Hello, it’s Hoi Ching again! We’ll come across different financial instruments on our wealth journey. Regardless of their risk levels, we should always plan our investments by keeping risk management in mind.

Similarly, crossing a river requires analytical and decision-making skills. In this river crossing game, our mission is to understand the risks and features of multiple financial instruments and pick the most suitable tools. Let’s get started!

This path of stepping stones seems to be fairly secure. That’s because it was laid by skilled workers after a complex load of calculations.

The same goes with investing in a unit trust, an investment scheme managed by professional fund managers who are here to lay down investment paths with varying levels of risk for you.

This investment solution is well-managed with a diversified mix of fund assets across multiple sectors such as tech, the new economy market and many more. Since a unit trust involves a diversified portfolio managed by experts, the approach offers a more diversified risk allocation. However, overall risk will vary between different investment schemes as certain sectors could carry inherently higher risk, while others involve lower risk levels.

Apart from taking a path made of stepping stones, here’s the second river-crossing strategy: by raft.

Picking a sturdy raft takes you halfway to success and the same goes with bond investments! Bonds are debt instruments issued by corporations or governments to raise capital. In return, issuers will repay bondholders their principal and interest when the bond matures.

Choosing the right bond is always critical. Since bond investment involves credit risk, redeeming bonds prior to their maturity dates may mean incurring investment losses. In the event the bond issuer fails to repay interest or the principal at maturity, bondholders will have to bear default risk and also suffer from investment losses.

Investors should check the bond’s credit rating before investing. While government bonds are generally lower risk, they’re also relatively investments that carry lower returns.

Should we jump over these floating boards to cross the river? The risk level of this strategy will vary according to the condition of the floating boards and the river currents. If you’re jumping across a fast-flowing river on damaged boards, your risk level will likely increase.

Similarly, the risk of investing in stocks and securities depends on a company’s internal business factors and external market conditions. Internal factors may include a company’s management and its technical and production capabilities, while external market conditions are mostly associated with the political and macro environment.

Jumping across a river can be nerve-wrecking. Instead, you could consider building a bridge where risk levels largely depend on the materials used to construct the bridge.

Investing in the foreign exchange (FX) market is a very similar experience as risk levels will vary from instrument to instrument. Just like building a bridge out of stone, basic FX trading is a relatively safe investment option.

FX margin trading is akin to building a log bridge as it requires less time and resources, but at a cost of higher risk.

What's more, the return of FX transactions is closely linked to FX rates. Since exchange rates reflect the global economic and political environment, the return of FX investments will likely be impacted by events such as domestic elections or political movements.

Congratulations! Mission cleared!

With a range of investment tools to choose from, investors should always understand the main features and risks associated with different instruments before making an investment decision! See you at the next challenge!