



**Hedley**  
& Company

STOCKBROKERS LTD

## **Risk and Services**

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**Authorised and Regulated by the Financial Conduct Authority  
Member of the London Stock Exchange**



## Explanation of Risk

### YOUR RISKS WHEN INVESTING WITH HEDLEY & CO

Investment with a stockbroker has risk over and above that of a bank deposit and this explanation of risk is to help you decide if our services are suitable for you.

There are two possible rewards for purchasing investments from Hedley & Co;

- the income stream that some investments produce, through interest or dividends. This can provide you with a regular income; and
- the possible growth in the value of investments, known as capital growth. This reward is taken on the sale of an investment.

It is important that you understand that any returns you receive will be associated with risk. Risk means you may lose part or even all of your investment. Traditionally the financial services industry has assessed the risk of an investment by reference to various criteria.

At Hedley & Co we would classify risk into five broad categories;

- Low; Low-Medium; Medium; Medium-High; and High. These are expanded on below.

Hedley & Co, in order to give advice that is suitable, we will need to ascertain your objective in investing through us, whether you require income, growth in your capital or a balance of the two (this relates only to the investments that are purchased/held through Hedley & Co and not your overall financial position).

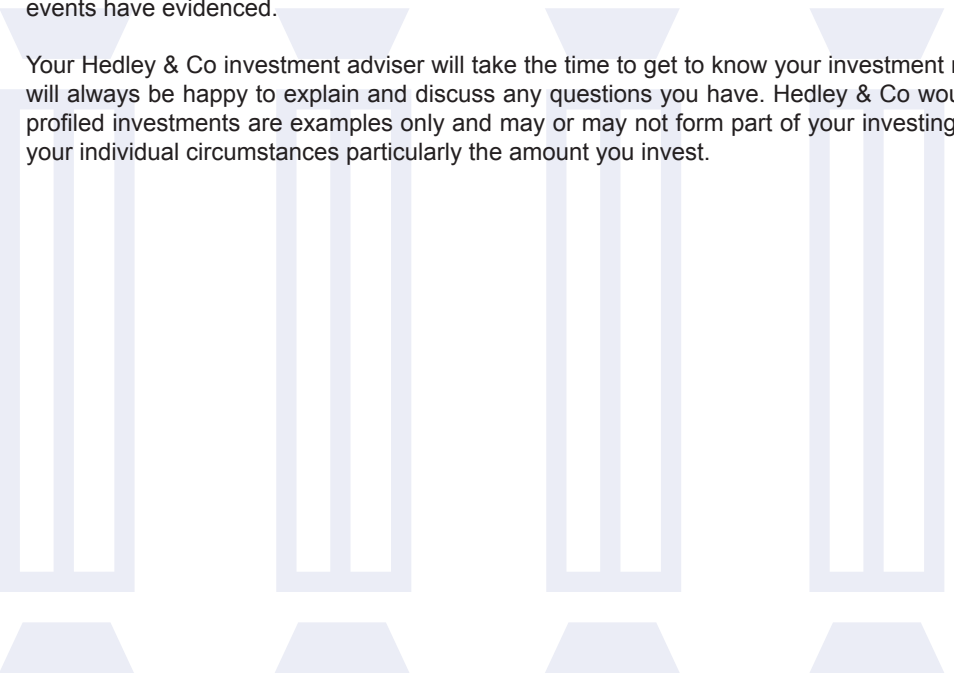
We then need to know what level of risk you are prepared to accept and what losses you can afford to accept in attaining your investment objective. Risk is inherent with investment and you cannot be insulated from it. Risk means you can lose some or all of your investment. All the investments that you purchase through Hedley & Co will have some degree of risk. The categories above refer to the likelihood of loss with regard to various investments' history, any investment has some risk. You cannot fully insulate yourself from losses. We do not intend that you suffer any losses and part of our Advisory and Discretionary services is to explain the risk of investing.

Your appetite for risk must be considered carefully against your attitude to losses. You must consider both your attitude to loss and your financial ability to absorb losses when choosing a risk category. The exact balance of your investments with us will depend on your objectives; growth may mean holding more equities in the portfolio, a portfolio designed to produce income may include more bonds (see below).

We will, depending on the amount invested, seek to advise you (for clients choosing our advisory managed service) to diversify your investments which will mean that your risk is spread over a number of investments. We seek to advise clients on the risk of all their investments so that your investments with Hedley & Co meet your investment aims and acceptable risk as a whole.

Allied to risk is the amount of time you intend to invest to obtain your objective. The length of time you wish to invest could also impact your risk profile and vice versa. In the past falls in the stock market have been made up over time. Therefore in general, the shorter the period you wish to invest for, the higher the risk you take due to market volatility. You may choose to invest in investments that have traditionally been less risky than others. However this can be no guarantee of future performance, as recent years' market events have evidenced.

Your Hedley & Co investment adviser will take the time to get to know your investment risk profile (your aims and risk together) and will always be happy to explain and discuss any questions you have. Hedley & Co would approach risk categories as follows. The profiled investments are examples only and may or may not form part of your investing on advice from Hedley & Co depending on your individual circumstances particularly the amount you invest.





## Low risk

For clients who wish to preserve their capital and who are risk averse. Investment advice will be in UK government bonds (bonds are debt securities where the issuer agrees to pay interest over the life of the investment paying the debt back on maturity). UK Government bonds are known as “gilts”. Historically the UK government has never defaulted on its gilts, though it may in the future.

A low risk portfolio should have an emphasis on income.

## Low-Medium

Risk Advice would be suitable if your aim is income but some exposure to growth in your capital.

The investment selection would be as for low risk but with more exposure to FTSE 100 stocks and collective investments such as investment trusts and unit trusts.

Investment advice is on a selection of;

- gilts, as above;
- other government bonds
- corporate bonds (will only be selected where they have high credit ratings from rating agencies).
- investment trusts, UK based, which invest in more than one sector and do not gearing (see below).
- unit trusts with a proven track record of performance over time.
- some exposure to FTSE 100 stocks may be appropriate (the FTSE 100 comprises the largest 100 stocks on the London Stock Exchange “LSE”)

## Medium risk

Medium-Risk would be suitable for a growth objective, income or balanced objective.

Advice would be suitable if you wanted exposure to growth and would be discussed with you.

Investments advice will be on a selection of;

- bonds, bonds will have high credit ratings
- collective investments, unit trusts and investment trusts collective investments will have equities, shares in companies. If appropriate some exposure to the largest 350 companies on the LSE Investment in the shares of smaller capital companies, including shares on the Alternative Investment Market of the London Stock Exchange (“AIM”) may be included if balanced by lower risk investments so the portfolio is medium risk overall.

Investment in this category exposes you to more stock market risk than low medium and medium risk.

Medium Risk would be suitable for an investment objective balanced between income and growth.

## Medium-High risk

Investment advice will be in mainly equities. We will advise mainly in companies in;

- the FTSE 350 (the largest 350 companies by value on the LSE).

However we may recommend that up to a quarter of your portfolio, by value at the time of advice, be in smaller companies including shares quoted on the Alternative Investment Market (“AIM”) of the LSE, that have potential for capital growth.

## High risk

Advice on any of our range of investments would be considered suitable. Some gearing as outlined on our Terms of Business may be agreed with you. This category is only suitable for investors with a good understanding of the risks involved and can afford to lose part or all of their investment.

High risk portfolio should have an emphasis on growth.

## OTHER RISKS YOU SHOULD CONSIDER

### Generic Risk

Many external factors can affect the value of investments, including (but not limited to): taxation, regulation, interest rates, fiscal policy, investor sentiment, commodity prices, politics etc. More specific risks are detailed below.

### Specific Investment Risks

The value of traded investments is ultimately determined by **supply & demand**: increased demand (more buyers) and reduced supply (less sellers) often results in a price rise, and vice-versa. Therefore any factor which affects supply & demand should be taken into account when assessing the risk of an investment.

An individual investment has a risk depending on its individual circumstances which may include poor management, product failure, bad debts etc.

Smaller-Company Ordinary Shares, Smaller Companies can be more **volatile** than larger companies for several reasons, including poor liquidity, less regulated markets (e.g. AIM), wider bid-offer spreads, shorter trading history and less news-flow.

There can be a **market risk** (the market as a whole) or a market sector risk (e.g. banks, construction etc.) The stock market as a whole has suffered sharp losses for example in 2007. A particular sector of the market may also suffer falls, for example if the price of oil drops then the oil sector will fall.

Investing in companies where there is a **big difference between the purchase price and the selling price** (this is known as “the bid/offer spread”) is a higher risk investment strategy. If they are sold immediately you may get back much less than you paid for them.

**Non-readily realisable** investments where there is a limited market or no market at all. In these circumstances you may have difficulty in valuing or selling the investment at an acceptable price and, in some circumstances, it may be difficult to sell it at any price.

**Liquidity risk** is often higher in smaller-cap companies and those traded on junior markets such as ISDN. Unquoted shares often have little or no liquidity; hence the risk is even higher.

Other financial instruments can also become illiquid such as Preference shares, Permanent Interest Bearing Shares (PIBS), Corporate Bonds and Convertible shares and bonds. On this basis these investments are deemed to be higher risk than conventional shares.

**Trading on a short term basis** is considered a very high risk strategy particularly when any form of gearing is used. This can mean losing more than you have invested.

Investments that are priced in **foreign currencies** involve entering into a related foreign exchange transaction in connection with the purchase or sale of the investment concerned. This involves the risk that a change in the rates of exchange between currencies may cause your investment or the income from it, to go down or up. In addition, purchasing and selling investments overseas involves risks of dealing overseas.

Investments that are subject to **stabilisation**. Stabilisation enables the market price of a security to be maintained artificially during the period when a new issue of securities is sold to the public. The effect of this may be to keep the price at a higher level than it would otherwise be during and for a time after the period of stabilisation.

Buying shares or units in an Investment Company that uses, may use, or proposes to use **gearing** as an investment strategy and invests in other Investment Companies may result in:

- (i) movements in the price of the securities being more volatile than the movements in the price of underlying investments;
- (ii) the investment being subject to sudden and large falls in value; and/or
- (iii) you getting back nothing at all from your investment if there is a sufficiently large fall in value in the investment.

## INVESTMENTS HEDLEY & CO OFFERS AND RISKS ASSOCIATED

**Ordinary Shares** Ordinary (i.e. equity) shares represent partial ownership of a company. The value of the shares and dividends they produce are principally determined by the financial performance of the company. They can also be influenced by other factors such as performance & perception of competitors, takeover activity and recommendations by financial analysts. Risk levels vary according to business type. Dividends are not guaranteed to be paid and may vary from year to year.

**Preference Shares** A Preference Share (“Pref”) is a different class of share, often issued in addition to ordinary shares. It aims to pay a fixed dividend each year and combines some of the features of both ordinary shares (i.e. equity), and corporate bonds (i.e. a pre-determined coupon). Redeemable preference shares can be redeemed by the company for cash and redemption terms are stated at the outset. In the event of a winding up, preference shares rank ahead of ordinary shares, though below corporate bonds and other debt. Hence they are viewed as having a greater risk of loss than an equivalent corporate bond. The price is usually less volatile than ordinary shares although neither income nor capital is guaranteed. Preference shares are often illiquid and may be difficult to trade-in (see liquidity risk).



**Investment Trust Shares** Investment Trusts are incorporated as companies which trade on an investment exchange. Their business purpose is to invest in other companies. They are often defined by sector (e.g. Utilities, Technology), geography (e.g. North America, World-wide, UK etc.) or objective (e.g. growth, high-yield etc.) and the risk will vary according to the underlying holdings and investment strategy. The value of an Investment Trust may not correspond to its Net Asset Value and they can trade at a premium or discount. Some trusts can borrow money to buy shares (gearing) which could magnify returns resulting in a more volatile share price. They may be appropriate for an investor looking for a diversified portfolio of managed investments, once they have considered their risk profile.

**OEICS & Unit Trusts** Collective instruments are open ended investment companies which pool investors' money and invest it in a selection of assets. The investor buys a unit in the fund (rather than a share of a company) which is invested by the investment manager of the trust following investment objectives as set out in the trust. Although viewed as a lower risk than direct equity investment into the same area owing to diversification, there is no security of capital and the exact position of the risk/return spectrum will depend on the underlying investments, manager's strategy and manager's performance. The level of the operators' charges can have an impact on the returns generated. In addition the spread between the buying and selling is managed by the trust provider which can be unfavourable to the investor.

**Permanent Interest Bearing Shares (PIBS)** PIBS are fixed-income shares issued by mutual building societies or similar organisations. They usually have no redemption date. They should not be confused with deposits held by such institutions as they are tradable and the value can therefore rise & fall. As with corporate bonds, the creditworthiness of the issuer is the primary risk and liquidity can be poor. If an issuer de-mutualises, the PIB becomes a subordinated bond.

**Government Stocks** Government Stocks are bonds issued by governments who pay a fixed level of interest each year until maturity, whereupon the nominal amount is repaid. Capital losses or gains are possible if bought after issue or sold before redemption. British Government stocks are referred to as "gilts" and are conventionally viewed as having negligible default risk. Foreign government bonds add the risk of exchange rate movements, and depending on the financial strength of the country the stock relates to, it can carry a higher risk of default.

**Corporate bonds** are debt instruments issued by companies. They pay a rate of interest that is usually fixed at the date of issue although some have variable interest rates. The market value of the bond often depends on underlying interest rates and the creditworthiness of the issuer. Investment grade bonds have lower volatility and yields than riskier high yield bonds. Corporate bonds, in particular those of financial institutions such as high street banks, may be subject to "bail-in". Bail-in is the process by which bond holders are required to forfeit part of their investment in the event that the company is in difficulty and requires financial assistance. In the case of high street banks bond holders may be called upon to support the bank before the Government will intervene with tax payer's funds.

**Convertible Shares & Bonds** These can be converted into other investments - usually ordinary equity shares of the issuing company. The conversion rate and date are set when the bond is issued. The value can fluctuate with the value of the underlying converted instrument. These investments are relatively rare and are subject to liquidity issues.

**Exchange Traded Funds** These are funds, traded on a stock exchange, whose performance aims to track a particular index, sector or commodity. They trade in the same manner as shares and can be readily bought and sold throughout the trading day. They are designed to combine the diversification of funds with the flexibility of trading usually associated with shares. Risk is dependent on the risk of the underlying asset as well as the strength of the issuing manager - some ETF's follow sectors or commodities that can be extremely volatile and geared. The investment entails counterparty risk should the issuing company run into financial difficulties. Ultimately this may mean they are unable to honour the contract resulting in a potential loss.

**Warrants and Subscription Shares** These offer the right (but not the obligation) to buy into an investment at a future point. Performance will be determined by the performance of the underlying share and, as they are a geared investment with a finite lifespan, these are viewed as risky investments. If you would like further details on any of the investments highlighted above, please contact Hedley & Co. Due to their risky nature, investors must complete a "risk warning" before these types of investments can be bought.

## What Information Does Hedley & Co Require From You

We are under a duty to "Know Your Client" when giving advice (known in the financial services industry as 'KYC') and we can only provide suitable advice if you supply us with complete information of your aims in investing, the appropriate level of risk you can accept, financial position, experience and attitude to loss. Our Retail Client Information & Agreement Form has sections about your investment experience, your overall financial situation, your investment objectives and acceptable risk for that objective.

Although we will make an assessment of your capacity for loss, you must be aware of the risks that you are taking in investing and you should consider your capacity to accept losses prior to investments being made on your behalf by us.

By giving complete details of your;

- financial situation;
- investment knowledge and experience;
- investment objectives;
- appetite for risk in achieving your objectives;
- time horizon, the amount of time or which you want to invest with Hedley & Co; and
- attitude to and your capacity for losses.



In the Retail Client Information & Agreement Form and at other times to update your account. We will then be in a position to give advice to you that is suitable. On an on-going basis we will ask you to update this information. If your circumstances change you should inform your account executive who will be able to use that information to ensure that we continue to provide appropriate advice in your revised circumstances.

## Services Description

### Investment Management

Investment Management is for clients who want professional expertise in the managing of their portfolio of investments. Hedley & Co believe it is essential you have a personal service and will appoint a dedicated Investment Manager to your Investment Portfolio, who can build a personal relationship with you.

Your Hedley & Co Investment Manager will agree parameters of objectives and risks for your portfolio and use all Hedley's expertise and experience to meet your objectives, regularly report, to you and will be available to you for discussions and advice.

These services provide a quarterly valuation and statement of your portfolio. Our Nominee and Custody Service is used for Investment Management.

### Discretionary Portfolio Management

The responsibility for the investment decisions is taken by Hedley & Co to meet your investment profile.

### Advisory Portfolio Management

Investment advice is given by Hedley & Co. Your Hedley & Co Investment Manager will discuss each decision on the content of your portfolio, agreeing it with you.

### Execution Only Dealing

Our Execution only service is for investors who decide their own investment decisions and wish to use Hedley & Co dealing service, for quick efficient execution of trades using Hedley & Co's knowledgeable, experienced dealers, ensuring the best execution for your trades.

### Nominee & Custody Service

Hedley and Co have an agreement with an FCA approved and regulated custodian. Your account administration will be minimised, no certificates to hold on your purchases, sales effected without signed transfers and dividends collected on your behalf.

