

Types of Risk **Example** **Risk Control**

Fund	Withdrawals	Mis-match of funds with investment style or holding period	Must aim to align investment styles of investor capital and portfolio
	Operational	Compliance issues	Professional advisors: CFO, attorney, accountant, prime broker
Portfolio	Volatility	Large swings up or down in value of individual positions	Diversification, no portfolio leverage
	Market Risk/Equity Exposure	Stock market crashes	Buy other asset classes to offset exposure
Stock	Permanent Capital Loss	Being wrong on the economic value of the company	Margin of safety
	Liquidity	Being forced to sell when not desired; forced to cover short	Never be forced to sell
Company	Business Risk	Too many external forces management cannot control	Stick with simple business that you can understand
	Financial Risk	Too much balance sheet leverage, company runs out of cash	No excessive balance sheet leverage, watch cash needs
	Capital Allocation Risk	Manager blows cash - M&A, dumb investments	Align management incentives with shareholders
	Fraud	Financials are fake	Forensic accounting, must understand the company's financials

Areas of Risk Exposure