SHORT INVESTMENT GLOSSARY

AUTORITÉ
DES MARCHÉS
FINANCIERS

TO CONTACT THE *AUTORITÉ DES MARCHÉS FINANCIERS*

QUÉBEC CITY

Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1

(418) 525-0337

MONTRÉAL

800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3

(514) 395-0337

ELSEWHERE IN QUÉBEC

Toll-free number: 1 877 525-0337

INFORMATION CENTRE

FOR CONSUMERS

(418) 525-0311
(514) 395-0311
Toll-free number: 1 866 526-0311
Fax: (418) 647-0376

renseignements-consommateur@lautorite.qc.ca

FOR FINANCIAL SECTOR PARTICIPANTS

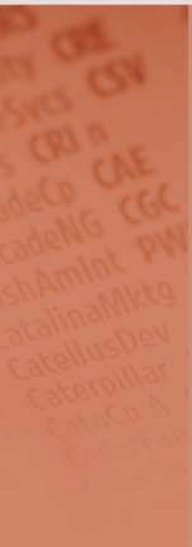
(418) 525-2263
(514) 395-2263
Toll-free number: 1 877 395-2263

renseignements-industrie@lautorite.qc.ca

You can also visit the website of the *Autorité des marchés financiers* at www.lautorite.qc.ca

Dépôt légal – Bibliothèque et Archives nationales du Québec, 2006
Dépôt légal – Bibliothèque et Archives Canada, 2006

ISBN-10: 2-550-47871-1 (Print version)
ISBN-10: 2-550-47872-X (Electronic version)



Introduction

Autorité des marchés financiers

The *Autorité des marchés financiers* (AMF) is the body mandated by the government of Québec to regulate Québec's financial sector and to offer assistance to consumers of financial products and services.

Its mission is to protect the public by applying the laws and regulations governing the following areas of activity: insurance, securities, deposit institutions (other than banks) and distribution of financial products and services.

Purpose of the brochure

The purpose of this brochure is to help you update your investment knowledge and better understand your risk tolerance by comparing the various types of investments available on the market.

This AMF brochure is provided for your information. It does not offer any advice on the purchase or use of specific financial products and services.

Each year, new financial products appear on the market, often with innovative and, at times, complex features. Are you familiar enough with the primary financial products available to make a sound investment choice?

This glossary presents an overview of the most common types of investments based on three fundamental criteria: expected return, liquidity and risk.

Expected return

The expected return is the gain you anticipate from your investment in the form of interest income, dividends or capital gains. Generally, the higher the expected return from an investment, the higher the risk. The return you actually earn may differ significantly from the **expected return**.

Liquidity

Liquidity corresponds to the ability to easily convert an investment into cash without significant cost. You should make sure that the liquidity of an investment suits you before investing. As a general rule, the longer your investment horizon, the less important liquidity becomes.

To determine the desired level of liquidity, ask yourself the following question: Must my funds be available at all times, in a few years, or when I retire? The answer could eliminate several types of investments. Many investors do not distinguish between investments that are redeemable by the issuer and those that are redeemable by the investor. However, this distinction is essential for determining the liquidity of an investment. Do you understand the distinction?

Redeemable by the issuer

An investment is **redeemable by the issuer** when the issuer can buy it back from you whenever the issuer wishes to do so, subject to the terms and conditions of the investment. You should consider that an investment bought back from you may be to your disadvantage. For example, if the issuer of a bond can call a bond and interest rates are falling, the issuer may well buy back the investment because it can now borrow at a lower rate. You will then have cash assets available for reinvestment but at lower interest rates.

Redeemable by the investor

An investment is **redeemable by the investor** when the investor can sell it back to the issuer, subject to the terms and conditions of the contract.

Risk

Risk represents the possibility of earning a lower return than anticipated or losing all or a portion of the amounts invested, and perhaps more. There are several types of risk that can affect the value of an investment. The following list is not exhaustive:

Credit risk

This is the risk that a company will no longer be able to meet its obligations.

Counterparty risk

This is the risk that the party with whom you are dealing will not fulfill its obligations (delivery, payment, etc.) and that you will suffer a loss as a result.

Currency risk

This is the risk that the currency you used to purchase your investment will fluctuate so as to decrease the value of your investment. For example, if you hold bonds in U.S. dollars and the Canadian dollar appreciates against the U.S. dollar, your bonds will decline in Canadian dollars.

Political risk

This is the risk that a government will not be able to honour its commitments. The risk that a government will change the rules in place must also be considered. For example, a government may amend tax laws, sometimes even retroactively. Political instability and war are also risk factors.

Inflation risk

This is the risk that the real return on investments will not offset the increase in the cost of living. For example, if you hold a GIC earning 5% when inflation is 2%, your real rate of return is approximately 3%.

Note: A simple method for measuring the real rate of return on an investment is to subtract the inflation rate from the rate of return.

Risk levels

Each investment involves a certain degree of risk. In this glossary, risk level is defined as follows:

Very low risk

Investments for which it is practically impossible to lose the initial outlay (capital) carry a very low level of risk. They are issued and guaranteed by a government or guaranteed by a deposit insurance fund such as the AMF's *Fonds d'assurance-dépôts*.

Low risk

Investments guaranteed in whole or in part by the issuer (the party that will use the capital) have a low level of risk. These could also be securities that are issued by a company with a solid reputation and have generated little fluctuation in returns over the past few years.

Medium risk

The degree of risk is medium for investments with a value that can fluctuate over time and for which it is possible to lose a portion or even all of the initial outlay.

High risk

Investments whose value can fluctuate considerably carry a high level of risk. In the worst case scenario, investors can lose all their capital and even more.

Other considerations

In addition to these factors, you should also take into account your needs, your financial goals, your risk tolerance and other considerations such as fees and tax liabilities before making an investment decision.

Fees

Fees must be taken into account when choosing your investments. The transaction fees for some securities can be very high and can reduce your returns. And likewise for the fees charged by firms and representatives who manage your investments. Fees vary according to the type of product or service.

Tax liabilities

It is important to take taxes into consideration because they can affect the net return on your investment. Interest, dividends and capital gains (or losses) are treated differently for tax purposes, unless your investment grows inside a tax-deferred plan such as a registered retirement savings plan (RRSP), a registered retirement income fund (RRIF) or a registered education savings plan (RESP).

Tax treatment of returns

Interest ■ Interest earned on an investment is generally treated as ordinary income for tax purposes.

Dividends from Canadian companies ■ A dividend tax credit is generally allowed, so dividends are taxable at a lower rate than is interest.

Capital gains ■ It is generally possible to exclude a portion of capital gains from your income for tax purposes. In general, capital losses may be used to offset capital gains.

Consult your representative to find out if you are eligible to contribute to a deferred-tax plan and if it meets your needs and your financial goals.

The descriptions of the following investments are not exhaustive. It is always preferable to seek as much information as possible and, if necessary, to request the advice of a qualified adviser.

Most investment funds and publicly-traded companies are required to file an electronic version of their information documents, including prospectuses and annual reports, on SEDAR.

Brochures to help you with your investments

Update your financial position

Choose the investments that suit you

Short investment glossary

Choosing a securities firm and representative

Mutual Funds

Watch out for securities fraud

Prospectuses made clear

Prospectus exemptions

AUTORITÉ DES MARCHÉS FINANCIERS

SHORT INVESTMENT glossary

	TYPE AND DEFINITION	EXPECTED RETURN	LIQUIDITY	RISK[1]
DEBT SECURITIES	**Treasury bills** Treasury bills (T-bills) are issued by the federal and provincial governments. They represent a loan granted by the investor to the government issuer. Treasury bills are sold in large denominations, starting from $1,000, and are issued for a term of one year or less.	The return is the difference between the purchase price and the value of the T-bill at maturity, e.g. $990 for a value at maturity of $1,000. The market value prior to maturity may fluctuate based on changes in interest rates.	Generally, holders can easily trade Treasury bills before maturity through investment dealers.	**Very low:** There is practically no risk of default of payment because they are guaranteed by the governments that issue them. Since Treasury bills are short-term securities, the risk of major swings in the market value due to interest rate changes is limited. If the bill is held until maturity, the risk is nil.
	Guaranteed investment certificates (GICs) GICs are certificates of deposit issued by a financial institution. They represent a loan granted by the investor to the issuer. Terms range from 30 days to ten years.	GICs earn a fixed interest rate at maturity, although the return on some GICs may fluctuate based on the performance of an index such as a stock index (index-linked GIC). Note: The return of a stock market index measures the performance of a predetermined group of securities that are listed on a stock exchange.	Most GICs must be held until maturity, but some carry restricted early redemption privileges.	**Very low:** As a general rule, they are guaranteed by the issuer. With respect to index-linked GICs, they may or may not be guaranteed. The capital can also be insured by deposit insurance, in the event of bankruptcy of the issuer (some restrictions apply). GICs that carry terms of more than five years and are non-redeemable are not covered by deposit insurance. Consult the brochure entitled Your Deposits are Protected. That's a Guarantee! published by the AMF.
	Savings bonds Savings bonds are issued in several forms by the federal government and by the governments of certain provinces. They represent a loan granted by the investor to the government issuer. Terms are one year or more.	Most savings bonds guarantee a fixed annual rate of return until maturity (interest payments) or a minimum rate of return that can be increased by the issuer if market conditions change.	Savings bonds are generally not transferable from one buyer to another. Some can be redeemed by the investor at any time, while others can be redeemed only at specific intervals or only at maturity.	**Very low:** They are guaranteed by the government issuer.
	Bonds Bonds are issued by governments and companies and represent a loan granted by the investor to the issuer (governments, Crown corporations, private companies). In general, the issuer promises to pay a fixed interest rate to the buyer at certain intervals and pay back a predetermined amount at maturity, usually the face value, which is often a multiple of $1,000. Bonds can be sold at a price above or below face value. Corporate bonds are generally backed by specific assets. The term is generally from one to 30 years. Some bonds give the holder the right to convert the bonds into common shares, in which case they are called **convertible** bonds.	The return is in the form of interest or capital gains (losses) realized at maturity or at the time of sale. Most guarantee regular interest payments until maturity or provide for minimum interest payments that can be increased by the issuer if market conditions change. The market value of a bond varies according to changes in interest rates and the issuer's credit rating. Independent agencies rate the quality of debt securities. If interest rates fall, the market value of a bond will rise because the interest payments provided by the bond become more attractive to investors. Conversion privileges enhance the potential capital gains on a bond. If the issuer remains solvent, the holder will receive the promised return if the bond is held until maturity.	Bonds are sold through dealers in over-the-counter markets.[2] No secondary market may be available if the issuer experiences financial difficulties. Some bonds may be redeemable by the issuer.	**Low to high.** A rise in interest rates or financial difficulties for the issuer will lower the value of the bonds. Holders have a right to a portion of the company's remaining assets if it is dissolved (prior claim over shareholders).
	Debentures Debentures are fixed-income investments, similar to bonds, except that they are generally not backed by specific assets.	Same comments as for bonds. Note: The rate of return on a bond or a debenture depends on the price paid at the time of purchase and the time remaining until maturity. For example, a debenture paying 6% interest will generate a return of $60 per year for each multiple of $1,000 (face value). If you purchase the debenture for $950, your return will be higher than 6%.	Debentures are normally traded in over-the-counter markets.[2] In some cases, there may be no established market for a debenture.	**Low to high:** Same comments as for bonds.
	Principal-protected notes Principal-protected notes are investments whereby the issuer recognizes a debt. Notes are generally issued for a limited period. The term is usually between five and ten years. Some notes are structured so that returns are not heavily influenced by price swings in the stock or bond markets. They use derivatives and seek broad strategic and geographic diversification.[3]	The return, in the form of capital gains (losses) or interest, is often variable. The return may be tied to the performance of a stock, bond, commodity or currency index. The performance of some notes may be tied to hedge fund returns. Some notes guarantee a rate of return for certain years, for example the first year only.	The secondary market for principal-protected notes is usually maintained by the financial institutions that issue the notes.	**Medium:** Principal-protected notes are usually guaranteed by a deposit institution. However, the guarantee does not apply if the note is redeemed before maturity, which is usually between five and ten years. Since the return on these notes is tied to a benchmark, there is a risk that the interest paid will be less than expected or that there will be no interest payments at all. In some cases, the issuer may limit the return on a note and/or redeem it before maturity.
EQUITY INTERESTS	**Common shares** Common shares are issued by companies and represent an ownership interest in the issuer. As owners, holders of common shares generally have the right to elect directors and to vote on certain decisions concerning the company's activities. They are usually entitled to a portion of the company's remaining assets if it is dissolved. Holders are entitled to receive dividends if they are declared by the company. Common shares have no maturity date.	The return on common shares may be in the form of dividends and capital gains (losses). Many companies try to periodically pay dividends to their shareholders. Others may not pay dividends, either because they are not profitable, or because they choose to retain their earnings and reinvest them. In many cases, the return will depend primarily on the performance of the company's stock, resulting in capital gains or losses when the shares are sold. The price of common shares may rise or fall, sometimes quickly and sharply.	Common shares are normally traded on a stock exchange or in over-the-counter markets.[2] However, there may not be any market for certain common shares and trading may be subject to restrictions.	**Medium to high:** The risk depends on a number of factors such as the size, profitability and financial stability of the company, the quality of management and its exposure to economic slowdowns. If the company is dissolved and its remaining assets are distributed, the holders of common shares will be reimbursed after governments, employees, creditors and holders of preferred shares.
	Restricted shares • Restricted shares hold limited voting rights or no voting rights except under special circumstances.	• Same comments as for common shares.	• Same comments as for common shares.	• **Medium to high:** Same comments as for common shares.
	Flow-through shares • Flow-through shares can be issued by oil, gas and mining exploration companies. Since holders help fund exploration and development costs, they may be entitled to tax deductions and credits that are usually available only to companies.	• The return will depend on the potential tax benefits offered to the investor and the capital gains or losses that may result from the success or failure of the exploration program. Potential tax benefits will be greater for investors in higher tax brackets.	• Same comments as for common shares.	• **High:** Exploration and development programs generally carry high risk. In addition, exploration costs may not be eligible under the tax rules and tax benefits may not be granted. Flow-through shares may be suitable only for sophisticated investors.
	Preferred shares Preferred shares are issued by companies. Holders have an ownership interest in the issuer. Preferred shares generally entitle holders to receive a fixed dividend before any dividends are paid to holders of common shares. Holders also have a right to a portion of the issuer's remaining assets if it is dissolved. Generally, preferred shareholders are not entitled to vote. In many cases, preferred shares have special features, such as the holder's right to redeem the shares at certain times. They may also be **convertible**, in which case the holder has the right to convert them into common shares at a pre-established price. Most carry no term, but some are redeemable at the issuer's discretion. Others earn **cumulative dividends**, which means that dividends not paid during a given year accumulate until paid out.	The dividends on preferred shares are generally fixed, although the company may reduce or suspend the payment of dividends if, for example, its earnings are lower than expected or if it needs to maintain its capital. The potential capital gains on a company's preferred shares are generally less than what can be earned on the common shares of the same company. Conversion and redemption privileges as well as other features can affect the price of preferred shares. The value of these shares is linked primarily to changes in interest rates and to the issuer's earnings.	Same comments as for common shares.	**Medium to high:** Same comments as for common shares. The suspension of dividends in case of financial difficulties or rising interest rates may lower the value of preferred shares. An increase in the rate of return offered by other investments can also affect the price of preferred shares, making the fixed dividend on these shares less attractive. If the issuer is dissolved and its remaining assets are distributed, holders of preferred shares will be reimbursed after governments, employees and creditors.
INVESTMENT FUND SECURITIES	**Mutual funds** A mutual fund is made up of money pooled by investors and managed on their behalf by a manager. The manager uses the money to purchase stocks, bonds, or other securities according to the fund's objectives. Ownership is in the form of shares if the mutual fund is set up as a business corporation, and in the form of units if the fund is set up as a trust (the most common form). Holders have voting rights. These securities have no maturity.	The return may be in the form of dividends, interest or capital gains (losses). The capital gains (losses) may be realized by the fund or when the holder sells his/her units. The return depends on the investments made and the success of the strategies used.	The investments issued by mutual funds are not traded on an exchange, but investors can generally sell them back to the mutual fund. The proceeds of the redemption will depend on the market value of the mutual fund's portfolio.	**Low to high:** The risk depends on the mutual fund's investments, such as bonds, stocks or mortgages. Most investments made by mutual funds are not guaranteed against investment losses. However, some mutual fund securities guarantee that at a predetermined future date, for example in five years, the investor will receive at least the capital invested. However, you can still lose money with this type of security if you have to redeem your investment before the predetermined date.
	Segregated funds Segregated funds are issued by insurers. These products combine typical mutual fund investments with insurance coverage. The invested assets are held by an insurer separately from its other assets, hence the term "segregated funds."	Same comments as for mutual funds.	Same comments as for mutual funds. As a general rule, the term is 10 years. The funds may be renewable at maturity; however, the annuitant's age is taken into consideration.	**Low to medium:** The risk depends on the fund's investments (e.g. bonds, stocks, money market instruments). Individual segregated fund contracts offer a guarantee that protects, at maturity, at least 75% of the amount invested. Moreover, insurers generally offer a death benefit guarantee. However, you can still lose money with a segregated fund if you have to redeem your investment before maturity, because the guarantee will no longer apply.
	Exchange-traded funds (ETFs) Exchange-traded funds are traded like shares on stock exchanges. These funds generally track a benchmark index. Under certain conditions, investors can redeem their units directly from the fund in exchange for securities in the index. Note: In addition to stock ETFs, there are bond ETFs, derivative ETFs, etc.	Same comments as for mutual funds.	The liquidity of an ETF depends on the liquidity of the underlying securities.	**Low to high:** The risk depends on the volatility of the index tracked by the fund. For example, an emerging market ETF could be more risky than an ETF that tracks an index of the largest companies listed on the stock exchange of an industrialized country.
	Labour-sponsored investment funds and other similar funds These are common shares of investment funds issued by a labour organization or a financial institution. These funds are governed by federal and/or provincial legislation, which establishes certain investment criteria and provides investors with tax benefits. The funds invest a portion of their assets in start-ups or small and medium-sized businesses (SMEs) in order to create or maintain jobs.	The return is mainly in the form of capital gains (losses) and depends on the performance of the assets in which the fund invested and the tax benefits.	Some funds are redeemable only at retirement, subject to certain exceptions. The main exceptions are: purchase of a property, pursuing education, loss of employment or launch of a business, disability or terminal illness. Another type of fund is available that is redeemable after a certain number of years, unless the investor meets certain criteria, such as death, disability or terminal illness.	**Medium to high:** These funds invest a certain proportion of assets in start-ups or small and medium-sized businesses.
	Hedge funds These funds are issued in the form of shares. They are very flexible in terms of the investment strategies that can be used. These strategies are often called "alternative investment strategies." These funds are usually structured so that stock or bond market fluctuations have little or no influence on their returns. Hedge fund investments, which are made up of securities such as shares of private companies, derivatives and futures, are generally suitable only for sophisticated investors. And likewise for the strategies used, which include short selling,[4] leverage,[5] narrow-based investments, and investments in companies experiencing financial difficulties.	The return depends on the success of the strategies used. Because of the specific activities of these funds, the return is not usually linked to stock indexes or to the economy in general. They seek to generate positive returns regardless of economic conditions, but in practice this goal is not always achieved.	They may carry liquidity restrictions. Some hedge funds may require at least one month's notice prior to redemption.	**Medium to high:** Depending on the strategies used, the risk can vary from one fund to the next. Some funds employ strategies that can be very risky, for example borrowing to invest (leverage[5]), short selling,[4] etc.
LIMITED PARTNERSHIPS	**Limited partnerships** Limited partnership units are issued by a partnership. A general partner manages the partnership and limited partners supply the capital. The liability of limited partners is restricted to their investment outlay. These partnerships usually invest in a particular sector such as real estate or the oil and gas industry. They often provide tax benefits that may be transferable from the partnership to the limited partners.	The return is in the form of dividends or capital gains (losses) and depends on the partnership's profitability and the tax benefits available to investors.	There is often no organized market for the resale of these securities and resale restrictions may apply. In some cases, the general partner may offer restricted redemption privileges.	**Medium to high:** The risk depends on the nature of the partnership's activities. This type of investment may only be suitable for sophisticated investors. There may also be a risk that the tax benefits will be cancelled. If the partnership is dissolved, the remaining assets, after repayment of all debts, are distributed to the limited partners.
INCOME TRUSTS	**Income trusts** Income trust units are issued by a trust that holds an interest in one or more companies. They represent an interest in the net assets and net profits of a trust. Income trusts are structured differently from a business corporation: a business corporation issues shares to the public, whereas an income trust creates a trust that issues ownership units to the public. The main categories of income trusts are: business trusts, real estate investment trusts (REITs), resource trusts and utility trusts. Many trusts are designed to provide investors with tax benefits.	The return is in the form of income, royalties or capital gains (losses). The net earnings (revenues minus expenses) of the firm are distributed to the unitholders. The return depends on the operating income from the assets held by the trust, royalties and any tax benefits available to investors.	Some trust units are listed on an exchange. There may not be an organized market for certain trusts.	**Medium to high:** The risk will depend on the type and performance of the assets held by the trust. Some trusts are linked to non-renewable resources. The life cycle of the resources may be difficult to estimate accurately. This type of investment may only be suitable for sophisticated investors. Tax benefits may be cancelled. **Investor liability:** For income trusts established in certain jurisdictions, investor liability is not necessarily limited to the amount invested. Take for example an investor who holds an income trust unit in the energy sector. In the event of a spill, the investor, in addition to losing his or her investment, may have to assume part of the liability if the trust does not have the necessary resources to clean up the spill. Obtain information on income trust legislation before investing.
DERIVATIVES	**Options** Options are financial instruments that confer on the holder the right to buy (**call option**) or sell (**put option**) an asset at a fixed price for a specified period. The underlying asset may be a common stock, a commodity, a currency or an index (such as a stock market index). The holder of an option that is traded on an exchange may sell it, exercise it and buy the underlying asset, or let it expire. The Canadian Derivatives Clearing Corporation acts as the buyer with respect to the seller and as the seller with respect to the buyer for derivatives related to stocks, bonds and exchange-traded indexes. Over-the-counter products (not traded on an exchange), such as employee stock options granted by corporations as compensation, are issued by the companies themselves.	If the option is exercised, the return will depend on the price of the asset, the strike price and the option price. If the option is sold before expiration, its value will depend on the time remaining before expiration, its strike price and the present or projected value of the asset. If it is not exercised before expiration, its value is nil.	Usually traded on an exchange. The holder may exercise the option to buy (or sell) the underlying asset, or not exercise it at all. Options that are not traded on an exchange may be transferable or non-transferable.	**Medium to high:** The risk depends on the underlying asset and how the option is used. If it is used for hedging purposes,[6] the risk is reduced; if it is used for speculation purposes, the risk is greater. Options may only be suitable for sophisticated investors.
	Warrants Warrants give holders the right to purchase from the issuer a certain number of specific securities, at a specified price, for a specified period, usually between three and five years. They are usually offered to investors when they buy certain types of securities, such as debt securities or preferred shares.	Same comments as for options.	Same comments as for options.	**Medium to high:** Same comments as for options.
	Rights When a company issues rights, it gives its common shareholders the right to buy additional shares at a specified price usually below market price. Investors must exercise their rights within a short period, generally between six and eight weeks.	Same comments as for options.	Some rights are listed on an exchange and may or may not be actively traded. In some cases, restrictions may apply to reselling the rights.	**Medium to high:** Same comments as for options. However, given their short maturity, they are seldom used for speculation purposes.
	Futures and forward contracts There are two types of contracts: futures and forward contracts. In both cases, the parties involved assume a legal obligation to buy or sell a specific quantity of an asset at a pre-established price and date. Futures and forward contracts are traded in a variety of commodities (grain, meat, etc.) and financial products (stock market indexes, bonds, common shares, etc.). **Futures** are traded on an exchange and their features are standardized based on the quantity, quality and delivery of the underlying asset. This facilitates the transfer of the asset from one investor to another. The price is thus the only element that fluctuates during the course of the contract. A clearing house[7] acts as an intermediary between the buyer and the seller and ensures compliance with the contract terms, so there is no counterparty risk. **Forward contracts** are traded directly between the buyer and the seller, so the contracts are not standardized. These contracts are seldom transferable and the underlying assets are usually delivered. No clearing house is involved, so counterparty risk may arise.	**Futures and forward contracts:** The return depends mainly on changes in the value of the underlying asset.	**Futures:** They are generally traded on an exchange; this increases their liquidity. **Forward contracts** are traded in over-the-counter markets[2] and offer little liquidity. Liquidity varies according to the underlying asset.	**Medium to high:** The risk depends on the underlying asset and how the contracts are used. If they are used for hedging purposes,[6] the risk is reduced; if they are used for speculation purposes, the risk is greater. In addition, with forward contracts, there is a risk that the counterparty may not be able to honour its commitments. Futures and forward contracts may only be suitable for sophisticated investors.

1. **Risk** is indicated for information purposes.
2. **Over-the-counter market** is a market where securities not listed on an exchange are traded. It is an interdealer market.
3. **Diversification** consists in not putting all your eggs in one basket. Each investment product has its own risk profile. Some carry very high risk, others very low. For most investors, the most important factor is the risk profile of their investment portfolio as a whole. By combining various investments in your portfolio, you can reduce the overall level of risk for the return you expect to obtain. That is the advantage of diversification, a principle that every investor should put into practice.
4. **Short selling** consists in selling a security without owning it. An investor expects a security to decline in value and to be able to buy it back at a lower price. The transaction consists in borrowing the security from a financial intermediary and selling it immediately on the market. The investor will later have to buy back the security and deliver it to the intermediary. This investment strategy is extremely risky, because the investor can lose more than the value of the security traded if it rises in price. Theoretically the loss could be unlimited. For sophisticated investors only.
5. **Leverage** consists in borrowing money in order to invest. This increases the potential gains, as well as the potential losses, on any investment. Borrowing to invest thus increases the risk and requires caution on the part of investors. If you are thinking of borrowing in order to invest, make sure you fully understand the risk this entails.
6. **Hedging** consists in buying a financial instrument to offset possible losses on an investment. For example, an investor who owns shares could buy a put option on the shares he or she holds. This way, if the shares decline in value, the investor can exercise the option to offset the decrease in value of the shares.
7. **A clearing house** is an institution separate from a stock exchange that ensures payment and delivery of securities between dealers.