Guardian Stockbrokers

Risk Warning Notice

This Notice is intended to give you general information and a general description of the risks involved in the products offered by Guardian Stockbrokers Limited. Before opening an account with us you should ensure that you have read and fully understand the risks involved in trading financial instruments.

1. General

You should not deal in any financial instrument unless you have sufficient knowledge or experience and understand the extent of any exposure to risk in light of your current circumstances and financial position.

The nature and extent of investment risks differ from investment to investment. All financial investments involve an element of risk. The value of your investment may fall as well as rise and you may get back less than your initial investment.

The risk types set out below could have an impact on each type of financial instrument:

2. Equity Securities

Equity securities also referred to as shares, represent a portion of a company's share capital. The extent of your ownership in a company depends on the number of shares you own in relation to the total number of shares in issue.

Shares are typically bought and sold on stock exchanges which can be located in the UK or in other jurisdictions, including emerging markets. The size of an issuers market capitalisation vary in size for example, small medium or large.

Shares in smaller companies or AIM Market (AIM) listed shares can carry a higher degree of risk than blue chip investments and there is always the possibility of losing the capital sum invested. Investment should be restricted to the maximum one can afford to lose. It is more difficult to buy and sell shares in small companies and it may not always be possible to deal. Market Makers operate with a wide spread between buying and selling prices for small companies and this spread and fluctuation in the share price may mean that you do not get back the full amount invested. AIM is primarily for emerging or smaller companies and its Rules are less demanding than those of the Official List of the London Stock Exchange. The past is not necessarily a guide to future performance by companies that are less financially secure and therefore the risk of default is substantially higher.

Shares in companies incorporated in emerging markets may be harder to buy and sell than those shares in companies in more developed markets. In addition, companies incorporated in emerging markets may not be subject to an equivalent level of regulation as those in more developed jurisdictions.

Investing in shares in a specialist sector can be a higher risk strategy as the sector concentration gives exposure to higher volatility.

3. Fixed Income or Interest Bonds and Gilts

Fixed Income/Interest Bonds and Gilts such as Government Bonds or bonds classified by recognised rating agencies as 'AAA' are generally considered to be a 'safer' investment. However sub grade investment or 'junk' bonds, which can offer higher interest payments, are issued by companies that are less financially secure and therefore the risk of default by the borrower is substantially higher. The pricing of fixed income or interest bonds are affected by changes in interest rates and therefore are subject to the risk of market fluctuations. In addition, changes in credit rating may also affect the security's market value or price.

4. Exchange Traded Funds

ETFs are open ended collective investment schemes ('CIS') that trade like a share on the secondary market (i.e. through an exchange). Each ETF seeks to track a benchmark and holdings are not altered in rising or falling markets, so when the benchmark falls in value, the ETF will too. ETFs can be physical (where the fund invests directly in the underlying assets that comprise the index) or synthetic (where the fund gains exposure to the index by entering into a swap agreement with a counterparty).

You should read the Terms of any key investor information document or prospectus carefully before deciding on an investment. The value of ETFs can fall as well as rise, and you could get back less than you initially invest.

The risks of an ETF is dependent on the benchmark the ETF seeks to track, for example, ETFs that focus on a specific country or sector may display greater volatility than those tracking the wider market and so should be considered as higher risk than more diversified ETFs. However, there are no guarantees that an ETF will have the same characteristics as the benchmark index and the returns will vary from that of the benchmark index.

The use of derivatives within some ETFs means that these products may not be appropriate for many investors. Their characteristics may differ more widely from the benchmark index than those which do not use derivatives and they should be considered higher risk.

It may not be possible to trade units or shares in ETFs if there is no liquid market. If there is low liquidity in the market then you may not be able to buy or sell units at a price considered to be fair. Any income you receive from your investment in an ETF may vary with the dividends or interest paid by the underlying investments and so could fall as well as rise.

5. Exchange Traded Commodities

Exchange Traded Commodities are investments (asset backed bonds) that allow the investor to track the underlying performance of a commodity index, including total return indices. Trading is the same as for any normal share, in that prices are available including total return indices. Trading is similar to that of a normal share I that prices are available throughout the trading day, with market maker support, thereby stimulating liquidity.

The characteristics of ETCs can vary substantially from the underlying market to which they provide exposure. As with shares, the value of your investment can go down as well as up and you might not get back the original amount you invested.

The use of derivatives within some ETCs means that these products may not be appropriate for many investors and they should be considered higher risk. It may not be possible to trade shares in ETCs if there is no liquid market. If there is low liquidity in the market then you may not be able to buy or sell units at a price considered to be fair.

6. Illiquid and Non-Readily Realisable Investments

When an investment is not readily realisable it means that the market for such an investment is or could become at any time illiquid.

If such circumstances arise, you may have difficulty selling an investment at a reasonable price and, in some circumstances, it may be may not be possible to sell at any price. Do not invest in such investments unless you have carefully thought about whether you can afford it and whether it is right for you taking into consideration your investment objectives and risk profile.

7. Securities Subject to Stablisation

Stabilisation enables the market price of a security to be maintained artificially during the period when a new issue of securities is sold to the public. Stabilisation may affect not only the price of the new issue but also the price of other securities relating to it. The FCA allows stabilisation in order to help counter the fact that, when a new issue comes onto the market for the first time, the price can sometimes drop for a time before buyers are found.

The effect of stablisation results in a price being maintained at a higher level than it would otherwise be during the period of stabilisation. This process may only be permitted for a limited period of time, and there are limits to the price at which shares, warrants and depositary may be stablised.

8. Listed Securities and Gearing

In relation to listed securities where gearing is involved, the gearing strategy used by the issuer may result in movements in the price of the securities being more volatile than the movements in the price of the underlying investments. As a result, an investment may be subject to sudden and large falls in value and you may get back nothing at all if there is a sufficiently large fall in your investment.

9. Suspensions Of Trading

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange, trading is suspended or restricted. Placing a stop-loss order will not necessarily limit your losses to the intended amounts, because market conditions may make it impossible to execute such an order at the specific price.

10. Clearing House Protections

On many exchanges, the performance of a transaction by the Clearing Broker (or third party with whom he is dealing on your behalf) may be 'guaranteed' by the exchange or clearing house. However, this guarantee is unlikely in most circumstances to cover you, the client, and may not protect you if Guardian or another party defaults on its duty to you.

11. Foreign Markets

Foreign markets will involve different risks from the UK markets. In some cases the risks will be greater. On request, your firm must provide an explanation of the relevant risks and protections (if any) which will operate in any foreign markets, including the extent to which it will accept liability for any default of a foreign firm through whom it deals. The potential for profit or loss from transactions on foreign markets or in foreign denominated contracts will be affected by fluctuations in foreign exchange rates.

12. Insolvency

In the event of insolvency or default, or that of any other brokers or third party involved with your transaction, this may lead to positions being liquidated or closed out without your consent. In certain circumstances, you may not get back the actual assets, which you lodged as collateral and you may have to accept any available payments in cash.[1]

Complex Products (CFDs, Futures, Options, Warrants, ETCs and certain ETFs)

This notice is relevant to any services which we may provide in relation to complex products. Although warrants and/or derivative instruments can be utilised for the management of investment risk, some of these products are unsuitable for many investors. Different instruments involve different levels of exposure to risk and in deciding whether to trade in such instruments you should be aware of the following:

13. Contracts for Difference (CFDs) & Spread Bets

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CFDs and Spread bets are high risk financial products, which are not appropriate for many investors. CFDs and Spread bets are types of derivatives instruments, where a loss or profit is referenced by fluctuations in the value or price of an underlying instrument. Types of CFDs or Spread bets include but are not limited to, Foreign Exchange, Futures, Options, Share and Stock Indices. CFDs and Spread bets can only be settled in cash.

Investing in a CFD or Spread bet carries a high degree of risk because of the use of 'gearing' or 'leverage' which is available, means that a relatively small movement in the market can lead to a proportionately much larger movement in the value of your investment and this can work against you, as well as for you. You may be required to deposit additional funds at short notice or in certain situations with little or no notice. It is possible to lose more money than you have deposited into the account.

14. Gearing and Leverage

Before you are allowed to enter into a derivative or other instrument with a Clearing Broker, you will generally be required to deposit funds which are percentage of the overall value of the contract (margin requirement). This margin requirement can be a relatively small percentage of the overall Contract value.

This means that you will be using 'leverage' or 'gearing' and this can work for or against you. A small price movement against you can result in a substantial loss. Therefore, if a price moves against you, you may need to deposit significant additional funds immediately to meet any margin requirement and maintain any open positions. If you fail to do this, the Clearing Broker will be entitled to close some or all open positions, which may result in a deficit balance on your account, which you will be ultimately responsible for.

15. Volatility

Movements in the price of underlying markets can be volatile. This can have a direct impact on your profits and losses. You should ensure that you are aware of, and understand the volatility of an underlying market. You should be aware that volatility can often be unexpected and unpredictable which can result in significant losses and profits in a short period of time.

16. Contingent Liability Investments

Contingent liability investment transactions, which are margined, require you to make a series of payments against the purchase price, instead of paying the whole purchase price immediately. If you trade in futures or sell options you may sustain a total loss of the margin you deposit with your firm to establish or maintain a position. If the market moves against you, you may be called upon to pay substantial additional margin at short notice to maintain the position. If you fail to do so within the time required, your position may be liquidated at a loss and you will be responsible for the resulting deficit. Even if a transaction is not margined, it may still carry an obligation to make further payments in certain circumstances over and above any amount paid when you entered the contract.

17. Futures

Transactions in futures involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some instances to settle the position with cash. They carry a high degree of risk. The 'gearing' or 'leverage' often obtainable in futures trading means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionately much larger movement in the value of your investment, and this can work against you as well as for you. Futures transactions have a contingent liability, and you should be aware of the implications of this, in particular any margining requirements.

18. Options

There are many different types of options with different characteristics subject to the following conditions:

(a) Buying Options: Buying options involves less risk than selling options because, if the price of the underlying asset moves against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if you buy a call option on a futures contract and you later exercise the option, you will acquire the future. This will expose you to the risks described under 'futures' (i. above) and 'contingent liability investment transactions'.

(b) **Writing Options**: If you write an option, the risk involved is considerably greater than buying options. You may be liable for margin to maintain your position and a loss may be sustained well in excess of the premium received. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the market price has moved away from the exercise price. If you already own the underlying asset, which you have contracted to sell, (when the options will be known as 'covered call options') the risk is reduced. If you do not own the underlying asset ('uncovered call options') the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.

(c) **Traditional options**: Certain London Stock Exchange member firms under special exchange rules write a particular type of option called a 'traditional option'. These may involve greater risk than other options. Two-way prices are not usually quoted and there is no exchange market on which to close out an open position or to affect an equal and opposite transaction to reverse an open position. It may be difficult to assess its value or for the seller of such an option to manage his exposure to risk. Certain option markets operate on a margined basis, under which buyers do not pay the full premium on their option at the time they purchase it. In this situation you may subsequently be called upon to pay margin on the option up to the level of your premium. If you fail to do so as required, your position may be closed or liquidated in the same way as a futures position.

(d) **Warrants**: A warrant is a time-limited right to subscribe for shares, debentures, loan stock or government securities and is exercisable against the original issuer of the underlying securities. A relatively small movement in the price of the underlying security results in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile. It is essential for anyone who is considering purchasing warrants to understand that the right to subscribe which a warrant confers is invariably limited in time with the consequence that if the investor fails to exercise this right within the predetermined time-scale then the investment becomes worthless. You should not buy a warrant unless you are prepared to sustain a total loss of your investment plus any commission or other transaction charges. Some other instruments are also called warrants but are actually options (for example a right to acquire securities which is exercisable against someone other than the original issuer of the securities, often called a 'covered warrant)'