

2019. 11. 26

# Risk/Crisis Management⑦

## 危機管理論⑦

Another aspect of Risk Trade Off (TRO)(2)

Prof. Fumiaki Yasukawa

担当 安川文朗

# Agenda

illustrating structural aspect of Risk and return in finance.

Understanding risk trade-off in financial dealing

# Low risk – high return; is that myth?

You intend to invest your money to something....

You found the advertisement of financial investment in which **ZAR-JPY FX** will bring you higher return with lower risk; says

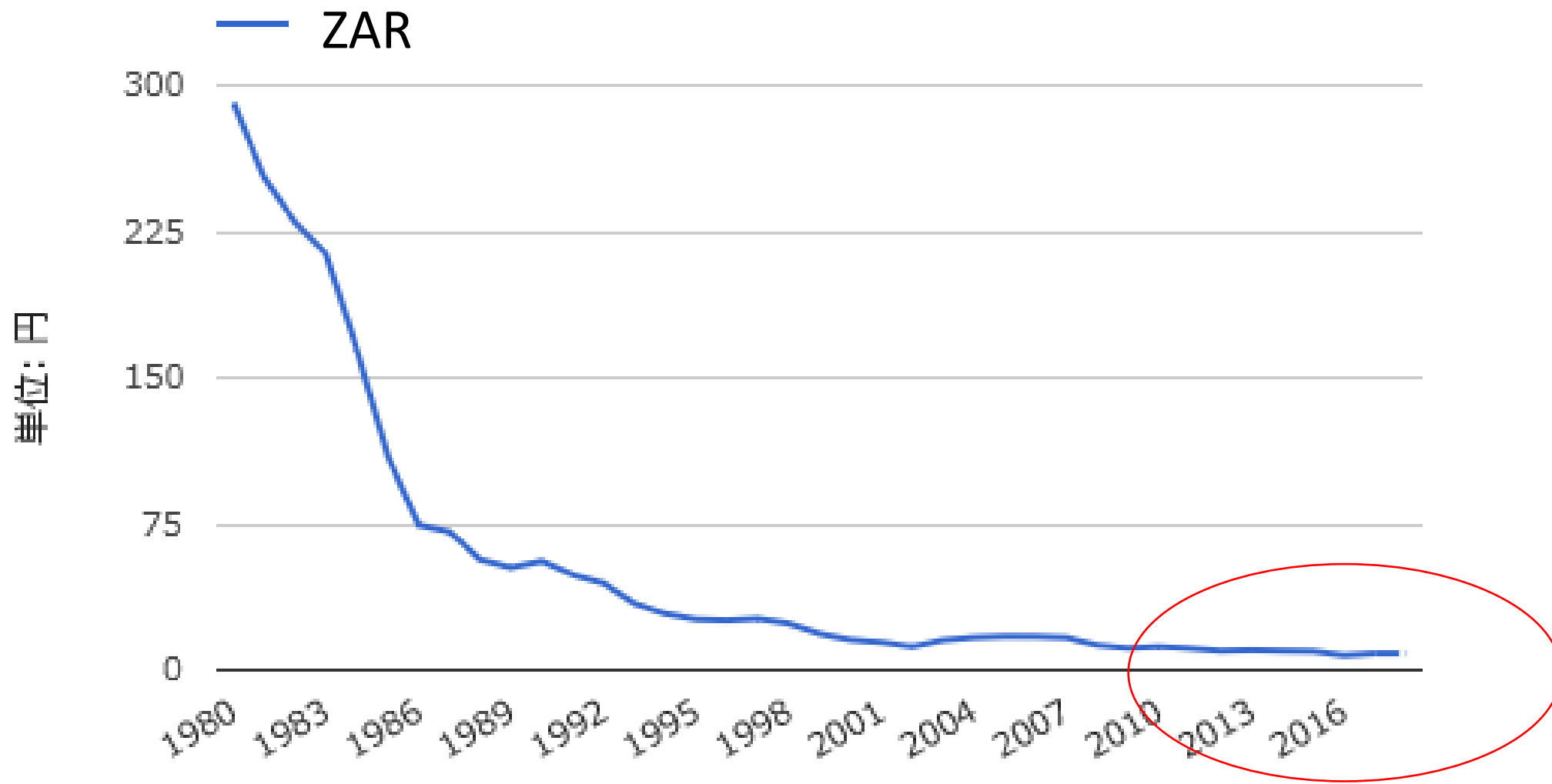
*since transitivity of ZAR exchange ratio is now very stable; between 9.4-9.7 range, you will be able to obtain over 5% earning from swap by ZAR-JPY FX per year with few foreign currency risk!*

ZAR = South Africa Rand      FX = foreign exchange

**Do you decide to invest your money into this?**

# Yearly transitivity of ZAR-JPY exchange rate

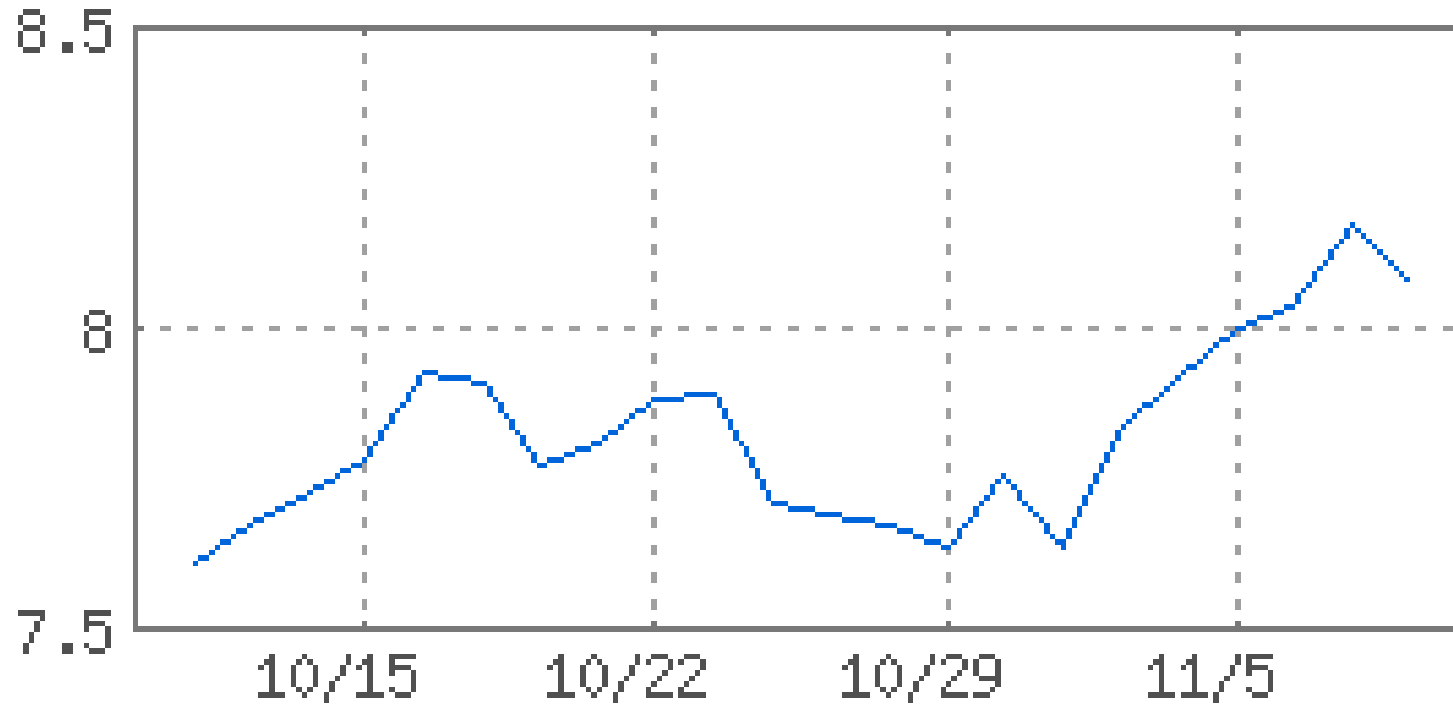
(1980~2018年)



ZARJPY=X

2018/11/8

(C)Yahoo! JAPAN



[http://ecodb.net/exec/trans\\_image.php?type=EXCHANGE&b=JPY&c1=ZAR&ym=Y](http://ecodb.net/exec/trans_image.php?type=EXCHANGE&b=JPY&c1=ZAR&ym=Y)

**In financial world, certain low risk yielding high profit does not feasible!**

# Is low risk –high return feasible?

If you invest \$10,000, you receive one year after

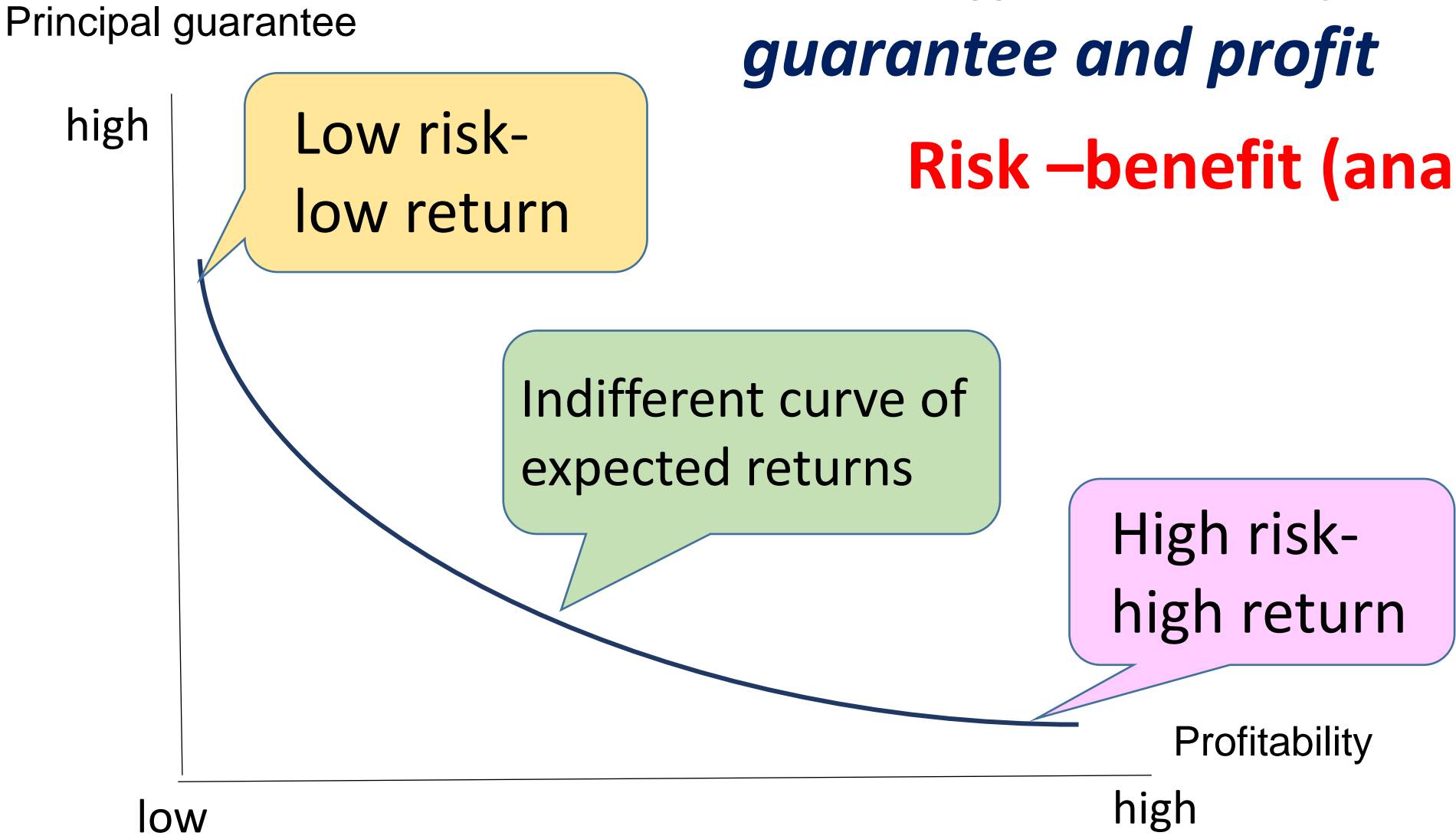
A. 100% probability return	\$10,050	0.5% markup
B. 5% probability return	\$15,000	50% markup
95% probability return	\$ 9,800	2% reduction
C. 95% probability return	\$10,500	5% markup
5% probability return	\$ 1,500	85% reduction



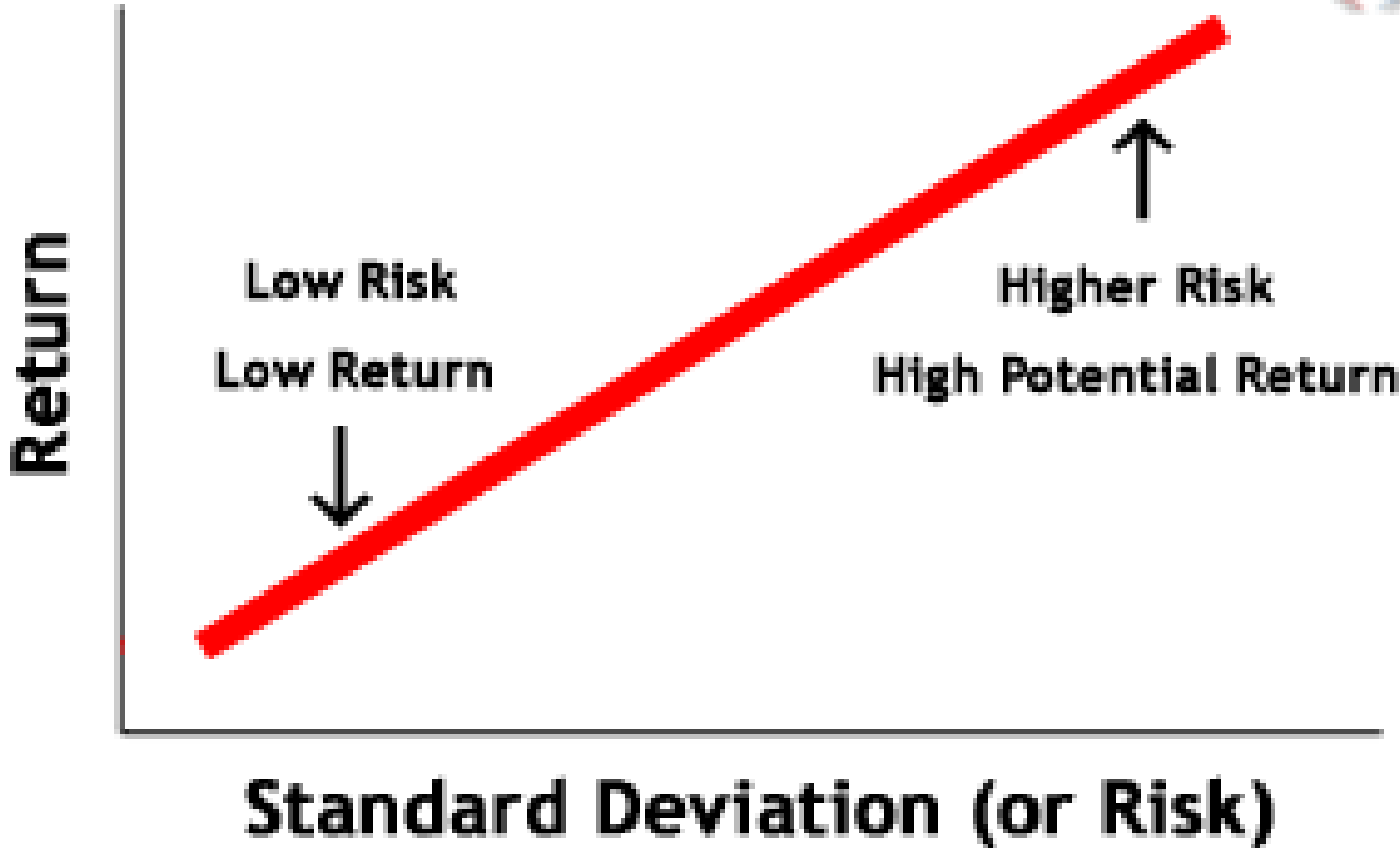
	A. \$10,050	×	100%		=	<b>\$10,050</b>			
<b>Expected return</b>	B. \$15,000	×	5%	+	\$9,800	×	95%	=	<b>\$10,060</b>
	C. \$10,500	×	95%	+	\$1,500	×	5%	=	<b>\$10,050</b>

# Trade-off between principal guarantee and profit

## Risk –benefit (analysis)



# Risk/Return Tradeoff



(Source: Investopedia.com)



# Investment Risk Pyramid

The dealing right to buy and sell something at predetermined price

**Summit**

- Options
- Futures
- Collectibles

High Risk

Sales transaction in which concurrent selling and buying is expected on some dates in future

**Middle**

- Real Estate
- Equity Mutual Funds
- Large/Small Cap Stocks
- High Income Bonds/Debt

the stock of publicly traded companies that have a market capitalization ranging from \$300 million to about \$2 billion

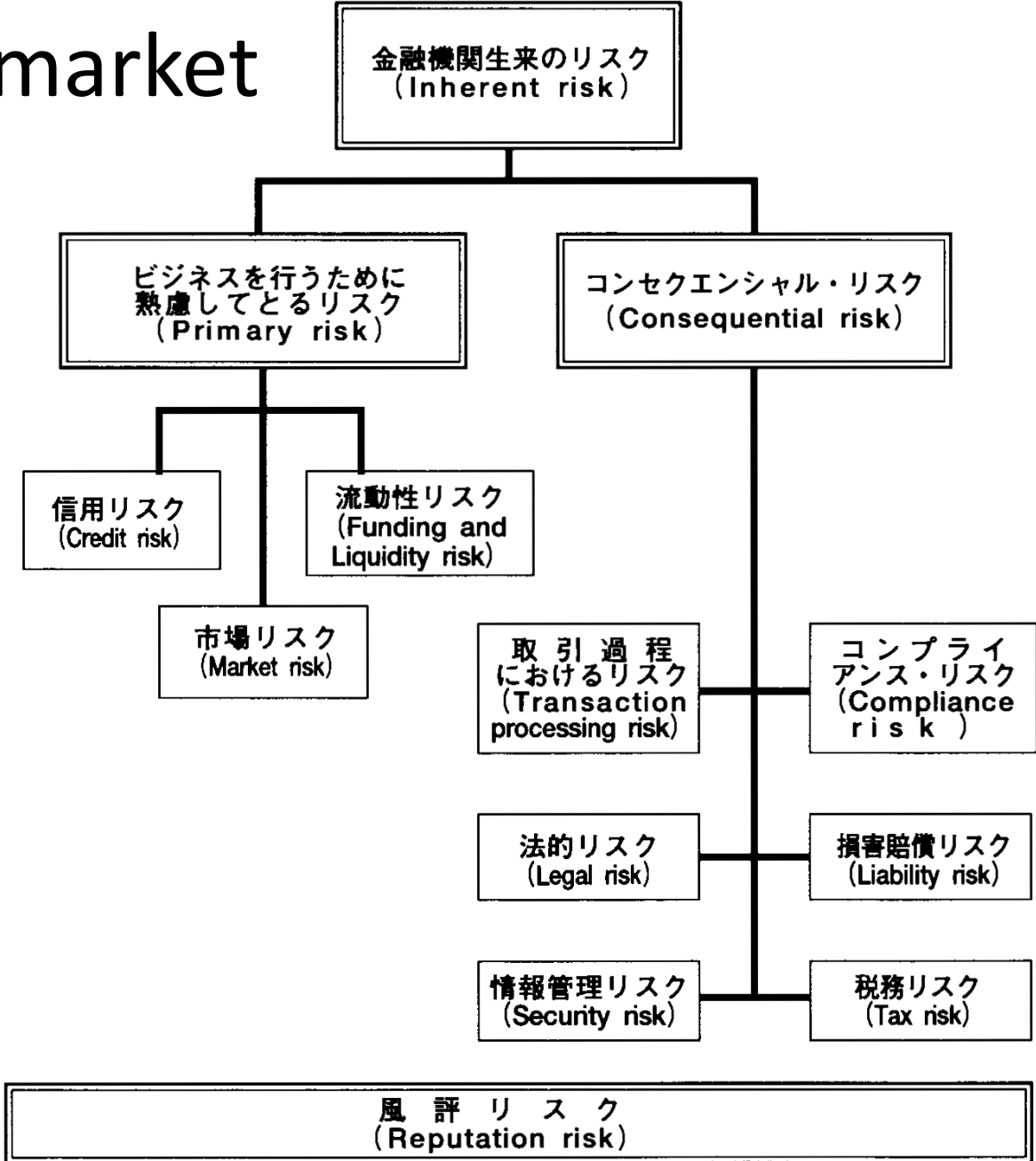
**Base**

- Government Bonds / Debt
- Money Market / Bank Accounts
- CDs, Notes, Bills, Bankers Accept.
- Cash and Cash Equivalents

**Low**

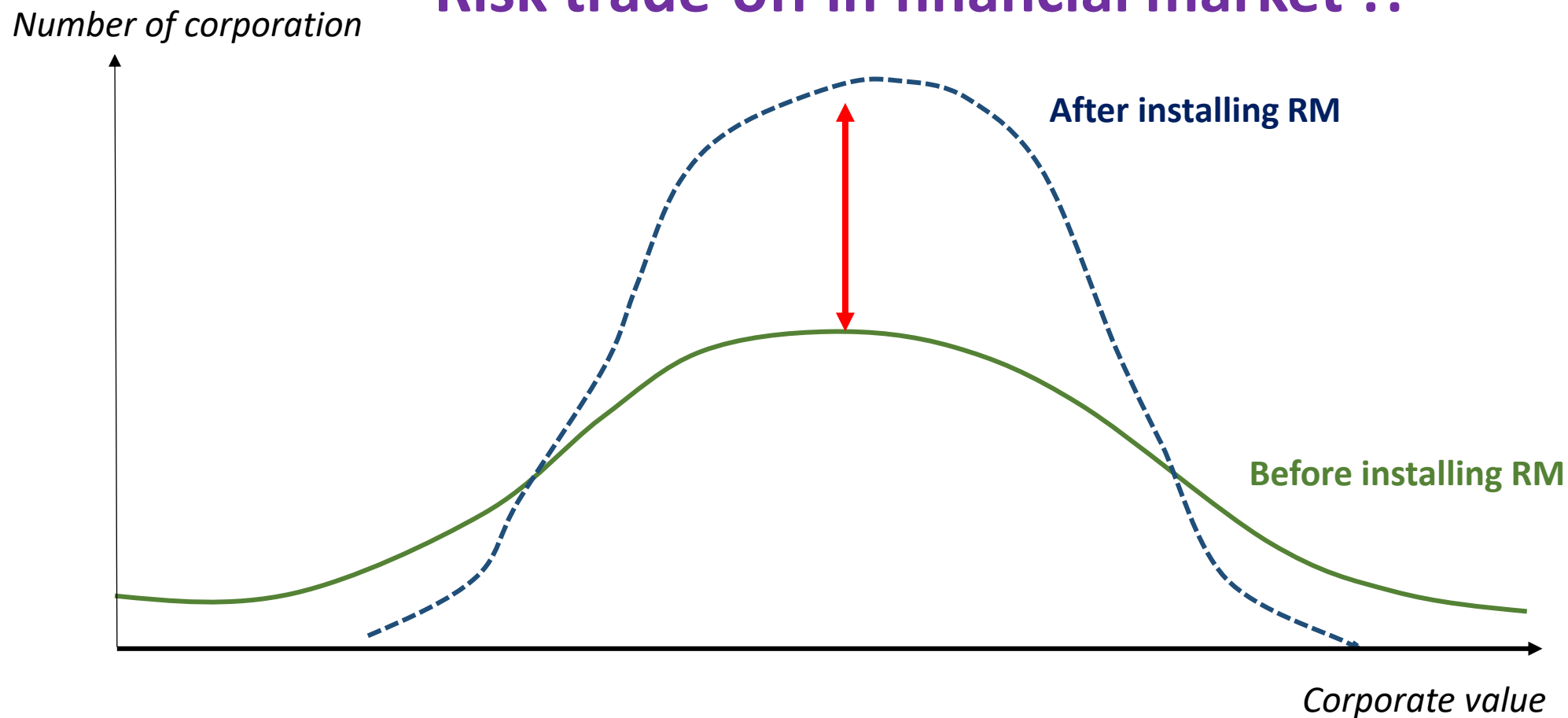
an investment vehicle made up of a pool of money collected from investors for investing in securities

# Risk in financial market



# Effect of risk management against financial risk

## Risk trade-off in financial market !?



**Risk hedge for shrinking variation in corporate value makes disparity among firm's success larger!**

# Optimal portfolio of asset

