

## **Step 1: Identify the Types of Downside Risk**

### **Market Risk**

Description: Risks that affect the entire market.

Example: Interest rate changes, geopolitical events.

### **Specific Risk**

Description: Risks related to a specific asset or company.

Example: Company earnings reports, leadership changes.

### **Liquidity Risk**

Description: The risk of being unable to buy or sell investments quickly.

Example: Owning a large stake in a thinly traded stock.

### **Credit Risk**

Description: The risk that a borrower may default.

Example: Owning bonds from a company nearing bankruptcy.

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## **Step 2: Measure the Downside Risk**

### **Standard Deviation**

Usage: Measures the average variability of returns.

Tools: Most brokerage platforms provide this information, or you can calculate it yourself using historical data.

### **Value at Risk (VaR)**

Usage: Estimates the maximum potential loss an investment portfolio could face.

Tools: Financial software and risk modeling platforms offer VaR calculation.

### **Drawdown**

Usage: Measures the decline from a historical peak.

Tools: Track drawdown manually by monitoring the highest and lowest points your investment reaches.

### **Beta**

Usage: Compares the volatility of an asset to a market index.

Tools: Beta is commonly provided on financial news websites and trading platforms.

### **Step 3: Implement Risk Management Strategies**

#### **Diversification**

Action: Allocate assets across different investment types.

Guideline: No single asset should make up more than 5-10% of your portfolio.

#### **Hedging**

Action: Use derivatives like options or futures to offset potential losses.

Guideline: Hedge only the portions of your portfolio that have the highest Downside Risk.

#### **Stop-Loss Orders**

Action: Set a predetermined selling price.

Guideline: Set stop-losses at a price that aligns with your risk tolerance but avoids premature selling due to normal market volatility.

#### **Asset Allocation and Rebalancing**

Action: Adjust your portfolio to maintain your desired risk profile.

Guideline: Rebalance your portfolio at least annually or when your asset allocation deviates by 5% or more.

## **Step 4: Monitor and Update**

### **Daily/Weekly Checks**

Action: Monitor portfolio performance and external news.

Guideline: Check daily for volatile investments and weekly for more stable assets.

### **Quarterly Review**

Action: Review your overall portfolio performance and risk metrics.

Guideline: Re-assess and adjust your risk management strategies as needed.

### **Annual Update**

Action: Conduct a comprehensive review of your portfolio and strategy.

Guideline: Consult with financial advisors for a thorough analysis and adjustments to your strategy.

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