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# AN EVALUATION OF THE RISKS AND REWARDS OF DIFFERENT TYPES OF FINANCIAL INSTRUMENTS

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## ABSTRACT-

The risks and rewards of different financial instruments can be evaluated as a project idea by conducting a comprehensive analysis of the various devices. This analysis can include an assessment of the different types of financial instruments available, how each tool works, the risk/reward profiles associated with each, and how these instruments can be used to meet specific investment goals.

By researching each instrument's various characteristics, you can compare the risks and rewards associated with each type of instrument. This can help investors make more informed decisions when selecting a financial instrument to invest in.

Additionally, you can provide a detailed analysis of the various investment strategies that can be utilized with each type of financial instruments, such as diversification, hedging, and active management. Finally, you can provide an assessment of the tax implications associated with different types of financial instruments and their implementation to maximize returns.

The terms risk and rewards are often used together to emphasis the risk-taking approach. To gain more rewards, calculated risks must be taken. As Mark Zuckerberg, the founder of Facebook, said:

***The biggest risk is not taking any risk. In a world that's changing really quickly, the only strategy that is guaranteed to fail is not taking risks."***

The level of risk associated with starting a business organization, depends on its scale. If it is a small enterprise, its operations are likely to be less complicated. The level of decision-making required for its operations is also potentially simpler. Hence, the level of risk is often at a low level. On the other hand, if it's a big enterprise, with many operations proceeding at the same time, the decision-making could be complex, and the risks are often high.

A lot of factors need to be assessed when turning a business idea into reality. When the market is uncertain, the one who shows courage and makes the first move could get a head start in the race. In marketing, this is known as the **first-mover advantage**.

**Types of risks in business**

**Risks and Rewards of Running a Business: Market uncertainty**

It is a common practice to conduct market research before devising strategies and visions for the business. It helps in reducing market risks to an extent. However, examining every possible scenario is one thing; experiencing market reactions to your business offering is another thing altogether. In a market, there are lots of unpredictable factors. For example, a change in government policy on the import of raw materials could entirely change the situation for business owners.

**Risks and Rewards of Running a Business: Financial risk**

Starting a business requires capital, be it through investment by the owner themselves, or other investors. In either situation, it presents a financial risk. Therefore, it requires comprehensive financial management to reduce this risk. An owner should have multiple financial plans in store in case of unpredictable situations. Financial inflows and outflows must be managed effectively to ensure the business is on track to meet financial objectives. However, even with more than one emergency financial plan, the risk can only be reduced to a certain extent.

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**Risks and Rewards of Running a Business: Health risk**

Setting up a business enterprise can often come with lots of health risks too. Business owners have the ultimate responsibility in making decisions. They are the ones who lead the enterprise, and this could affect their physical as well as mental health. Starting a business means putting in more effort and time to plan everything and to execute the ideas. It means working extra hours and managing all the business aspects yourself. All of this adds pressure on business owners, and it could lead to mental and physical.

**Risks and Rewards of Running a Business: No guaranteed returns**

As mentioned before, a business enterprise has financial risks. Even if everything is planned and executed effectively, there are no guarantees on returns. It all depends on how consumers react to the business offering. If it works then huge returns can be expected; but if it does not work, then huge losses are incurred.
However, there are people who still want to take this path. The reason is simple: greater risks often give greater rewards

How customer loyalty is built through rewards programs

Customer loyalty is the main objective of the reward programs currently used in the digital environment, including banking. However, **these types of marketing strategies have been around long before** the digital environment was consolidated as the main commercial activity space.

In the digital and banking environment, loyalty techniques are multiple and reward programs are just one of them. Loyalty in this case occurs through applications or platforms that **determine different types of discounts, bonuses, refunds, among many others**. This ensures that the user gets a personalized service.

Thanks to this, the user finds a greater benefit for his link with the entity and his activity is rewarded. In everyday terms, operations and rewards **are integrated into the household economy** and are foreseen by users as part of their lives. In this way, they feel that they have invested in an institution and seek to take care of this investment in order to maintain their benefits.

How Banks and Users Benefit

Some of the benefits of implementing rewards have already been mentioned. Such as loyalty and commercial performance for banks and incentives, bonuses and rebates for users. However, it is worth going a **little deeper into** these and other benefits.

**From the user's point of view**, rewards represent savings in the form of discounts and cash. One of the main advantages of using these techniques is that t**he user does not have to change his or her shopping habits** or take any other steps to obtain these benefits.

Likewise, **the bank obtains multiple benefits** in terms of customer loyalty. Also in terms of customer participation in the portfolio of products and services offered by the bank. Rewards are benefits that incentivize the customer to obtain new services or products that he would otherwise never have sought.

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