1. RISKS RELATING TO TRADING IN SHARES

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1.1. General about risk

Financial instruments normally provide a ***return*** in the form of a ***dividend*** (shares and fund units) or ***interest*** (interest-bearing instruments). In addition, the investor may make a gain or loss due to the price of the instrument rising or falling. The total return is the sum of the dividend/interest and change in the price of the instrument.

Naturally, the investor is seeking a total return that is positive, i.e. that produces a ***gain***. However, there is also a ***risk*** that the total return will be negative, i.e. that the investor will make a ***loss*** on the investment. The risk of loss varies between different instruments. In an investment context, the word risk is often used to express both the risk of loss and the opportunity for a gain. In the description below, however, the word risk is used solely to designate the risk of loss.

There are various ways of investing in financial instruments in order to reduce the risk involved. It is normally better from a risk point of view to invest in several different financial instruments rather than a single one or only a few financial instruments. These instruments should have characteristics so the ***risk is spread*** and they should not gather risks that may be triggered simultaneously. Investors can also invest in negative positions in instruments (short positions). Such investments will increase in value when the share price falls.

The client personally bears the risk of an investment falling in value and must therefore become acquainted with the terms and conditions, prospectuses, etc., governing trading in such instruments, and with the instruments' individual risks and characteristics. The client must also regularly monitor his/her investments in such instruments. This is the case even if the client has received personal advice in conjunction with the investment. Information for use in monitoring prices and thus changes in the value of the client's own investments may be obtained from price lists published in the media, e.g. newspapers and the internet and, in certain cases, by the investment firm itself.

The client must continuously assess the risk entailed by his investments. Many different factors may affect the value of financial instruments. The client should therefore become familiar with the factors that affect different instruments and be aware of the elements that may affect his own investments. The client should continuously assess his investment portfolio and, if necessary, make changes to adapt it to his investment strategy and risk profile.

1.2. Shares and share-related instruments

The ***price*** of a share is affected to a great extent by the ***company's prospects***. A share price may rise or fall depending on investor analyses and assessments of the company's opportunities to make ***future profits***. Future external developments in economic cycles, technology, legislation, competition, etc., may determine the demand for the company's products or services and, consequently, are also of fundamental importance to changes in the price of the company's shares.

The price may also be affected by the general **market risk** – the risk of a fall in prices in the market in general or in certain parts of the market where the client has invested. The price developments for financial instruments listed in ***foreign*** regulated markets may also affect price developments in Norway.

The price may also be influenced by developments in the sector to which the company belongs – **sector-specific risks** – the risk of a specific sector doing worse than expected or being altered by a negative event so that the financial instruments linked to companies in the sector in question may decline in value. The share price of a company is often affected by changes in the share price of other companies in the same industry/sector irrespective of the country to which the companies belong.

Other factors directly related to the company, such as changes in the company's management and organisation, disruptions to production, etc., may also affect the company's future ability to create profits in both the long- and short-term. This is called the **company-specific risk** – the risk of a company doing worse than expected or being affected by a negative event so that the financial instruments linked to the company may fall in value.

The ***framework conditions*** for industry, both national and international, may also affect share prices. Changes in tax and duty levels nationally and in other countries, affect the companies' cost levels and thus their competitive situation. International agreements between countries regarding customs charges and duties on the import and export of goods and services affect the competition situation that exists between companies and thus also share prices. Major events such as disasters, terrorist acts and wars may have huge effects on share prices on stock exchanges worldwide.

The ***general interest rate level*** (market interest rate) also plays a crucial role in share-price developments. If the market interest rate increases, investing in interest-bearing financial instruments may become more attractive so that the players transfer some of their investments from the stock market to the interest-rate market and the demand for shares falls. Normally, share prices fall when demand declines. In addition, share prices are negatively affected by an increase in the interest payable on the company's debts, since this worsens the company's future financial results.

Changes in **foreign-exchange rates** may also affect share prices. Companies whose revenues and costs are in different currencies will be especially vulnerable to such fluctuations. This applies to several Norwegian export companies. When investing in foreign markets, fluctuations in foreign-exchange rates will also affect the result after the purchase or sales amount has been converted into Norwegian krone (NOK).

In the worst case, a company may perform so poorly that it must be declared ***bankrupt*** (***in liquidation***). The shareholders have last priority for receiving any money from the entity in bankruptcy. The company's other debts must first be repaid in their entirety. This results in there only in exceptional cases being any assets left in the company after its debts have been paid, so that the shares in a bankrupt company are normally worthless.

Players in the financial market have different opinions on how share prices will develop, often because they place emphasis on different factors that affect share-price developments or expect the factors that influence the share price to develop in different ways. This means there are both buyers and sellers. If many investors share the same opinion regarding price trends, they will either buy, thereby creating pressure to buy, or sell, thereby creating pressure to sell. Prices increase when there is pressure to buy and fall when there is pressure to sell.

The turnover, i.e. the quantity of a particular share that is traded, affects the share price. In the event of a high turnover, the difference, also called the ***spread***, between the price the buyers are prepared to pay (bid price) and the price demanded by the sellers (ask price) is reduced. A share with a high turnover, where large amounts can be traded without any major effect on the price, enjoys good ***liquidity*** and is thus easy to buy or sell. Shares in companies listed in a generally used benchmark index in a regulated market are normally very liquid.