Investing in Derivatives – advantages and disadvantages

Advantages

- Investment firms can **hedge the risk** associated with a portfolio or an individual stock.
- **Reduces uncertainty over price** and the risk of a lack of supply.
- 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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