Investment Risk: Label Market, Credit, Liquidity and Currency

Description

Before comparing projected returns, label the productâ??s market, credit, liquidity and currency risks. The four can move independently: a bond price can fall without issuer default, a solvent asset can be hard to sell, and a foreign investment can gain locally while losing after conversion to Singapore dollars.

The practical task is to separate four major risk channels and identify which one can damage the investorâ??s actual goal. A sound decision separates the controlling condition from convenience, then records the evidence before money, travel, work or a deadline makes the choice harder to reverse.

Match the decision to the situation

Money is needed within two years

Prioritise liquidity and downside stability. Confirm the condition before treating that route as settled.

The issuer may fail

Assess credit exposure and recovery, not only yield. Confirm the condition before treating that route as settled.

The asset is priced in another currency

Model the Singapore-dollar outcome. Confirm the condition before treating that route as settled.

The portfolio is concentrated

Diversify by asset, issuer, sector and geography where appropriate. Confirm the condition before treating that route as settled.

Name market risk

MoneySense managing investment risk states the controlling point used here: Investors should distinguish market, credit, liquidity and currency risk and align asset allocation with capacity for loss. Prices can fall because of rates, earnings, sentiment or broad market moves. Estimate the loss from a realistic price decline.

For name market risk, this becomes consequential when â??Money is needed within two yearsâ?• applies. The next move is to prioritise liquidity and downside stability, but only after the underlying condition has been verified and dated.

Name credit risk

An issuer or counterparty may fail to meet obligations. Check who owes the money and what ranks ahead of you.

For name credit risk, record the result as confirmed, pending or not applicable. If it is still pending, do not let a convenient assumption close the gap; identify the person or service that can resolve it and the last safe time to ask.

Name liquidity risk

A quoted value is not useful if the asset cannot be sold near that price when cash is needed. Check market depth, redemption terms and gates.

For name liquidity risk, this becomes consequential when â??The asset is priced in another currencyâ?• applies. The next move is to model the Singapore-dollar outcome, but only after the underlying condition has been verified and dated.

Name currency risk

MoneySense types of investments states the controlling point used here: Shares, bonds, funds and other products carry different return, liquidity and loss characteristics. Foreign returns translate through the exchange rate. Calculate both local and Singapore-dollar outcomes.

For name currency risk, record the result as confirmed, pending or not applicable. If it is still pending, do not let a convenient assumption close the gap; identify the person or service that can resolve it and the last safe time to ask.

Connect risk to the goal

The same volatility is less tolerable when school fees or a home payment is near. Put a date and minimum amount beside the investment.

For connect risk to the goal, this becomes consequential when â??Money is needed within two yearsâ?• applies. The next move is to prioritise liquidity and downside stability, but only after the underlying condition has been verified and dated.

Avoid one-number comfort

A product label or risk score may compress several exposures. Keep the four risk rows visible in the decision file.

For avoid one-number comfort, record the result as confirmed, pending or not applicable. If it is still pending, do not let a convenient assumption close the gap; identify the person or service that can resolve it and the last safe time to ask.

A four-risk matrix linking each exposure to evidence and mitigation

Start with Name market risk, then test Name credit risk and Name liquidity risk. Show the input, the condition applied and the resulting action in separate columns. If a number is calculated, retain the arithmetic; if a route is selected, retain the branch that ruled out the alternative.

Input or condition	Evidence to keep	Decision it changes
Money is needed within two years	Estimate the loss from a realistic price decline.	Prioritise liquidity and downside stability
The issuer may fail	Check who owes the money and what ranks ahead of you.	Assess credit exposure and recovery, not only yield
The asset is priced in another currency	Check market depth, redemption terms and gates.	Model the Singapore-dollar outcome

A Singapore-dollar conversion example separating asset return from currency movement

Use Name currency risk, Connect risk to the goal and Avoid one-number comfort as the verification pass. Check the live condition, note the time checked and keep the response or document that supports the conclusion. Unknowns remain visible until resolved; they should not be replaced by a guessed price, deadline, eligibility result, service level or operating detail.

Worked example

A foreign bond gains 4 per cent in its home currency, but that currency falls 7 per cent against the Singapore dollar. Before fees, the Singapore-dollar result is roughly 1.04 multiplied by 0.93 minus 1, or about minus 3.3 per cent. The bond did not need to default for the investor to lose money.

The example is a calculation or decision model, not a guarantee. Change one material input at a time, preserve the original inputs and recheck the live authority or operator page before relying on the result.

Before you commit

1. Prioritise liquidity and downside stability.
2. Assess credit exposure and recovery, not only yield.
3. Model the Singapore-dollar outcome.
4. Diversify by asset, issuer, sector and geography where appropriate.
5. Save the date and evidence used for every material condition.
6. Stop and ask the controlling authority, operator or qualified professional if a disputed fact changes the outcome.

Separate product classification, objective, time horizon, capacity for loss, liquidity need and total cost. A product can be permitted for sale and still be unsuitable for the person, amount or holding period.

Limits

Examples are simplified and do not predict returns. Product documents, market conditions and personal circumstances determine the actual risk.

For an adjacent live guide, see CPF Investment Scheme TER Caps: What Fund Investors Should Notice. If the next decision shifts to a second practical issue, CPF Interest: How Monthly Computation Changes Timing provides the relevant progression without duplicating this primary intent.

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