picture of the fund with adequate risk disclosures. All these measures are to ensure investors can clearly understand the potential risks involve in the funds before making any investment decision.

What are the common ways to measure risks?

Risk is a trade off when seeking returns. There are many ways to measure risk to a fund's performance. Standard deviation, risk-adjusted return and value at risk are the common means.

Standard deviation is a risk measurement that indicates the difference between actual and average returns within a specific period of time (usually at least three years). The higher the standard deviation measure is, the more volatile the fund will be, which means the investment involves higher risk. If the returns remain steady and the standard deviation is smaller, it means the investment is less volatile and hence is relatively less risky.

Risk-adjusted return is a concept that shows an investment's return by measuring how much risk is involved in producing that return, which is generally expressed as a number or rating. The more return per unit of risk, the better.

Value at Risk (VaR) refers to the maximum expected loss of a specific portfolio due to market movement over a given holding period and probability level, assuming that the portfolio remains unchanged and the market is normal. For example, if we expect there is a 95% probability that the loss of the portfolio will not exceed \$500,000 by the end of the coming 5 days, the \$500,000 is the VaR of the portfolio. In other words, we expect there is a 5% probability that the loss will exceed \$500,000.

Other means to measure risks include Sharpe ratio, relative volatility, beta and R^2 , etc.

Risks evolve over time. How do investors know if their investments are still suitable for them?

First of all, all investments involve risk and no single investment can be absolutely safe.

The complex nature of investment vehicles and the increasing intricacy of financial markets have made the assessment of risk much more difficult today. Risk changes and products considered relatively low-risk at the time of purchase might see its risks increase as market conditions change. Aside from reading the offering document at the point of fund subscription, investors should keep track of the fund fact sheets and any corporate action announcements of the fund to ensure they stay on top of their investment. And investors should regularly assess whether their investment strategy and risk exposure match their investment objectives; and note that historical data may not represent future performance. Nevertheless, investors should immediately consult with the intermediary which sell them the fund or their investment consultant should they have any questions.

(Investment involves risk. Please refer to the offering document for further details including the risk factors.)