What is investment risk?
Is it the potential loss of principal on an investment?
Is it failing to match or beat the returns posted by an important market index?
Is it receiving highly volatile returns that fluctuate greatly over time?
Is it all these things?
There are several different methods used to calculate the risk offered by an investment.
These methods can be very technical, often using complex mathematical formulas and terms such as beta, standard deviation, and co-variance.
What you need to understand is that there are many different types of risks.
And these risks can adversely affect your investments.
Understanding stockholder risks can help you determine whether, or to what extent, stocks are appropriate for your portfolio.
The first stockholder risk is market risk.
As you know, stocks are volatile and may fluctuate with market changes.
For example, when the stock market declines, it tends to pull down the value of most stocks, regardless of the strength of the underlying companies.
The second is economic risk.
Slower economic growth can cause the price of some investments to decline.
For instance, certain industries, such as auto makers and steel plants, cannot easily cut costs during a recession.
As a result, the price of their stock can decline when the economy slows down.
There are also company-specific risks that may affect share prices.
For example, major legal action against a company can affect its stock price.
Or new technology can make a company's principal product obsolete.
Although bonds are generally less volatile than stocks, they also have some risks.
First, bonds are subject to default risk, or the risk that an issuer may not be able to pay the interest or principal when it comes due.
The value of a bond may also suffer if the issuer's credit rating declines while the bond is outstanding.
Like stocks, bond values may fluctuate with changes in market conditions.
Finally, bonds are subject to interest-rate risk.
Generally, bond values move in the opposite direction of interest rates.
In other words, when interest rates rise, the market value of all outstanding bonds typically falls.
That's because a bond issued yesterday with a 5 percent yield is worth less to a potential buyer than a bond issued today at 6 percent.
Assessing your risk tolerance is a major consideration of a sound investment strategy.
If you have a high tolerance for risk, you may want a higher concentration of growth investments in your portfolio, such as stocks.
If you have a low tolerance for risk and are more concerned with preserving your principal, you may want lower-risk investments in your portfolio, such as bonds or cash alternatives.
Generally, the more potential for growth offered by an investment the more risk it carries.

The investment return and principal value of stocks and bonds will fluctuate with changes in market conditions.
Shares, when sold, may be worth more or less than their original cost.
Bonds redeemed prior to maturity may be worth more or less than the original amount invested.
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