Investing in Derivatives – advantages and disadvantages

**Advantages**
- Reduces uncertainty over price and the risk of a lack of supply.
- Investment firms can hedge the risk associated with a portfolio or an individual stock.
- Offers the ability to speculate on a wide range of assets and markets to make large bets on price movements.

**Drawbacks and Risks**
- Some types of derivatives can result in the investor losing more than their initial outlay.
- Derivatives markets thrive on price volatility – professional investment skills and experience are required.
- In OTC markets, there is a risk that a counterparty will default on their obligations.

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