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RISK MANAGEMENT IN STOCK INVESTING

Growth stock and income stock

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ABSTRACT

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The aim of the thesis is to provide an overall understanding and methodology in risk management when investing in stock market. There are different types of risk and ways to manage them. The know-how will be explained using P/E ratios, interest rate, balance sheet and live index from stock exchange market.

Investing and risks always come as a pair, not to mention the volatility of stock market. There are eight types of risks which are simplified and concluded to fit the current stock market changes. One person or firm can experience multiple risks at once. However, they can be avoided with distinctive methods which are provided in this research.

This research is crucial and important for investors, individuals and firms because they can anticipate and predict the upcoming risk to maximize their portfolio value, avoid losing assets and cash.

Key words

Growth stock, income stock, risk, stock market, volatile.

CONCEPT DEFINITIONS

Growth stock: stock which expresses its company growth and development, fluctuate in value but hold resourceful potential in the future; suitable for risk taking investors.

Income stock: stock which represents stability and dividends, investor who interested in regular and safe income chooses this.

Risk: facing, being exposed to harm, loss and danger.

Stock market: a place where buyer and seller meet together to exchange their company's stock.

Volatile: tendency of changing unpredictably, often to the worse side. In this case, the movement of an asset (or the entire market) very quickly down (or up) in price due to large selling (or buying) in a very short period of time.

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1 INTRODUCTION

A stock market is a place where the sellers and buyers come together to trade stocks and bonds (Kenton 2019). Investors buy, own the stock and decide whether to wait for its growth to sell it at a higher price or receive a quarterly dividend. The stock market has been around for more than we can remember. It has played a crucial role in conducting business and we cannot deny its influence whether negative or positive on the whole economy. The stock market has its ups and downs, which is the most spectacular thing about stock - it is unpredictable and risky. I have been interested in stock for a while as I have witnessed people who become filthy rich through stock and people who lost everything for the same reason. The line between success and failure lies thin. As a result, I conduct research about risk management in stock investing in order to elaborate on effective ways to minimize the risk of losing your investment. Risk management only tackles a mediocre part of smart investing; there are many more factors which have a greater impact on being a successful stock investor.

I used both quantitative and qualitative technique to ensure the most correct and practical result with different points of view. I used numbers from large stock market exchanges such as NYSE, NASDAQ, S&P 500, etc. Additionally, I interviewed managers and individuals who are successful and experienced stock investors about their approach to the problem.

Risk is a familiar term from daily life to the professional workspace. With no exception, investing and risk always go as a pair, one could not simply exist without the other. Anyone can pour their money and assets in stock but a few can survive and thrive with massive appreciation in their stock value. The difference between a good investor and a bad one is how they collect stock information and handle risks. Back in 2009, bear market cost investors a huge loss and was the longest period on the record since the World War 2 (Kim 2018). Most of them did not care about the volatility of the stock and the foreseeable risks. As a result, they lost more than they could earn. You need long term plan with detail steps and lists of things to avoid before plunging yourself in the stock market. It takes time to nourish and show its true potential, any short term attempt is called speculating (gambling in short). This is where risk management plays its role and creates a big difference. In this research, I will analyze the most common risks and propose a methodology of handling them with the least damage. There are eight types of risks which revolve around the stock market, individual or firm and the environment around it.

This research is divided into five sections. The first section shows the literature of stock market, risk management and both of them in one topic. The second illustrates how I collect data and analyze them into the framework. The fourth one is to introduce and elaborate on the empirical methodology. Finally, conclusions after comparing, analyzing from the data and methodology are presented.

2 BREAKING DOWN THE DEFINITION OF RISK MANAGEMENT IN STOCK INVESTING

Stocks have been around for longer than we can remember and they proved to be a cornerstone of the economy- both individually and globally. It is an effective wealth generating tool which requires dedication and strategies, along with a clear head. Anyone can step in the game, which means a teacher, a student, a retired doctor, even some old chaps over 70 with a walking cane can too and of course, you have to be over 18 to acknowledge the responsibilities which you about to take. However, everything comes with a risk and stock investing is not an exception. You have to consider your every move and avoid from falling deep into debt and watch your wealth depletes. I have seen people becoming millionaires and some are flat broke. I will further explain the art of risk management to help you stay above the danger line. First, we will go through the basic definition, understanding of what stock is and the risk management methodology integration.

2.1 What is stock, its market and how does it work?

A stock is a type of security that indicates ownership in a company, firm and illustrate a claim on part of that company's or firm's assets and earnings- you can call this dividend (Chen 2018). Basically, if a company issues share or stock, you can purchase it as a shareholder or investor. After all the transaction is done, you own a part of that company. Your proportion in that company depends on your owned number of shares relative to the number of outstanding shares. (Michell 2019.) For instance, Blizzard Company has 100 shares outstanding and you own 10 shares, which means you own 10% of Blizzard's assets. After a period of time, you will receive dividends from the company which they deducted out of their income. Each firm has their own dividend yield and pay-out, which means a different amount of money is paid to its shareholders; it is best to always have a good look at the statistic and stock research site for the whole picture.

There are two main stock categories: common stock and preferred stock. Common stock: This type of stock enables the owner the right to vote at shareholders' meetings and receive any dividends that the company issues. In possession of this stock, the holder has access to the board of director election or voting for the company's policy. However, they have the lowest priority when it comes to paying dividends. Only after preferred stockholders, bondholders and other debt holders have been paid, the common stockholders will receive their part. This is also true in a situation when that company is going bankrupt; as a result, common stock is riskier. On another hand, preferred stock does not give its holders voting rights, but it provides certain perks which exceed those of common stock. (Mladjenovic 2016.) For instance, preferred stock has a higher priority in the liquidation process, which means its holder will be paid before common stockholders, even if the company is going bankrupt. Preferred stock is suitable for investors who are interested in stable and less risky income. In my research, I will analyze mostly common stock.

Stock market: a rallying point of markets and exchanges that host activities such as selling, buying and issuing shares which are published by publicity held company (Chen 2019). In other words, it is the place where firm issues their share and investors can purchase them as a part of their interest in that company. In the past, stock markets were organized and operated physically, which means people trade face to face. Why do companies issue share? In a corporation, if it needs funding but prefers not to take a loan from a bank, it will issue shares to raise capital in exchange for dividend and a part of the company power. This way, it can safely gather funds while controlling the paying rate itself, less pressure from interest if things go south. For investors, the stock market is an ideal place to invest in a firm, an industry they keen on but without having the risk of starting the company themselves but also be able to generate wealth fast. This way they can also participate in the company's growth and have certain control over a small part of that company. To avoid confusion, the term share and stock are interchangeable.

Every good or service has its own designated market. You go to a specific venue to buy that particular thing which is available at the venue. For instance, if you need some furniture for your newly built house, you go to IKEA or other furniture stores. When you are in need of treating your healthy skins, cosmetic shops will be the ideal destination. The stock market works the same way. It gathers every seller and buyer together to conducting transactions and trading. It also follows the rule of supply and demand as many other markets. For example, if a company shows a sign of a great year of revenue, hundreds will seek to buy that company stock, thus raising the price up. There are numerous participants in stock markets; as a result, prices are monitored closely and maintain at a fair price. Additionally, several kinds of securities including shares are traded in a secured, transparent environment with the trans-lucent transaction. As mentioned before, people used to issue or exchange shares certificates as a thin white paper. Thanks to the booming of technology, the stock exchange is done electronically with precision and speed which enables fast pace with intensive index.

In the stock exchange market, there are 2 main markets: primary and secondary. Primary market illustrates the perspective of companies, which means in the stock market they issue shares for the first time and building capital while doing so. They are obliged to go through the process of initial public offering (IPO). (Chen 2018.) In this process, they will seek consultation from an underwriting firm, investment bank who will help the companies to determine the appropriate price, the suitable type of security to publish, the ideal amount of share and facilitating the funding, often after having estimated the company's value. (Kenton 2018b).) Attracting buyers and generate sales are no easy task; as a result, this kind of service requires a fee. However, most of the capital gained is transferred to the issuance company. For example, Rectro is a new big company in the gaming industry and it has a new game project which aims towards a Chinese market but it requires a massive capital amount. As a result, it goes through IPO and got its share issued to the stock market to raise funds. After having considered the company's value and the current demand of buyers, the investment bank set the price to 10$ per share and publish 6 million shares. If everything runs smoothly, the company will be able to raise 60 million dollars. The shares after being issued will continue to be traded in the stock market exchange; however, money which generated from these trades will not be claimed by the issuance company, they can only receive capital from IPO. This leads us to the secondary market.

In the secondary market, when the company has issued their shares, investors will take their chances and purchase them. After buying those shares, they can whether hold it as long as they want or sell them to other buyers. Investors who own shares or have not got their hands on them yet will participate in this market, which involves selling shares they possessed or buying new shares. All the sales from the secondary market belong to the selling investor, not even one cent goes to the company that issued those share. Unlike the primary market, prices of shares in the secondary market follow the demand and supply rule. (Kenton 2018b).) To put it in a simple way, a company may have encountered some events in its business period, which can be positive and negative. Should the company get more successful business deals or operation, investors will think that the company share's value will increase in the future and rush to buy those shares. As a result, the price of that share will drastically rise. It works the opposite way as well. If a company failed to deliver their promised performance or having such bad reputations in their product launch, it will lose the investor's trust, thus the demand decreases and there will be a dramatic drop in its value in a period of time.

Blizzard has always been famous for quality PC games with tons of content, no micro-transaction in the game and avoids pay-to-win in their products. After purchasing the game, players do not have to pay excess money for things that should have been included from the start (expansion pack, collectable, items, and outfit). We have bad examples of companies that suck customer's wallet dry like EA, Ubisoft. However, in the last Blizzcon which is organized on November 4th, Blizzard announced an online mobile game name Diablo Immortal to its audience which is pc gamers and this is a wrong step which enraged its community. The game itself is not actually made by Blizzard but rather a reskin of a popular trending mobile game in China and it was done by NetEase game- a Chinese internet technology company. Chinese mobile game market has been categorized and well-known for the pay-to-win feature in every game there is. Pay-to-win is unfair, unsportsmanlike and hated by every gamer in the world. Blizzard wants to move to another segment: the profitable market in China. Unfortunately, this goes against everything Blizzard is and its moral code. Needless to say, fans are disappointed. An audience literally stood up in the announcement day and asked if this is an out-of-date April fool's joke. Videos about Diablo Immortal get more than 90% dislike and got criticized on YouTube. (Raymond 2018.) Consequently, according to NASDAQ statistic, Activision Blizzard stock's value dropped nearly 7% at 64.34 closing price on the fifth of November, just one day after its announcement. The downfall does not stop, after reaching the peek about 65.09 on 7th, it continues to drop further to 51.60 at the latest date of 14th. The stock of a company varies greatly depends on that company operation and decision on a period of time. It is necessary to keep track of a company before determining the next strategy, whether to invest more, opt out for a certain time or simply just stay put.

2.2 Knowing the basics in stock investing

Stock investing has been a great tool for generating wealth and it is available to everyone, of course, the investor is old enough to understand what he or she is doing. Investing in stock is very risky, just one bad decision on a rainy day could change your life to the worst, make you homeless and rob everything from your possession and bringing you to a mere round zero. If stock investing is so dangerous and risky, why does everyone keep pouring their money in it? Investing in stock is a double-edged blade. It has the ability to snatch your wealth but it also able to grant you resourceful wealth. The riskier something is the better the reward it provides, this is quite true to stock investing. To participate in the stock market, you should have a discerning mind set with self-consciousness and a lot of patience. Making profit out of stock investment takes time and devotion, eagerness and hastiness will lead to catastrophe. The bull market and bear market are the two most crucial terms you will encounter through the stock market. These two illustrate the current situation of the market which you can shape your decision on your next move. The bull market happens when the price of securities in a market has a rising trend and increase in value, encouraging investors to buy more; as the name suggests, bull often attacks by using its horn and throw you upwards, hence the term bull market. On the other hand, bear market implies the fall or soon to be of securities equivalent prices, showing a distressing period. Unlike bull, bears use their hand slap downwards, implying the falling in trend.

First and foremost, you have to always be conscious of the volatility and risks associated with stock investing. Most stocks have always been well-known for its violent fluctuations, there are no rules or pattern for its movement. The cause of this is mostly from the investor's behaviour or we can call it crowd psychology. For instance, the majority of people act with their instinct. When they experience a negative trend from companies which they bought their share from, they will try to sell it out of fear, thus dragging the price down dramatically. A higher volatility means higher risks, more unpredictable movement in a period. However, it also offers a wider range of value which can generate resourceful wealth if you like the right card. Not every stock complies with volatility, some are stable and follow a trend for a period of time.

There are ways to determine a stock's volatility like standard deviation or Bollinger Bands. Another measurement I would recommend is looking at the Beta of the stock which I researched from the Stock Investing book by Paul Mladjenovic(2016). In short, we compare a stock's potential volatility to the market in general. For example, let's say the market is set as a beta of 1. Any stock with a beta larger than 1 should be perceived as a volatility stock than its market. It goes the same way with stock that has beta lower than 1 then that stock would be more stable and fluctuates less. For instance, you are interested in Buyme Company and plan to buy its share. By browsing major financial websites, you find out that the company has a beta of 1.3, which means its 30% more volatility in the general stock market. However, you prefer a more stable share. Klepo Company offers shares with the number of 0.8 beta, which is 20% less fluctuation compare to its market. As a result, Klepto is a better choice based on your preference.

As mentioned above, the stock is expected to have a volatile trait. Only by long term investing can you be able to maximize your investment and avoid being yanked by the bear market. The longer the time frame extends, the less risky it is to invest in quality stock (Mladjenovic 2016, 35). Stock can be unpredictable especially in the short term which is about 2 years or less. As a result, if you need immediate cash or quick turnover, stay away from the stock market. It is difficult to analyse the behaviour of investors in a short amount of time; they make buy and sell stocks irrationally with many reasons (Mladjenovic 2016, 35). For instance, a company introduces a new product which proved to be very successful. As a result, their stock value is raised for a period of time. This encourages many buyers to buy their share of the company immediately which causes a sudden change in the market. This works the same way for the opposite. A company has a bad business period which pulls its profit down, this will create a small panic phenomenon to its stock owner. Consequently, they will try to sell their share immediately to prevent further loss. Investors with short term vision tend to act quickly without rational thinking in responding to an event. There is a term for short term investing: speculating, which means you are gambling with your money (Mladjenovic 2016, 31). In the raging bull market between 2002 and 2007, many investors experienced such high-profile stocks rocketed 20 to 50 per cent in a matter of months. However, during the bear market of 2008 -2008, those same stocks plummeted 50 to 85 per cent which makes saving interest rate in banks seems good. (Mladjenovic 2016, 36.)

It may sound obvious and redundant but ironically it is one of the most crucial things you have to keep an eye on through your stock investing journey. Of course, I am talking about your financial situation. You cannot expect to buy $100 worth of stock if you are not able to afford groceries for a day. It is a measurement which posted a limit amount to which you should spend to stock. If you cannot handle yourself it is best not to carry another responsibility like stock market investing. Successful investors are the ones who can keep control of their financial situation and not cross any unnecessary boundaries. It is important to keep balance in stock investing. There are many investors who put all of their savings and earnings into the stock market, leave them vulnerable when the market plunges or when things are falling apart. It is wise to always have an amount of 3 or 4 months of your gross expense in case your plan does not work out like it is supposed to. You can both save it as cash or cash equivalent. Some investors do not take paying debt seriously and keep them piling up till one day they have to sell their shares to pay up because they do not save up an emergency fund. Since they have to sell it quickly to get cash, the share is sold at a lower price than they actually get and they suffer a big loss. Additionally, the company that issue the share is doing great, generate positive profit and show potential in the future but they have to give it up to gain money for paying debts. Nothing good comes out of putting yourself on the risk of debt and blindly pour everything into the stock market.

Thirdly, choosing your approach to stock investing is also compulsory. There are two main ways: conservative and aggressive. Conservative investors prefer stable companies with high dividend payments, which they can rest easy and receive a quarterly or monthly dividend. Conservative style often goes with companies whose performance has been proved to suffice with large market size, often between $5 billion to $25 billion. They are winners in their industry and have a sturdy position among competitors, other factors cannot affect them considerably. Some examples are Apple, Microsoft or Coca Cola. Meanwhile, growth stock investors have a knack of challenge and like to take risks, they aim to be a part of a company and contribute to its development in the future. Those companies often show volatility and have small market capitalization, mostly below $1 billion. Why aggressive investors prefer these companies? Mostly because those firms are small in terms of market value, hence it is riskier and fragile compared to other companies. However, they have this distinctive attribute that is the significant growth potential which can be exploited; but only wise and patient investors can aware of this opportunity. (Mladjenovic 2016, 33.) To make it easier to comprehend, imagine 2 trees, one is fully developed and sturdy while the other one is only a year old. During a stormy night, the big one can manage well, but the younger one has a tough time surviving. However, if you relate yourself in this case, which one would you say is the one with the most growth opportunity? The giant tree may have reached its peak while the year-old tree will thrive for more.

Knowledge is important in many fields, cases, aspects of life and stocks investing is not an exception. If you have decided to participate in the stock market, you will have to be familiar with technical terms like P/E ratio, net change, day last (Mladjenovic 2016, 85). Luckily, definitions and guidelines are available on stock websites. Teach yourself some basics first before advancing in the vast scale of stock investing. Additionally, it is also crucial to do some research on certain companies through their annual report, newspaper, and news to get a glance of what are their intention or what is their aim to achieve. As mentioned above, their market value plays an important role to decide your style of investing. Be wary that some certain industries are regulated or controlled strictly by the government, they are sensitive to political changes (I will further explain this in risk section). By using this information, you can set out your own plan to pursuit or choosing your appropriate approach and be well prepared. Trends are a good lead to what is going on in the big pictures. By assessing them, you can filter out the most profitable industry and select the ones which are steering up the chart.

After having considered every point I have listed, you are ready to dive in the stock market. Well, that’s clearly not the case. As troubling it may sound, you still have to do one last thing: choose a broker. So, what do brokers do? To put it simply, it is like buying a car. After considering and comparing all the selections, you still have to contact the seller or an actual venue for the transaction to happen. It works the same as buying stock. If you want to purchase a stock from a company, brokers are the ones you need to contact, whether it is through phone or online. They will be in charge of buying stocks based on your request, you can also say that brokers are somewhat similar to the middle man. According to Mladjenovic (2016, 91), brokers often are companies and organizations that can purchase stock on your behalf. Additionally, they can also be individuals working for such companies. There are 2 categories for brokers: institutional stockbrokers and personal stockbrokers (Mladjenovic 2016, 91). Institutional ones earn their pay through investment banking and securities placement fees, advisory services, and other broker services. Personal stockbrokers give the same service but at a smaller scale, mostly for small businesses or solo investors. (Mladjenovic 2016, 91.)

We are going to dig deeper into the functionalities of brokers. Generally, their main duty is purchasing and selling securities (financial and paper investment). However, according to Mladjenovic (2016, 92), institution stockbrokers also provide advisory services where customers can pay for advice from an actual professional stock analyst and access to its research. Additionally, offering limited bank services like electronic deposits, check-writing interest-bearing accounts, and withdrawals, and credit/debit cards or brokering other securities are also offered as a service. Mladjenovic (2016, 92) also clarified the service which personal stock brokers provide. For instance, you can borrow money from them against your brokerage account for investing; they will charge an interest rate for that loan. Administration service, mail stock certificates and other functions are also included.

If you are familiar with the terms mentioned above, you are well equipped to dive in the stock market. However, they are just the most basic steps to acknowledge. Commitment, consistency and patience are the essentials of a successful investor; they can identify opportunities and be vigilant about surrounding factors that could affect the slightest to their stock portfolio.

2.3 Risk management concept

What is the risk? In common term, a risk is a probability of negative occurrence that is caused by either internal or external vulnerabilities, sometimes both. These occurrences may include damage, threat, loss and injury which can mentally and physically affect an individual or people. Luckily, they can be avoided through pre-emptive action. (Business Dictionary.) Although the risk is an abstract term, our natural human understanding of the trade-offs between risk and reward is pretty sophisticated. For example, in everyday life, we can understand clearly the differences between expected cost (in risk parlance, a predictable or expected loss) and unexpected cost (the worst kind, a catastrophe which resulted in tremendous losses, altered all the plan you made). (Crouhy, Galai & Mark 2009, 4-5.)

In particular, the risk does not emphasize the size of loss or cost (Crouhy et al. 2009, 4-5). For instance, if you list out all the cost annually, you will find it considerably enormous for example college fee, gasoline fee, food, recreation, fixed mortgage payment and so on, but you do not consider them a risk.

These costs are huge but they pose no threat to our ambition since they are predictable, reasonable and are written down in our plans. It is not the amount that matters; the real risk here is that these costs will suddenly appear in an entirely unexpected way without any sign and take away your savings for expected out-lays (Crouhy et al. 2009, 4-5). You are probably familiar with Disney's movie Up which was released on 29 May 2009 about Carl: an old man with an adventure to Paradise Fall accompanied by a scout boy named Russell and a dog named Doug. Carl and his wife Ellie dreamt of travelling to Paradise Fall since being a kid. Afterwards, after the wedding and finding out they could not have kids, they decided to save every penny to the "Paradise Fall" jar to pursue their childhood dream. However, each time the jar was almost full, something bad happened and they had to break the jar to pay for the damage: their house got struck down in a storm, Carl broke his arm, their car tire got flattened, etc. Their plan got interrupted by all kind risk associated with every aspect of their life, Ellie died of old age just before Carl bought the tickets to Paradise Fall. It may sound morbid but that is how risk affects our life.

For investors, especially stock investors, the term profitability and growth are exhilarating, some stakeholders are also thrilled to hear these words. However, without risk control and risk management, they can be illusory and destructive measures of performance. (Crouhy et al. 2009, vii.) As old as it is in the book of history, the future is unpredictable. It is not certain, and it is impossible to forecast or predict the stock market, exchange and interest rate consistently considering how volatile they are—or credit, operational, and systemic events major financial implications. However, the financial risks arise from those uncertainties can be managed. The modern economies differ from those of the past by being able to identify risk, to measure it, to appreciate its consequences, and then to take action accordingly, such as transferring or mitigating the risk. (Crouhy et al. 2009, 1.) Rather than just speculating, risk managing in stock investing will negate you from plundering to the depth of bankruptcy. It will be a tool to control your operation and head you in the right direction, make sure you will not stray from your goal.

What is the definition of risk management? According to Crouhy and his associates, risk management is the continuous process of risk reduction. In business, risk management is about how companies actively select the type and level of risk that it is appropriate for them to assume. In many companies, the nature of making decisions in business cases are about sacrificing available resources for future uncertain returns. The economic times suggests that risk management actually refers to the practice of identifying potential risks in advance, analyzing them and taking precautionary steps to reduce/curb the risk. There are many definitions for the term risk management; however, they can be interpreted as anticipating the risk and migrating or reducing it to the optimal level where it cannot wreak havoc to your set out plan and bring tremendous loss which can be avoidable. You may think that risk management is only for the professionals, but you can rest assured that we are an everyday competent risk manager. For instance, bringing your umbrella after seeing the dark cloudy sky to avoid being wet to work or reading reviews of a seller online before buying will guarantee the best quality and stay away from being scammed or deceived are great examples of risk managing in normal life.

The term risk management is crucial in the financial world. For instance, we have different cases like an investor who decided to buy government bonds instead of riskier corporate bonds, when a fund manager from Europe avoids his currency exposure with currency derivatives or when a bank carries out the credit check procedure on an individual before handing out a personal line of credit. In the stock market, stock-brokers offer futures and options as an effective financial instrument to avoid and minimize the risk. (Kenton 2019.) There has been an extraordinary growth in new types of institutions that earn their reputation by taking and managing risk (e.g., hedge funds), as well as some remarkable achievement in risk management mechanisms: financial institution bankruptcies rate declined during the intense downturn in credit quality from 2001 to 2002 is said to be the successful outcome of the better credit-risk management processes at bank. Risk management is also now widely recognized as the most creative force in the world's financial markets. (Crouhy et al. 2009, 1.)

Without proper risk management, company, individuals or even the whole economy may bear drastic consequences. In 2012, instead of doing thorough research, the Bank of America (BofA) implemented a monthly fee of $5 which their customers have to pay in order to gain access to their own funds through their debit cards. BofA thought it was a splendid idea since they only had to deal with a couple of angry customers and no one would make a big deal out of it and would not bother waste time changing banks (Bernard 2011). This is where the catastrophe strikes. After the implementation of the fee by BofA, people protested and decided to go for the credit union, which may have accounted for 70298 people (Doll 2011). BofA's CEO Brian Moynihan admitted there is a considerable number of people closing the account which resulted from the hasty $5 fee decision (Freed 2012). It was a total failure for BofA since they did not assess the risk of rejection from their customers. The Great Recession is caused by the subprime mortgage meltdown in 2007 which resulted from poor risk management performance like lenders agreed to extend mortgages to poor credit rating individual (Kenton 2018a).

Risk management process consists of a simple sequence of activities, which is shown in Figure 1. It is as a formal discipline which is defined by those activities. As simple as it may sound, the risk management process is hard to apply and unlikely to run smoothly in real business cases. There are times when locating and identify the risk is the most important part, or the most efficient way to transfer or deduct the risk is what matters. (Crouhy et al. 2009, 1.)

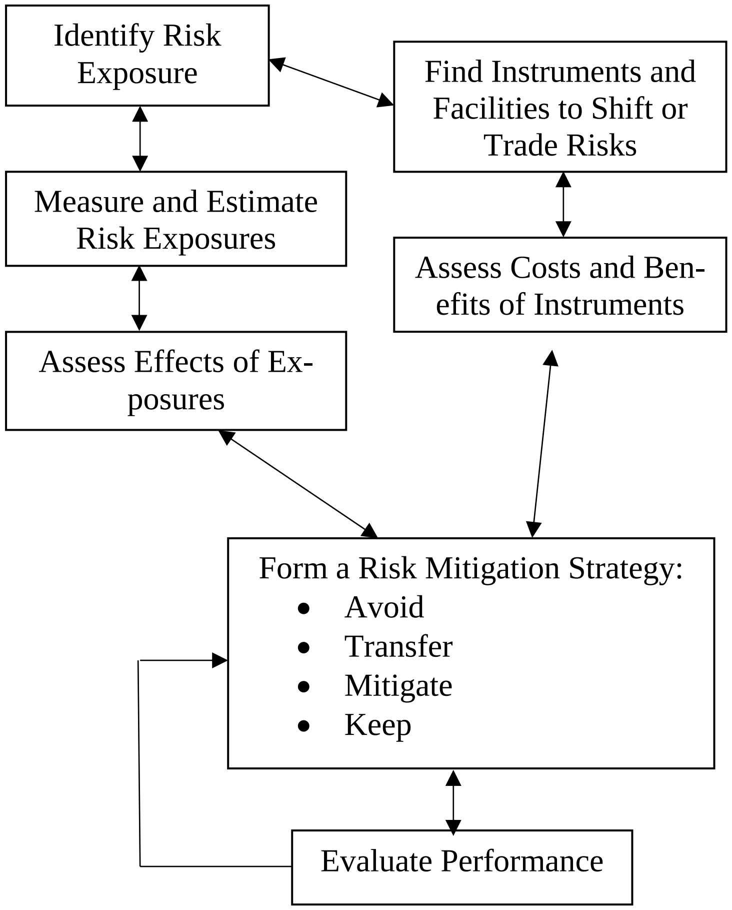

FIGURE 1. Risk management process (adapted from Crouhy, Galai & Mark 2009, 2)

2.4 The integration of risk management in stock investing

In this part, we will get to know how risk management integrates with stock investing as fire and smoke. They both connect to each other closely and often affect one to another regularly.

2.4.1 The importance of risk management in stock investing

It is transparent that investing in stock is a risky business which requires more than luck to accumulate your wealth. Through the points I have made above, you can perceive the idea that risk lurks around every corner and when occurred can bring drastic calamity. Consequently, it is rational to ask why investors keep pouring money into the stock market. There is an old equation in the wonderful world of investing: risk versus return. It states: If you want a greater return on your money, you need to tolerate more risk. If you do not want to tolerate more risk, you must tolerate a lower rate of return. (Mladjenovic

2016, 85.) This high-risk high-reward term is often familiar and proved to be correct in most cases. However, there are circumstances that the risk is too great compared to the return. Under such conditions, a smart investor can determine whether it is rational to take such chances or pass and wait for another opportunity to ensure your turnover. This applies intensively to any form of investing, especially stock investing. Investors aim for one thing and one thing only: profit. Not only does investing in stock generate an enormous amount of turnover but it also gives you the privilege to participate in a company's growth (Kenton 2019). If you play your cards right, achieving wealth through the stock market will be a walk in a park.

Everybody can take risks; however, taking a risk does not associate with success. Having taken an unstable and unsure path, your chance of success has already been affected negatively compare to other options, let alone reaping success from it. After an intensive time of researching, altering and weighing the trade-offs between the risk and reward, you decided to invest your asset on a specific company in a trendy industry. However, the more risk comes with more reward may not happen if investors neglect managing risks correlating to their decision. It would be a shame or a catastrophe to put everything at stake for nothing in return. It is brave to take a step forward in the immersive and unpredictable stock market but knowing which spot to step on and which to avoid differentiates a success investors from an "ephemera" wannabe-reckless and suicidal.

Luckily, risk management is the right tool to tackle this severe problem. Not only does it help investors avoid preventable risks but also gains a deeper insight into their stock portfolio management. As good as it sounds, risk management cannot guarantee perfect avoidance of all the problems associated with stock investing. It is easier to comprehend it as a risk reduction tools which enable investors to confront less avoidable risk thus lessen the loss and maintain the rate of return. As I have mentioned above, blindly investing or desire to earn a quick return for a short period of time in the stock market is speculating, which often ended in failure. Knowing the basics principle is just a tiny bit top of the iceberg. Meanwhile, proper risk management and forecasting play an important role in the stock market investing. It is easier to interpret risk management is like the break in vehicles. You can accelerate as fast as you want but the break can help you control the speed, slow down when in tough corners, prevent you from over speeding which will cause drastic accidents. In conclusion, there is no denying the necessity of risk management in stock investing; without it, investors are no different from gamblers.

2.4.2 Breaking down risks in Stock investing and corresponding solutions

Risk has an undeniable impact on your money concern and goals. Its presence is expected no matter what you plan to do with your money. As a result, understanding the risk before investing is important. There are various kinds of risk. Every book or website has their own term of definition but I have condensed and conclude the most appropriate one, and of course, it has to be related and updated to fit the latest stock market characteristics. You can write pages long about ways that your investment can be gone, there are a large number of possibilities. It could be frightening but that is how life works. It is best to understand different kinds of risks before starting to invest in the stock market. Before getting to the point, I have to remind the readers about the term which is closely related to risk: volatility, which is about the rapid movement of buying or selling, which, in turn, causes stock prices to rise or fall rapidly. (Mladjenovic 2016, 43.)

The first risk you face in stock investing is the financial risk. This often happens when the company which you buy stock from loses money or worse: going bankrupt. This kind of risk is quite common and widely seen in the stock market. Investors lost their investment because they decided to put their asset in the wrong company. In the late 1990s, millions of investors blindly pour their own money into stocks which were bad choices. They also ignored all the financial risks which were clear as day. One of the many cases which ended in catastrophe was the DrKoop.com- a health information website. This firm was in huge debt with negative turnover. Its share value dropped from 45 per share to $2 per share by mid-2000, investors suffered losses for millions. During 2000-2001, tech and internet stocks were in crisis which filled up the catastrophe graveyard of the stock market due to the negligence of the investors. They did not see and analyze the risks of the company they decided to invest and proceed without solid financial reports such as sales, turnover and debt. In 2008, the credit crisis in Wall Street and the subprime fiasco in the wake of the housing bubble popping led to many new risks. The market experienced extreme volatility back then because of them. Another great example of the subprime crisis is the Bear Stearns case. Bear Stearns was on its glory peak at $170 a share in early 2007, yet it plummeted to $2 a share by March 2008. The cause is no other than huge exposure to bad debt. Had the investors spent time doing research they would have avoided loss and kept money in their pockets. (Mladjenovic 2016, 44.)

There were some survivors back then during the crisis because they did their homework and spent some time doing research about the financial condition of those internet stocks (Bear Stearns). Those companies had all the negative attributes which investors must avoid: low turnover or profit, in piles of debt, have too many competitors. They knew it was wise not to go for those stocks and they avoided financial casualties. The first and foremost thing to do at the beginning is to do a sufficient amount of intense searching and choosing the most appropriate stocks, common sense also helps. Even if the economy is doing well, financial risks must be monitored carefully and never be underestimated. The simplest but matters the most is that the company is generating revenue constantly. And if a company is doing well, then you can earn money by investing in its stock. On the contrary, if that company is struggling to make ends meet, you will not make a dime from its stock. Profit is the life juice of any company, it also reflects the company itself. (Mladjenovic 2016, 44.) People tend to forget that common sense plays a huge role in determining the right choices and steering against bad odds. Mladjenovic (2016, 44) discussed there were reasons that investors back then deserved to suffer all the losses. The high-profile analysists and the media should have been careful about their statements since people have the euphoria and herd mentality to follow the most common ways back then. Additionally, the illusion of making quick cash easily with the assurance of professional's "advice" often make people less cautious and vulnerable to risks. One should always bear in mind that generating wealth takes time and commitment.

The interest rate will be the second risk I am going to analyze. The term interest rate is quite common and familiar to investors. The best example for it is the bank charges you interest rate for a loan or annual interest rate from savings. The interest rate should be taken seriously because of its impact on the economy and investors, it could bring troublesome periods which will stagnate the economic process and things revolve around it. For instance, let's say Bob decided to purchase corporate bonds with a 6% interest rate. That means his money is well kept with the 6% return, things are going decent for him. Let's say he bought $10000 worth of bond, which means he gets $600 a year as interest. However, after having bought the bond, the interest rate raised to 8%. Bob lose the opportunity for 2% more of interest rate and the only way to obtain it is to sell his bond on the market with the current market price and invest again with the new 8% rate. As easy as it may sound, unfortunately, no one in the market wants his 6% rate when they can get an 8% interest rate. He cannot alter the 6% rate and 600 dollars of return each year. What can he do to ensure that new investors can also get the equivalent return for 8% yield? You guessed it right. He has to lower bond value. In this case, to make sure the new investors having 600 dollars a year with the new 8% return rate, the new value of the bonds should be 7500 dollars because 600 dollars is equal to 8% of 7500 dollars. (Mladjenovic 2016, 45.)

As a result, even with a safe deposit in a good company, Bob still lost 2500 dollars due to a simple and tiny interest rate risk. However, if he decided to keep the bonds, he will not lose the money but he will have his capital tied up while the 8% interest rate is bringing good opportunities for investment. A company's financial situation is vulnerable to interest rate risk. For instance, companies with debt or loan suffer tremendously from it. Since the interest rate is high, the cost of borrowing money is also increasing and force them to take even more debt. As a result, their business operation is affected, thus dragging down their performance and further decline the profitability. A quick recap for investors who invested in companies that cannot generate profit or low performance needs to be avoided. When the earning falls off, its stock is less compelling and falls in value, causing it to lose its position in the stock market. (Mladjenovic 2016, 46.)

Another consequence of interest risk is its negative effect on a company's customer's financial condition. As a result, if the buying power decrease, that company will not be able to make sales and generate profit as their customers are in a tough position (Mladjenovic 2016, 46). According to Mladjenovic (2016, 46), Home Depot back in 2005-2008 was a great example. They were in their soaring days when sales were at the top of the chart thanks to the blooming of the housing industry. Later on, the construction and housing industry were in the great recession and experienced a considerable decline, HD also met the same fate as it was strongly dependent on house repair, building and improvement. The main reason behind the fall of the housing industry because of its sensitivity to the interest rate. HD's sales dropped dramatically and this marked a bad day for investors and its stock. In late 2006, HD's stock value sank deeply from $44 in 2005 to $21 by October 2008, which was accounted for 52 per cent. We can see that interest rate indirectly affect HD's business as it tackled HD's main customers negatively.

Interest rate also has a certain impact on an investor's decision. An investor may be reactive to stock in industries that are sensitive to interest rate and try to sell them when things go south. Those industries include electric real estate, electric utilities, and the financial sector. Additionally, conservative investors are interested in high dividend yield and prefer higher interest rate more than aggressive ones. The high-interest rate may persuade investors to change from stocks to savings, bonds or bank certificates of deposit. (Mladjenovic 2016, 48.)

The interest rate can affect stocks and investors directly or indirectly. It is compulsory to always be informed and keep yourself updated about the interest rate. The certain industry will be affected by interest rate differently. Consequently, investors should always diversify his/her stock portfolio. Should one industry experience drastic downfall, the other one will be your back up plan. Stock investing is considered to be long term, investors should consist of other investment vehicles. These vehicles can gain sustainable return when interest rate rise, which included saving bonds, market funds. Always have a backup plan and balance your investment is the best bet you have against interest rate risk.

Market risk is one of the most common risks and investors bump into it regularly. Mladjenovic (2016, 48) said people often discuss the market and how it fluctuates like a monolithic entity but forgot the core of it- the big gathering of many investors where stock purchasing and selling decisions are made. We are familiar with the term supply and demand because it has been existing since the first market ever created. Regardless of era, our current modern market circulates the laws of supply and demand. To put in a simple way, if one company is proved to be competent and have great potential or some famous analyst publishes an article about how good a company is, people will all seeking for that company's stock, thus increasing the demand dramatically. As a result, the price for that particular stock rises like a kite in the wind. Scarcity also raises the price because of the shortage of supply. Furthermore, if that company failed to deliver its promised performance, people will be less interested in its stock and search for another company to invest. Consequently, the supply will be redundant and the prices fall. Market risk is about the law of supply and demand.

Around the clock, millions of investors are selling and buying stock in the stock market. All of those transactions have a major impact on the price of your owned stock. As a result, it is impossible to anticipate the movement of your stock and hence the term volatility. That is also the sole reason why when investing in stock you must not speculating and planning for short-term return because of stock's instability. Mladjenovic (2016, 49) stated that markets are volatile and that is their nature and in such an unstable environment, investments needs time to develop and grow.

It is important to understand the market risk when investing especially for those people who put all of their emergency funds because its volatility could cost everything. To minimize market risk, you must understand the unpredictability and instability of the market, avoid speculating in stock investing and always aim for the long term plan. It takes time and diligent work to grow your investment. Successful investors seek ways to minimize their risks in the market, while speculators constant put their own wealth at risk for short-term and uncertain profit.

After the market risk there is the inflation risk. Inflation is described by Fiorillo (2018) as the rise in the price of goods and service over a period of time. It also has another name: purchasing power risk. To put it in a simpler way, we have less buying power with the same amount of money. Back then with one dollar, you could buy many things such as a sandwich with a bottle of coke but now it is hard enough to even buy 1 bar of candy with the same amount of cash. The main concern about inflation to investors is that their investment value cannot keep up with the inflation. Let's say you have a 5% interest rate in the bank and you are free from financial risk and interest rate risk. Unfortunately, inflation happened at a rate of 7%. That is the exact moment when you start to lose money even when you thought deposit your investment in the bank for interest rate return is safe enough. (Mladjenovic 2016, 50.)

Tax risk is also a considerable factor since it could affect the amount of money you can keep. Tax is proposed by the government and it takes a portion of your wealth, often your hard-earned money. Different decision with stocks such as selling it at a wrong time can end up with you paying more tax than you normally do. Tax laws change quite frequently so it is considered to be a part of risk versus return equation. As a result, it is wise to always know a thing or two about tax law. It could affect dramatically to your wealth at the end because your fruit of investing may be taken away due to high tax rate if you are not familiar with tax laws or making a wrong decision at the wrong time. For instance, if your stock from a chosen company raised from 5 dollars to 85 dollars, the 80 dollars appreciation is not subjected to tax if you do not sell it yet. Instead of selling it right away and pay for the tax you could hold on to it for long term gain and then later sell it, this will minimize the amount of tax you have to pay. Long term capital gain has a more favourable rate than ordinal income. (Mladjenovic 2016, 50.)

There is also one kind of risk that we cannot escape because of its affluence: political and government risk. The government has the power to control companies, thus your stock can also be influenced by the government's decision. Mladjenovic (2016, 50) visualized the company which you bought stocks from is a fish and government policy as a pond (those policies can be laws, taxes, certain regulations). That fish can be killed easily if the pond is heavily polluted or contains no vital for the fish to thrive. If the company you invested is exposed to political and governance risks, you need to be careful and stay vigilant. There are certain companies in a particular industry can be ground to dust by a single regulation law. On the contrary, the same can further increase their profit and sales considerably. For instance, Facebook is blocked in China as their policy, instead, they have QQ and WeChat as the primary social network. If you have invested in a company that is currently a target to the government, consider selling them or put them on the stop-loss order. Another example is tobacco companies which are under political fire-storms which altered their price constantly.

Before investing, you need to question how politics can affect your chosen stock's value and its future prospects. Such risks also happen internationally. Companies have their operation spread throughout the world, they can be affected by geopolitical events from governmental risks (such as in Venezuela in

2015) to war and unrest (as in the Middle East) to recessions and economic downturns in friendly countries (such as in Western Europe) (Mladjenovic 2016, 50). If you are interested in international stocks, exchange-traded funds can be considered to be quite effective and safe mean of investing. New tax laws, regulation or government decision can have a macro effect on stock, on an industry, a sector, or even an entire economic system. Meanwhile, companies have a micro effect on the economy. The graph shows the visual of this effect: Politics → policy → economy → sector → industry → company → stock → investor. (Mladjenovic 2016, 203.)

Next, we will confront the risk every investor has to endure: personal risk. According to Mladjenovic (2016, 50), the risk involved with investing in the stock market is not directly related to the investment; rather, the risk is associated with the investor's circumstances. For instance, Rick has a 15000-dollar stock portfolio. In the long run, his stock should grow considerably taken that he has invested in a company which is making money and frequent. However, what if something bad happens and Rick has financial difficulties, he would have to sell his stock to gain quick cash. What if in that scenario his stocks are declining which is normal because stock fluctuates frequently, he will lose some of his investment. This is a problem that the majority of investors have encountered for a long time, usually with investors with no emergency fund or savings to pay for a sudden expense. You cannot anticipate what disaster may strike like flooding, the TV is broken, trees fall on the roof, etc. Luckily, it is possible to avoid this risk by preparing savings in a bank or other money market funds. By doing so, investors do not have to liquidize their stocks immediately, which often resulted in value declining and the wreckage of the stock portfolio. (Mladjenovic 2016, 51.)

Last but not least, the emotional risk is the last risk we analyze. It's normal to wonder in what way emotion is involved with stock investing. Emotional risk is considered to be a huge risk because we are a human being so we have feelings and emotion, so are investors. There are many important principles of stock investing, some of those are discipline and logic. However, even the most successful and headstrong investor can be overwhelmed by emotion and cannot listen to his/her mind, hence lose common sense. The moment you let emotion take place in stock investing is the start of bad decisions spree which most of the time resulted in losses. When being an investor in stock, you will be confronted by 3 main emotions: fear, greed and love. Each emotion has its own effect on your decision-making process and exposes you to certain risks, which is why you need to understand them thoroughly. (Mladjenovic 2016, 51.)

Greed is human's nature. Back in 1998-2000, investors got caught up in their ambition and invested in risky dot-com stocks. They saw an opportunity for an insane amount of money in a short period of time, who does not love easy money. Dot-com stock back then showed incredible growth in value, doubling and tripling constantly. Being taken by greed, investors did not care about facts and numbers like P/E ratio, ROE, etc. (Mladjenovic 2016, 51.) Later on, from 2001 to 2002, dot-com bubble burst which left a tremendous debt to investors and the equities entered a bear market (Hayes 2019). Do not let greed blind your eyes, use your common sense. The temptation of short term cash can be hard to avoid but with careful research and self-discipline, you can steer yourself away from it and keep your investment safe and sound.

Fear is also common, we often experience fear towards things we do not have knowledge about. People who are afraid of loss often aim for a low rate of return, avoid sustainable and profitable income. Investors may feel fear when their stock is losing value on the stock market. Inexperienced ones will try to sell the stock right away to prevent further loss. Little do they know that even the bull market does not go up straight all the time, it has some ups and downs. The same goes for a bear market, they go down in a zig-zag pattern. Inexperienced investors often try to sell good stock and slip past the potential of it when it only goes down for a while. On the contrary, smart investors will see this as an opportunity to acquire good stocks at a cheaper price, further enhance their stock portfolio. (Mladjenovic 2016, 53.)

Stocks are dispassionate, inanimate vehicles, but love can happen in an unexpected place. Emotional risks occur when an investor became too attached to a particular stock and refuse to dispose of it even when it clearly shows a sign of falling in value. Often this risk occurs when the investors are persuaded to purchase it because of the stock's popularity, friend's advice or just because it sounded good. In business, there is no place for feelings, it can could your judgement and lead you to some places you do not want to be. Love is great to human and actual being, but it will not end well with investments. It is up to you to put your emotion out of the game because the only one who can help you with it is yourself. (Mladjenovic 2016, 53.)

That's a lot of risks to take in, right? It is tough to be an investor in this risky economy, but with no risks, there will not be juicy returns. Luckily, there are ways to overcome such difficulties and it is easier than you think. One of which is called risk management. One cannot run from risk, rather negate its effect and avoid confronting it whenever possible. Next I am going to give you some tips to keep money in your pocket and maximize your own profit.

2.4.3 Minimizing Risks

The first and foremost step is gaining knowledge. It may sound crazy but I see lots of people spend more time picking a 10 euros burger menu than where to put their 10000-euro investment. Lack of knowledge is the most lethal risk to investors. In fact, the most effective way to minimize risk is to gain insights and information about stocks about jumping right in. The more you learn about stock the better you are at controlling your profit. (Mladjenovic 2016, 56.) Seeking information is also a part of gaining knowledge which differs successful investors from the others. Investing in stock without sufficient information or understanding is no different from diving into a pool without knowing that the pool is only a meter deep (Mladjenovic 2016, 71). There are many basic terms that you need to know: accounting fundamental, supply and demand law, how to read a stock table. As an investor, you also need to mind the important dates to ensure your rights for receiving dividends like date of declaration, ex-dividend date, payment date, etc. Keep yourself updated about trends, what's new with an industry and how the economy is doing.

Restrain yourself from investing in stock if you do not understand it. Instead, imagine a sum of money like 10000 euros and make some goals or reasons for investing, this method is known as simulated stock investing. Choose a few stocks that you think will do well and keep an eye on them, track their progress. See for yourself how the stock's value fluctuate and how it respond to various changes or events in the market, practice makes perfect. Do not be too hasty to jump right in just because you think this stock is a magical moment which will bring you fast money. Unfortunately, it always ends in scenarios that investors lose their investment value. There will always be opportunities for making money no matter how well or bad the economy's situation is. (Mladjenovic 2016, 71.) It is best to equip yourself with decent information before taking part in the big stock investing game.

To plunge into the stock market, you need to be financially safe as a solid base for your stock portfolio developing. With no sustainable finance, should anything bad happen (flood, broken furniture and so on), you will have to sell your stock to make up for such incidents? Under those circumstances, great stocks with potential growth may be sold or you may lose investment value because your stock is in a temporary downward trend when you sell them. Always have a sum of money which is about six months' worth of your living expense, preferably somewhere safe like the bank or treasury money market funds. Try to keep your debt level in control, it is recommended to reduce your debt as much as you can because interest risks can deal a considerable burden on your financial situation. Additionally, your current job is the most sustainable source of income. As a result, keeping yourself employed is important because the stock is just the secondary means of generating wealth. Buying necessary insurance is compulsory, you cannot never too careful. (Mladjenovic 2016, 71.)

Diversified your investments is crucial in minimizing risks (Mladjenovic 2016, 56). Know how to spread your money over different investments, 5 to 10 per cent for one single stock is the ideal level. Do not put all your cash in one stock. Even if that stock is trendy and proved to be a potential investment, chances that the odds are against you. The market is well-known for its volatility, it is wise to divide different portions of money into different kinds of stock. Do not invest in one industry, try different ones with good growth potential. If one industry is hit, you still have the other to back you up. Moreover, try to avoid putting your cash in only one type of investment. Stock is not the only means of investing, you have bonds, treasury securities, bank account, real estate, and precious metals. Those alternatives can be found in mutual funds or exchange-traded funds. (Mladjenovic 2016, 58.)

Last but not least, trying to weigh risk against return is one of the efficient ways to minimize risks. What is the risk level that you can handle? How many risks can you tolerate? You must analyze yourself and come up with your own limit before choosing a company to buy stock from. First thing first, you should choose the level of risks based on your financial goal. Let’s say your aim is to have 500000 dollars for the next ten years and your current asset is 400000 worth of stocks, bonds, etc. With only 2, 25 growth rate, it is fairly easy to get such return because it is relatively low. It is unnecessary to try risky investments with high return rate for such goals, you may lose your profit on the process and prolong the time to reach your financial goals for nothing. Investors often take more risks than they need to. (Mladjenovic 2016, 59.)

When it comes to weigh risk against return, your investor profile counts. If you are a freshly graduated student and begin to work, you have better tolerance to risk since you can get back on your feet if you screw up. On the contrary, near retirement investors need to be vigilant and try to avoid aggressive investing style, it will do more harm than good. The stock market is volatile and fluctuates unpredictably. Time is a luxury thing they cannot afford, there is not enough time to recoup their investment. Try to go with income stock which is much safer with sustainable profit or savings. Investing in growth stock is fine as long as they put 5% or less of their asset into it. (Mladjenovic 2016, 59.)

3 DATA ANALYSIS

What good is theory without some real study cases or example? To make my claim more trust-worthy, I had a chance to interview 2 successful stock investors: Henrik Rimpilä and Niklas Oksanen. They are professionals with deep insights in the stock market.

3.1 Interview with Henrik Rimpilä

To prove the integrity of my research, I interviewed Henrik Rimpilä, who is an asset manager at OP bank in Finland. He is a professional in his field and somewhat an experienced stock investor. Being such a competent individual himself, he shared quite a remarkable point of view and a vast amount of investing knowledge, from being a decent manager and as a normal investor as everyone else. He has been investing in stock for quite some time and grows fond of it. Along with his investing journey, he has encountered many difficulties which seem tiring at first. However, with his commitment and wisdom he gained from his diligence, not only did he overcome those obstacles but he also gained a considerable wealth, which is the pinnacle of investing. Through the help of my coordinator: Janne, I have such a wonderful opportunity to arrange an interview with such a competent investor. The interview took place and helped me gain professional insights and further confirm my theory about how to manage risks in stock investing, with a lot of complex field-related topics.

When jumping in stock, Mr. Rimpilä had 1 goal in mind and it was to generate wealth and gain some capital. He did not have a specific level of wealth, which he stated that more is better. Normally, having no exact plan is dangerous and can make investors endure unnecessary risk as I have mentioned above. However, Mr. Rimpilä knew what he was doing and always acknowledged which was a rational option to take. To further secure his portfolio, he had emergency funds which consist of forest establishments and woods. Should anything bad happen, he always has his backup plan and avoid disrupting his stock portfolio with accidents. A couple of years back, when Mr. Rimpilä was still young, he did not understand the market's volatility so he took so many risks which could have been avoided, now he has a thing or two about dealing with them. For instance, the volatility of internet stock was quite a problem with Mr. Rimpilä, he had a hard time with it. It was rather interesting that I also agreed about stock is another kind of gambling. However, he did add that to make it more professional, you need to diversify your own stock to make it not as risky as gambling.

Stock investing is always about long term commitment and Mr. Rimpilä said the same. When being asked about the differences between an experienced investor and a newbie, he immediately stated that the important thing is long term mission. An experienced one will try to go over his/her strategy in the stock market before jumping in while a new one will blindly go without proper research, biting more than he/she could chew. Mr. Rimpilä told me that you could be rich in one day in stock but expect the risks associated with it. Short term returns are expected with massive uncertainties, thus why investing in stock is long term oriented.

Mr. Rimpilä invested in a paper company, an industrial company, bank and China mutual funds. We can see that he diversified his stocks into different industries and even mutual funds. He also claimed to have both growth and income stock invested. This is what differs excellent investors from ordinary ones. With a different investment, your stock portfolio is secured from certain risks. He made such choices judging from the current condition of the economy, which means proper research and consideration was carried out and choose the most rational option. He is worried about his investment style since he usually put his money in his growth stock. Jumping to the volatility of the stock market, I asked him can we predict its movement and he said no, but also a bit yes. He said it has been stimulating and did not make sense, nobody can 100% predict the stock market. You could, however, make a couple of speculation but do not rely too much on it. If you would know how a certain stock accumulates, chances that you have information from the inside.

Like many other investors, Mr. Rimpilä also had some hard time when his stock's value was going downhill. You can sometimes make a good investment and sometimes you lose your money, that's a part of the investment process. In that situation, he tried to assess whether he was in the right market or figure which trend was going on and try to be smarter than other investors. He also mentioned that stock investing is a long term process, that's why a little down would not be alarming in such a short period. He agreed that the stock market is risky, but only to growth stock which is volatile and you can make such fatal mistakes. There are also dividend stock which is safer and guarantee annual income. Mr. Rimpilä is an asset/wealth manager so he is familiar with the term risk management. In fact, he agreed it is compulsory to process of any investing activities. Weighing risks against return was also mentioned. He claimed that the more risk you are willing to take, the better the returns. However, Mr. Rimpilä also added his opinion which reflected the idea about the ideal zone: only take the risks within your capability.

Being an asset manager, one of his duties is to consult the risk level to his customers. He has his own scale of risk which starts from one as the lowest to five, the highest. He has to know what kind of investor his customer is, what he/she is expecting, the amount of money he/she willing to spend and then assess if that market is appropriate to invest. Knowledge was mentioned many times in our interview because it differentiates successful investors from ordinary ones. Additionally, it might sound surprising but he insisted on common sense is the crucial thing which people lack. It would make no sense to invest in a stock when the economy is going down, you need to calculate your risks before making a decision. He proved his point by saying: “There is no such thing as too knowledgeable”. Most stock investors go for a broker because they need consultant and guidance. However, Mr. Rimpilä chose to invest stock on his own, he makes his own decision and carries out transactions from a to z. Based on the situation of the economy, he assessed the stock of the rising industries or companies that showed great profit and made consideration. Mr. Rimpilä strongly opposed the idea of following the public when buying stocks. He usually tries to sell stocks which are desired by the public for capital gain.

Mr. Rimpilä always tried to think the opposite of what people would think. For instance, he shared about his disinterest in hot stocks and markets. The main reason for his point of view is he believed that everything has its own cycle, those trendy stocks and market would burst. Consequently, the damage may be more severe than its gain. He tried to be smart and avoid being an ephemera. We are going back to the knowledge section where Mr. Rimpilä mentioned about listening to the top stock analyst. He combined both of their opinions with the economy’s situation with a bit of his experience to make the most profitable approach. According to Mr. Rimpilä, the interest rate in Europe will not be a problem for investors, at least for a few years to come. Supply and demand law circulates the stock market. Mr. Rimpilä understands its principal and expressed his concern about how influential it is to investor’s behaviour. The stock market in Europe also affected by the money printing activities from the Europe Central Bank. He called it quantitative easing, if the ECB prints out money, the stock market goes up. Investors will have more capital to invest thus increase the buying power, trigger the rising demand. He has certain ways to deal with the unpredictability of the stock market: diversify the stock portfolio, make radical decisions and do proper assessments about the current condition of the stock market.

Inflation risks would not be a problem in Europe at the moment according to Mr. Rimpilä. He also said the higher the inflation rate the higher the interest rate, which is troublesome. In Europe, we take tax seriously because the community welfare is based on the tax return. Mr. Rimpilä stated that income gained will be deducted to the tax administration, it is compulsory to comply with the law. I moved on to the political and government-related stock and asked him if he had some opinion about it. Mr. Rimpilä said the government and its politics affected many companies and industries. Some could not survive and went bankrupt. He suggested me to avoid stocks related to the government or politics since they are risky and too dependent on the law.

Mr. Rimpilä is a forward and headstrong man. He did not let his emotion interfere with his decision-making process. He always keeps his head clear because emotion is not suitable when stock investing. He condoned investors to have certain greed, with greed you are motivated to earn more returns. However, Mr. Rimpilä suggested that each investor should know his/her limit, too much greed will gradually consume you. With Mr. Rimpilä it is not the same, he did not have a hard time with greed since he made ration choices based on what the economy had to offer. He controls the greed, not the other way around. The same goes to fear, he said he did not feel any fear in his stock investing business. On the contrary, he was quite confident about his decisions. Mr. Rimpilä showed no sign of affection to a particular stock. In fact, he told me he was going to sell some of his stocks because he thought that they may not do well in the summer period. Additionally, he has different means of investment scatter from stocks to bonds and mutual funds. He thinks rationally and acts accordingly to his surroundings.

3.2 Interview with Niklas Oksanen

To further solid my theory, I interviewed Niklas Oksanen who is a professional investor in the stock market and also a competent wealth manager in a bank. Different from Mr. Rimpilä, Mr. Oksanen has a simple financial goal: make enough to live comfortable and provide more in his pension. As careful as he can be, Mr. Oksanen always have some money lying around as an emergency fund when things go south. He also pointed out that when you do not have your cash reserve, you will have to take out some of your investment and that will not end well. Mr. Oksanen invested in stocks, bonds and also funds, kept his investment diversified. He is familiar with the instability of the stock market and expressed his knowledge with the way the market works. Mr. Oksanen mentioned he encountered both the bear and the bull market, which he claimed them to be better than the economic depression 10 years before.

Mr. Oksanen said stock can be gambling, but then it is not investing anymore. I have been repeating the term speculating constantly and Mr. Oksanen expressed his point of view exactly like the theory. If you just buy and sell stocks without digging deeper or looking at the market then it is no different than gambling or playing the lottery. Mr. Oksanen understands investing is the long-term mission, otherwise it would be just speculating again. However, he also claimed that you could make some money here and there, but you need to find opportunities. One of his examples is the bitcoin fever in which you can make loads of money in a short period. Unfortunately, it also comes with a price that if the money can be earned easily, many people will try and it creates the bubble phenomena- it will burst. As a result, you will lose more than you can make. For his stock investment selection, he chose an investing company which is ran by Warren Buffet, it is more like a mutual fund. Mr. Oksanen saw himself as a conservative investor when it comes to investing in stock: big companies with decent income and high dividends pay rate. He explained the reason behind that choice was he could avoid unnessary risk because then he would not have to follow the invested company on daily basis and it would be a lot of work. Besides, aggressive style brings a lot of profits but also costs you a fortune. Mr. Oksanen viewed his approach as one of the risk management processes.

Mr. Oksanen shared from his experience that to some certain extent stock market can be predicted; however its range is from variable to unknown. Additionally, he agreed the same thing with Paul Mladjenovic about the market can only be predicted in the long term while the short term guesses are hazy and incorrect. Like many investors, Mr. Oksanen has encountered with the loss in value of his stock many times. Being a competent investor, he immediately tries and find out what is happening with the companies he is investing in, figure out if it is a short term drop and wait. Try to remember why you choose this company from the beginning and be patient. Mr. Oksanen has known risks in stock investing too well, he advised me to buy more stocks other than 1 single stock and spread my investments equally. By doing so, my risks can be lowered significantly. For instance, if 1 company goes bankrupt you still have 9 others who are doing well. Mr. Oksanen takes risk management seriously, he said it is your money and if you do not manage risks then it goes back to gambling, not investing anymore. Besides diversifying your stocks portfolio, Mr. Oksanen also mentioned the second important tips is to keep track of your invested company closely and step by step. As a result, you can make ration decisions based on that company financial situation in the future or at the moment.

Mr. Oksanen expressed his field in wealth management through risk versus reward, which is if you can tolerate more risks you can diversify more of your investments. If you cannot deal with too much risks, you need to have more bonds to balance out. Additionally, if you take a lot of risks then make it count, it is pointless to bear many unnecessary risks for nothing in return. According to Mr. Oksanen, debt is not always a bad thing to a company, even a big company such as Coca Cola has debt. Moreover, it depends on the stages of the company. Mr. Oksanen sometimes follow trendy stocks but he warned me to be careful with it. Trendy stocks can create bubbles because they attract many investors, hence create a bubble. The dangerous part is this bubble may burst and result in significant loss that can take years to

recover from. For instance, bitcoin for once cost 20000 dollars, after the bubble burst, it fell to 4000 dollar a bitcoin.
Mr. Oksanen said you can never have too much knowledge. Knowledge is the second in the essential list, Mr. Oksanen told me to have a look at a company's turnover and assess if it is growing year by year. Then, you can determine whether its stock is worth your investment. Equip yourself with latest information and doing proper research will give you a better look at the stock market, hence improving your profit. He also mentioned that listening to top analyst to get some idea and tips is a good thing. However, do not always follow 100%, instead it is wise to combine their advice with your experience and do some research afterwards. Mr. Oksanen's decision making process also being affected by the law of supply and demand. He learnt that chasing the fat, short term money is not tolerable. In the long run, fat money does not last, it is only profitable for 3 to 4 times at most. When being asked what to do with the instability of the stock market, Mr. Oksanen advised to do nothing and roll with the wave, or simply just wait because the market fluctuates all the time, for such a short period it is not that threatening. Inflation rate is not a problem with him and he told me to keep gains higher than the inflation rate in order to make constant profit. Mr. Oksanen pays taxes like everyone and he said it is how the world works, it does not affect his wealth significantly.

Moving to the political risks, Mr. Oksanen agreed that the government can affect stock drastically. As a result, you have to assess them like how the government policy affects your stocks, what will happen if they approve a new law, will that stock explode. Sometimes, the government can help a company through such policies, or maybe it can do more harm than good. Despite the risks, Mr. Oksanen told me he did not avoid stocks that are sensitive to politics, instead he went for such opportunities. However, he also advised me to stay alert and put a small amount in such investment. As many investors, he also experienced emotions in his investing journey. But, he understood the harm those emotions could bring and immediately suggested me to put them away, never fall in love with stocks. He also recited that those feelings can affect your decision making process. For instance, greed can make you keep a certain stock even the value is high enough already, instead of selling it right away you try to wait for its value to get a little bit higher. Unfortunately, most of the time at that moment, your stock value may decline and you let such precious opportunity slip. Besides greed, fear also influences our behaviour. In certain circumstances, if you feel nervous and afraid when choosing a particular stock to invest, it is wise not to invest in it because you can sense the uncertainty yourself. Mr. Oksanen also agreed that having too much emotion attached in stock can lead us to irrational decisions.

Last but not least, Mr. Oksanen will give us useful tips on how to be a competent investor. First of all, never invest money which you cannot afford to lose, always bear in mind that money you are willing to invest is expendable. Secondly, diversifying your investments into equal parts. Lastly, you must read portfolio theory and equip yourself with as much information as possible.

4 RESULTS

Mr. Rimpilä and Mr. Oksanen's investor profile match for 80% of an ideal investor according to my theoretical research. They are both successful and experienced investors that confirm the majority of the points I have made. There are several steps of minimizing risks, we will analyse whether they practice them in reality. At first, they are both managers themselves so they understand the most about the importance of risk management. Before choosing an investment, Mr. Rimpilä and Mr. Oksanen have some assets and establishment as an emergency fund which is one of the crucial steps of ensuring your finance. Their occupation is stable and provides constant income. Plus, they always put paying their debt on the top priority. Overall, both did apply the prevention of the financial risks decently. However, they did not prepare a certain account book to calculate their income. Additionally, Mr. Rimpilä lacks a financial goal, he prefers the more gains the better. As a result, he may take more unnecessary risks than ordinary, which can result in unfortunate events. As the contrary, Mr. Oksanen has decent plan which is simple: enough to get by. Consequently, he is able to negate such excess risks.

Either of them is well-equipped with the necessary knowledge about the stock market in general and the principle of stock investing. They understands how the stock market operates and how it is influenced by the law of supply and demand. In fact, monitoring the market is what they always do before anything else. Moreover, the essential of stock investing is to realize it is a long term investment, which either of the participants understood the most. Before buying actual shares from a company, they spend time to research for that company's profitability and how the economy is progressing to make the most rational choice. Therefore, market risks are being negated and will not pose any threats. Mr. Rimpilä and Mr. Oksanen applied the methods professionally.

Strangely, in the interview, Mr. Rimpilä and Mr. Oksanen kept repeating about how they diversified their investments into different vehicles and that's the pinnacle of risks mitigation. Being an asset manager and a wealth manager, they know how to minimize loss as much as possible. Moreover, their job is about advising his customers about their investment plan and rate their risk level. Either of them went for both growth stocks, income stocks and even mutual funds. Additionally, different companies across different industries are also tapped. Being such rational investors, they also show their deep understanding of stock investing's commitment and its long term vision. Both of them fulfilled one of the necessary and basic traits of smart investing. About interest risks and tax risks, they have a vast amount of knowledge about them by doing research and keeping their database updated. Mr. Rimpilä and Mr.

Oksanen applied the basics of risk negating quite fluently and smoothly, which is expected from such experienced investors. One more aspect of risk management is the government and political risks. Mr. Rimpilä and Mr. Oksanen showed their interest in this matter and were very cautious of it. They knew messing with stocks that are related to the government would not end well. As a result, both avoided those stocks which prevented them from suffering a possible loss.

Talking about his personalities in stock investing, you can guess pretty much everything from such a competent investor. That's correct! He is fearless, somewhat greedy and never lets emotion do the thinking. I mentioned above being greedy is suicidal; however, Mr. Rimpilä knows his limit and take advantage of it to push him further to make dire trade-offs which resulted in more profit. Moreover, he is fascinated by the risk weighing against return term. He perceived it as an essence in boosting your returns, he also quoted: "You need to tolerate more risk for more profit". Being a cautious investor, he immediately added that he would only take risks in a suitable amount, not exceeding his limit. One way to manage risks is to manage yourself properly, this is the critical method I have enclosed at the emotion risks part.

On the other hand, Mr. Oksanen is more a conservative investor with cautious planning before jumping in conclusion. He prefers the safe way and always avoids taking unnecessary risks. Mr. Oksanen shares the same trait with Mr. Rimpilä which is never let emotion cloud judgment. When it comes to investing, Mr. Oksanen keeps reciting that there is no place for feelings since they can do more harm than good. He sometimes play it dangerously but he always set his limit.

Overall, Mr. Rimpilä and Mr. Oksanen showed attributes of professional investors. They actually applied many methods which are mentioned in my research and have a unique point of view which is expected from experienced investors. Despite the lack of certain aspect like preparing an accounting list or determine proper financial goals, they made it up by showing their insights about the stock market and its influential factors. Through such diligence, both of the managers make rational choices which led them to handsome returns. Mr. Oksanen is almost identical to Mr. Rimpilä, they share the relevant point of view with the same approach when it comes to risk management.

5 CONCLUSION

Before investing in the stock market, an investor has to equip a considerable amount of stock related knowledge. Getting yourself familiar with the term volatility is a must-do, you will not get surprised and be vulnerable to such violent movement of the stock market. Moreover, you also have to assess your capability and limit of your investment, know who you are and what your goals are. By doing so, you will not have to take unnecessary risk and negate the negative impact on your stock portfolio.

The stock market is a resourceful but unpredictable market. To investors, uncertainties are perceived as loose ends and often bring unwanted loss. Without proper research or commitment, investing may result in zero return, or worse: losing your investment. Sometimes, the return would not worth the trouble at all. However, the stock market attracts many new and experienced investors every now and then, it does not make sense at all. On the contrary, the thing that keeps investors investing in such an instable market is the risks versus return, the higher the stake the better the profit. How can we tolerate risks and at the same time increase the returns? The answer is risk management process. To overcome risks, firstly you must understand risks and the volatility of the stock market.

By using the process, we can identify 8 types of risks, each of them relates to a different subject and causes different consequences. The risks resolve around the investors and appear in every aspects from the investors themselves, the stock market, the government, etc. It is difficult to apply the risk management process in real situation but with enough time and dedication, you can negate risks as much as possible and thrive for profit. The importance of risk management is undeniable. My interview with the professional investors proved it is compulsory to carry out risk negation in your investing activities. Both of the investors expressed almost the identical methods and agreed the importance of risk management process in stock investing. They both recited diversifying investment vehicles and researching the market are the two most crucial practices in the process. Moreover, emotions are dangerous and excess in professional investing, people favour feelings over professionalism often ended in catastrophe. They are both decent investors and managers themselves, which is why they applied for more than 80% of the methods mentioned in the thesis.

Besides technical information, the thing that makes an investor unique and successful is his/herself. To thrive in the stock market, diligence and common sense is appreciated and needed in almost every scenario. With proper commitment and the genuine passion, investing in stock will be your ultimate wealth generating tool. The most important part is to believe in yourself and always look at the brighter side no matter how distressful the situation is. Investing in stock is for everyone with a touch of risk management.

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APPENDIX 1/1

Interview questions

Do you invest in stock?
What is your current financial situation? Any debt? Any current financial goals?
Do you have emergency funds? Do you think there will be consequences for not having an emergency fund?
What are your current investments? (Bonds, savings)
What is your thought about the stock market's volatility?
Do you think investing in stock is gambling? What makes experienced investors different from new ones?
They say stock investing is long term mission, what are your thoughts on this? People often think that can be rich from investing in the stock market overnight, is that correct?
Which stock did you by? Why did you choose those stocks? Conservative style or aggressive?
Do you think we can predict the stock market? Is it true that predicting the stock market is possible?
What do you think about the stock market volatility?
Are you long-term or short-term oriented when investing in stock?
What do you do when your stock's value dropped?
Do you think it is risky to invest in stock? How is your perspective about risks in stock investing?
Do you think risk management is important and necessary? Do you manage risks in investing? What do you do?
How do you weight risks against return? What do you think about the saying more risks come with more benefit?
Debt is bad for your financial situation?
Does knowledge play an important role? Did you do some research before buying? On which criteria do you assess a stock's quality?
Do you diversify your investment?
Do you buy trendy stock or following the hot stock which the majority of people is buying/
Do you listen to top analyst advice?
Have you encountered interest rate problems as an investment risk? What is your advice about it? Does it affect your investment decision?
What do you think about supply and demand in stock investing? Does it affect how people behave with stock? Are your decision also affected? What is your recommendation on how to deal with such an unpredictable movement?

How do you handle unpredictability in the stock market?

What do you think about inflation? Your perspective on its impact? Does it affect stock? What should you do to minimize this risk?

Are you paying tax for the stock income you make? How do you manage this risk? Does it affect your wealth from stock?

What do you think about politics and the government's impact on stock? Do you avoid stock that is sensitive to politics and government? What do you do to solve such problems?

Does emotion have a huge impact on decision making? What do you with greed? Can you control it?

Do you feel fear when investing? What do you do in that situation?

Do you ever get attached to a stock? What would you do if you are obsessed in a stock?

What are your tips for a newbie stock investor?