Appendix 4

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Document

Risk associated with Financial Instruments

As a client, you must be aware that:

- trading in financial instruments takes place at your own risk
- before starting to trade in financial instruments, you must carefully study the firm's general business terms and conditions as well as any other relevant information on the financial instrument in question and its characteristics and risks.
- you must immediately scrutinise the contract note and submit any complaints regarding errors.
- you are responsible for monitoring changes in the value of the financial instruments in which you have invested.
- you must regularly assess your investments and make the necessary changes to adapt these to your investment strategy and risk profile.
- Investments with an element of gearing must be monitored with care.

1. RISKS RELATING TO TRADING IN FINANCIAL INSTRUMENTS

1.1 General about risk

Financial instruments normally provide a ***return*** in the form of a ***dividend*** (shares and fund units) or ***interest*** (interest-bearing instruments). In addition, the investor may make a gain or loss due to the price of the instrument rising or falling. The total return is the sum of the dividend/interest and change in the price of the instrument.

Naturally, the investor is seeking a total return that is positive, i.e. that produces a ***gain***. However, there is also a ***risk*** that the total return will be negative, i.e. that the investor will make a ***loss*** on the investment. The risk of loss varies between different instruments. In an investment context, the word risk is often used to express both the risk of loss and the opportunity for a gain. In the description below, however, the word risk is used solely to designate the risk of loss.

There are various ways of investing in financial instruments in order to reduce the risk involved. It is normally better from a risk point of view to invest in several different financial instruments rather than a single one or only a few financial instruments. These instruments should have characteristics so the ***risk is spread*** and they should not gather risks that may be triggered simultaneously. Investors can also invest in negative positions in instruments (short positions). Such investments will increase in value when the share price falls.

The client personally bears the risk of an investment falling in value and must therefore become acquainted with the terms and conditions, prospectuses, etc., governing trading in such instruments, and with the instruments' individual risks and characteristics. The client must also regularly monitor his/her investments in such instruments. This is the case even if the client has received personal advice in conjunction with the investment. Information for use in monitoring prices and thus changes in the value of the client's own investments may be obtained from price lists published in the media, e.g. newspapers and the internet and, in certain cases, by the investment firm itself. The Client must take particular care if the financial instrument has characteristics that increase risk, such as derivatives. In these cases, the instrument may result in the loss of the entire investment, and in some cases also more than the investment.

The client must continuously assess the risk entailed by his investments. Many different factors may affect the value of financial instruments. The client should therefore become familiar with the factors that affect different instruments and be aware of the elements that may affect his own investments. The client should continuously assess his investment portfolio and, if necessary, make changes to adapt it to his investment strategy and risk profile.

1.2 Shares and share-related instruments

The ***price*** of a share is affected to a great extent by the ***company's prospects***. A share price may rise or fall depending on investor analyses and assessments of the company's opportunities to make ***future profits***. Future external developments in economic cycles, technology, legislation, competition, etc., may determine the demand for the company's products or services and, consequently, are also of fundamental importance to changes in the price of the company's shares.

The price may also be affected by the general **market risk** – the risk of a fall in prices in the market in general or in certain parts of the market where the client has invested. The price developments for financial instruments listed in ***foreign*** regulated markets may also affect price developments in Norway.

The price may also be influenced by developments in the sector to which the company belongs – **sector-specific risks** – the risk of a specific sector doing worse than expected or being altered by a negative event so that the financial instruments linked to companies in the sector in question may decline in value. The share price of a company is often affected by changes in the share price of other companies in the same industry/sector irrespective of the country to which the companies belong.

Other factors directly related to the company, such as changes in the company's management and organisation, disruptions to production, etc., may also affect the company's future ability to create profits in both the long- and short-term. This is called the **company-specific risk** – the risk of a company doing worse than expected or being affected by a negative event so that the financial instruments linked to the company may fall in value.

The ***framework conditions*** for industry, both national and international, may also affect share prices. Changes in tax and duty levels nationally and in other countries, affect the companies' cost levels and thus their competitive situation. International agreements between countries regarding customs charges and duties on the import and export of goods and services affect the competition situation that exists between companies and thus also share prices. Major events such as disasters, terrorist acts and wars may have huge effects on share prices on stock exchanges worldwide.

Climate change creates risks and opportunities for companies and investors. Sectors and companies will be exposed to climate change to varying degrees. In some cases, legislation associated with reporting a business's impact on climate change can cause assets to degrade in value; so-called 'stranded assets'.

The ***general interest rate level*** (market interest rate) also plays a crucial role in share-price developments. If the market interest rate increases, investing in interest-bearing financial instruments may become more attractive so that the players transfer some of their investments from the stock market to the interest-rate market and the demand for shares falls. Normally, share prices fall when demand declines. In addition, share prices are negatively affected by an increase in the interest payable on the company's debts, since this worsens the company's future financial results.

Changes in **foreign-exchange rates** may also affect share prices. Companies whose revenues and costs are in different currencies will be especially vulnerable to such fluctuations. This applies to several Norwegian export companies. When investing in foreign markets, fluctuations in foreign-exchange rates will also affect the result after the purchase or sales amount has been converted into Norwegian krone (NOK).

Balance sheet risk is an expression of the risk inherent in being a shareholder in enterprises where the cash flow is negative, which together with debt obligations may put pressure on the enterprise's cash reserves and require share issues to strengthen liquidity. Such rescue issues must often be done at very low prices. This may involve a significant **dilution risk** for investors not participating in the issue.

In the worst case, a company may perform so poorly that it must be declared ***bankrupt*** (***in liquidation***). The shareholders have last priority for receiving any money from the entity in bankruptcy. The company's other debts must first be repaid in their entirety. This results in there only in exceptional cases being any assets left in the company after its debts have been paid, so that the shares in a bankrupt company are normally worthless.

Players in the financial market have different opinions on how share prices will develop, often because they place emphasis on different factors that affect share-price developments or expect the factors that influence the share price to develop in different ways. This means there are both buyers and sellers. If many investors share the same opinion regarding price trends, they will either buy, thereby creating pressure to buy, or sell, thereby creating pressure to sell. Prices increase when there is pressure to buy and fall when there is pressure to sell.

The turnover, i.e. the quantity of a particular share that is traded, affects the share price. In the event of a high turnover, the difference, also called the ***spread***, between the price the buyers are prepared to pay (bid price) and the price demanded by the sellers (ask price) is reduced. A share with a high turnover, where large amounts can be traded without any major effect on the price, enjoys good ***liquidity*** and is thus easy to buy or sell. Shares in companies listed in a generally used benchmark index in a regulated market are normally very liquid.

It is important to be aware that the risk associated with equities can vary considerably from company to company, regardless of the place of listing (stock exchange, MTF or unlisted). There is a big difference between the risk associated with shares in a company that has shown good earnings over time and shares in a company that does not have appreciable earnings or has a loss, but where the pricing of the shares is, for example, based on the company succeeding in launching a new product in the future that will result in high earnings. The company may fail, production may become less profitable than estimated, new competitors may enter the field, etc. It is important for investors to make up their minds about the likelihood of a company going bankrupt in the same way as assessing the probability of success. In companies with a long stock exchange history, there will normally also be more information available than for start-up companies, with a short history, which further reinforces the vigilance investors should exercise.

1.3 Interest-bearing instruments

The risk associated with an interest-bearing instrument consists in part of the price changes that may occur during the term to maturity due to changes in market interest rates, and in part of the market's assessment of the risk that the issuer will be unable to repay the loan. Loans for which satisfactory security for repayment have been provided are thus less risky than loans without security.

For loans where the credit risk is considered especially high the issuer has to pay a particularly high interest rate. Such interest-bearing securities are often called **high-yield** bonds.

In the case of bankruptcy or debt settlement proceedings, the owner of an interest-bearing instrument may lose all or some of his investment. In the case of a bankruptcy, all debt must be repaid before the shareholders can receive anything, so in general it can be said that the risk of loss is less in relation to interest-bearing instruments than it is in relation to shares.

The market interest rate is quoted every day for both instruments with short terms to maturity (less than one year), e.g., ***certificates***, and instruments with longer terms to maturity, such as ***bonds***. This takes place in the money market and bond market. Market interest rates are affected by analyses and assessments conducted by Norges Bank (the central bank of Norway) and other major institutional market players with regard to short-term and long-term trends in a number of economic factors, such as inflation, the state of the economy and interest rate changes in other countries.

If the market interest rate increases, the price of interest-bearing financial instruments will fall since the return on the instrument compared to the market interest rate has become less favourable. Conversely, the price of already issued instruments increases when the market interest rate declines.

Loans issued by the Norwegian state, county councils or municipalities (or guaranteed by such organisations) are deemed to be more or less risk-free with respect to redemption at the predetermined value on the due date.

1.4 Risk related to trading in derivative instruments.

Trading in derivative instruments is linked to special risks in addition to the risks linked to the underlying financial instrument. The client bears this risk and must find out all about the derivatives' properties as well as about the terms and conditions in the form of the general terms and conditions, prospectuses or suchlike that apply to trading in such instruments. The client must also constantly monitor his investments (positions) in such instruments. Monitoring information may be obtained from price lists on the internet, the mass media and the client's investment firm.

Trading in derivative instruments can be described as trading in, or a transfer of, risk. For example, a party that expects prices in the market to fall can buy put options that increase in value if the market drops. To reduce or avoid the risk of a fall in share prices, the buyer pays a premium, i.e. what the option costs. Trading in derivatives is in many cases not advisable for clients with little or limited experience of trading in financial instruments, since trading in derivatives often requires specialist knowledge. The structure of a derivative instrument means that developments in the price of the underlying asset affect the price of the derivative instrument. This price effect is often stronger in relation to the investment than the change in the value of the underlying asset. **The price effect is therefore called the gearing effect and may lead to a greater gain on invested capital than if the investment had been made directly in the underlying asset. On the other hand, the gearing effect may lead to the loss on the derivative instrument being greater than the relative change in the value of the underlying asset. Changes in the price of the derivative instrument and of the underlying asset must therefore be closely monitored. The client should, for his own sake, be prepared to act quickly, often that same day, if the investment in the derivative instrument starts to develop negatively.**

A party that incurs an obligation by issuing/writing an option or entering into a forward/futures contract must provide collateral for his position right from the start. The requirement for collateral changes as the price of the underlying asset rises or falls so that the value of the derivative instrument rises or falls. Additional collateral may therefore be required. **The gearing effect thus also influences the collateral requirement, which may change rapidly and radically. If the client does not provide sufficient collateral, the clearing organisation or investment firm is entitled to terminate the investment (close the position) without the client's consent, in order to reduce its risk.** A client should thus closely monitor price developments and the collateral requirement in order to avoid the involuntary closure of the position.

The term to maturity of derivative instruments may vary from a very short time to several years. The relative change in price is often largest for instruments with a short (remaining) term to maturity. The price of a held option generally falls towards the end of the term to maturity as the time value is reduced. The client should therefore also carefully monitor the term to maturity of the derivative instruments.

1.5 The risk involved in various types of derivative instruments

The main types of derivative instruments are options, forward/futures contracts and swap contracts.

1.5.1 Options

An ***option*** is a contract which involves one party (the issuer (writer) of the option contract) undertaking to buy (Put Option) or sell (Call Option) the underlying financial instrument to the other party (the holder of the contract), at a predetermined price (the strike price), if the holder so demands. The date when the holder can exercise this right depends on the type of option in question. An ***American option*** may be exercised at any time during the life of the option. A ***European option*** may only be exercised on the expiration date. The holder pays a premium to the writer for the right stated in the contract. The price of the option normally follows the price of the underlying financial instrument. The main elements in the price of an option are the difference between the market value of the underlying financial instrument and the agreed strike price as well as a time value, which is an expression of possible future fluctuations in the value of the underlying financial instrument. The time value declines as the remaining life of the option is reduced, so that the price of a call option may fall even if the value of the underlying financial instrument has risen.

An investor must take all such price elements into account when considering whether to close a derivative position or maintain it.

1.5.2 Call options

By ***buying*** a call option, an investor obtains a ***right*** to buy the underlying financial instrument on a future date at a predetermined price. When an investor buys a call option, he pays an option premium plus the costs relating to selling and administering the option contract.

The maximum amount that the holder of a call option can lose is the option premium plus the costs paid. The maximum loss arises if the price of the underlying financial instrument remains lower than or equal to the agreed strike price.

The potential gain is in theory unlimited. When exercising the option, the gain is the value of the underlying financial instrument minus the strike price and option premium including costs.

By ***writing/selling*** a call option, the writer incurs a ***duty*** to sell (if the option holder demands to buy) the underlying financial instruments on a future date and at a predetermined price. The seller of a call option receives an option premium minus the costs of selling and administering the option contract.

The potential gain on issuing/writing a call option is limited to the net option premium. If the strike price remains higher than or equal to the market price of the underlying financial instrument until the expiration date, the holder will normally not demand to buy the securities and the writer can take the entire net option premium as profit.

The writer of a call option has an unlimited loss potential if the price rises. If the holder demands to exercise the option, the writer must buy the financial instruments in the market at the market price. The loss is calculated as the market value of the underlying financial instruments minus the strike price and option premium.

If the writer has hedged his interests by owning the underlying financial instruments (a covered call), no loss is payable if the price rises but the writer misses out on the increase in value in excess of the strike price plus net option premium. By tying up the underlying financial instruments, the writer is exposed to the risk of loss due to a fall in price and a loss arises if the fall in value is greater than the option premium. If the underlying assets are sold, the writer is subject to a risk if the price rises again. Writers of covered calls often try to manage the risk of a price fall by selling some of the underlying assets.

1.5.3 Put options

The ***buyer*** of a sell (put) option obtains a ***right*** to sell the underlying financial instrument at a future date at a predetermined price. The buyer of a put option pays an option premium as well as costs related to selling and administering the option contract.

The maximum amount that the holder of a put option can lose is limited to the option premium and the costs paid. The maximum loss arises when the price of the underlying financial instrument remains higher than or equal to the strike price.

The potential for gain is limited to the strike price minus the option premium including costs. The gain is the strike price minus the value of the underlying financial instrument on the strike date and the option premium including costs.

The ***writer/seller*** of a put option incurs a ***duty*** to buy (if the holder demands to sell) the underlying financial instruments at a future date at a predetermined price. The seller of a put option receives an option premium minus costs related to selling and administering the option contract.

The potential gain on issuing/writing a put option is limited to the net option premium. If the value of the underlying financial instrument remains higher than or equal to the strike price, the holder will not normally demand to be allowed to sell the securities and the writer can take the entire net option premium as profit.

In the case of a fall in price, a loss arises when the value of the underlying financial instruments is lower than the strike price minus the net option premium. The loss is limited to the strike price minus the net option premium.

1.5.4 Forward/futures contracts

A ***forward/futures contract*** means that the parties enter into a mutually binding contract to purchase/sell the underlying financial instrument at a predetermined price, with delivery or other performance of the contract on a further agreed date.

No option premium is paid for forward/futures contracts but the agreed forward/futures price will normally be stipulated to be the spot price (the current market price) of the underlying financial instrument plus interest costs until the forward/futures settlement date. In addition, the costs of trading and administering the forward/futures contract must be paid.

Under a forward/futures contract, the ***buyer*** has assumed the entire price risk relating to the underlying financial instrument. If the price falls, a loss arises which is equal to the difference between the value of the underlying financial instrument and the forward/futures price. If the price increases, a corresponding gain arises, equal to the difference between the value of the underlying financial instrument and the forward/futures price. In addition to the price risk, the buyer runs a credit risk related to the seller delivering the agreed financial instruments on the settlement date.

A ***seller that owns*** the underlying financial instruments runs no risk of having to pay an amount relating to developments in the price of the underlying financial instrument but loses out on the increase in value in excess of the agreed forward/futures price. The seller runs a credit risk related to the buyer being able to settle the agreed amount on the settlement date.

If the ***seller does not own*** the underlying financial instruments, he has in principle an unlimited loss potential if the price rises. The loss is calculated as the value of the underlying financial instruments minus the agreed forward/futures price. Correspondingly, in the case of a fall in price, the seller has a potential for gain which is calculated as the forward/futures price minus the value of the underlying financial instruments. The seller also runs a credit risk related to the buyer being able to settle the agreed amount on the settlement date.

A forward/futures contract is a generic term for instruments with various calculation and settlement mechanisms but with the same risk profile. Forward/futures contracts that are to be settled by the physical delivery of the underlying financial instrument are often called forward contracts, while contracts that are to be settled by a monetary payment on the settlement date are called futures contracts.

The provision of collateral for forward/futures contracts is intended to safeguard against future fluctuations in price. Traditionally, the intermediary or settlement agent in a forward/futures contract has not provided collateral but has only demanded collateral from his clients, but the mutual provision of collateral is now increasingly being required.

In a futures contract, it is common to carry out a daily calculation based on the changes in the price since the previous stock market day in addition to providing collateral for future fluctuations.

1.5.5 Contracts For Difference (CFD)

Standardized futures with individual shares or indices as underlying instruments are currently often sold as CFDs. The sellers of a CFD often require a low security collateral margin so that investors can achieve a lot of market exposure at little expense.

A Contract for Difference is highly risky. It is possible to lose more than the original investment. Prices can move quickly in the opposite direction to that expected and losses can lead to a requirement of an additional margin contribution. Under certain market conditions, it can be difficult or impossible to close a position. This may occur, for example, when the price of an underlying instrument rises or falls so quickly that trading in the underlying instrument is restricted or closed.

The risk involved in such low margins is also that the issuer may immediately, including that same day, close the position if the value of the collateral falls below the margin requirement. The client is often given very short deadlines by which to provide more collateral and rapid fluctuations may lead to the issuer (in accordance with the contract) closing the position in contravention of the client's wishes.

The value of investments in CFDs with underlying instruments listed in foreign currencies may also vary due to changes in foreign-exchange rates.

A Contract for Difference is not suitable for all clients. The client must make sure that he fully understands the risk involved and seek independent advice if necessary. The client must ensure that the amount invested is not a too large proportion of the client's total portfolio, and that the client can absorb a loss of the entire amount invested, and in some cases more than the amount invested.

1.5.6 Swap contract

A ***swap contract*** means that the parties agree to make payments to each other on a regular basis, for example calculated at a fixed or floating interest rate (interest swap), or to swap an asset with each other, for example different kinds of currencies (currency swap), at a certain point in time.

1.6. Standardised and non-standardised derivative instruments

Derivative instruments are traded in standardised and non-standardised forms.

Trading in standardised derivative instruments takes place in regulated markets and complies with contracts and conditions which have been standardised by a stock exchange or clearing organisation In the Norwegian derivatives market, for example, Oslo Børs offers trading in standardised options and futures. Derivatives with Norwegian equities as underlying are also traded on other marketplaces, including Nasdaq OMX.

Trading in foreign standardised derivative instruments normally complies with the rules and conditions of the country in which the stock exchange trading and the clearing are organised. It is important to note that these foreign rules and conditions are not necessarily the same as those which apply in Norway.

Some investment firms offer different forms of derivative instruments which are not traded in regulated markets. These are called ***non-standardised*** derivative instruments (OTC derivatives). A party wishing to trade in this type of derivative instrument should examine the contracts and conditions which regulate trading in these extremely carefully.

1.7 Clearing

When clearing derivatives, the clearing institution becomes the counterparty between the investment firms that represent the buyer and the seller of the derivative contracts, and guarantees that the investment firm will receive settlement for the contract. The clearing institution acts as the seller in relation to the buying investment firm and as the buyer in relation to the selling investment firm. In the standardised derivative market, derivative contracts are often cleared by a licensed central counterparty (CCP). In the OTC market, it is often the investment firm that has this role.

At present, CCPs provide no direct protection to end-investors. In both CCP-cleared trades and OTC trades, the investor runs the risk that his investment firm will not fulfil the contract.

Investors who do not want to run any risk relating to their investment firm can enter into an agreement to have a segregated account in the clearing company. Such a solution requires a separate body of agreement and leads to increased costs and is most suitable for large institutional investors.

2. MUTUAL FUNDS

A mutual (securities) fund is a "portfolio" of different financial instruments, such as shares and/or bonds. The fund is owned by all those who save in the fund, the ***unit holders***, and is managed by a ***management company***. There are various kinds of mutual funds with different investment strategies and risk profiles.

A unit holder receives the number of fund units that corresponds to the percentage of the fund's assets under management that the unit holder has invested.

The units may be issued (bought from) and redeemed (sold to) by the management company. The unit's actual value is normally calculated daily by the management company and is based on changes in the prices of the financial instruments in which the fund has invested. Some fund units can also be traded in a regulated market (***Exchange Traded Funds*** ("ETF")), see item 5 below.

One of the purposes of an mutual fund is to invest in several different shares and other financial instruments. This means that unit holders run less of a risk than shareholders who only invest in one e or a few shares. Unit holders do not have to select, buy, sell or monitor the shares or carry out other management work related to this.

Mutual funds are regulated by various laws and regulations.

UCITS funds are funds established in accordance with EU regulations and are therefore approved for marketing throughout the EEA. Most new funds that are established are UCITS funds.

Domestic funds are funds regulated by the Norwegian Securities Funds Act.

Alternative Investment Funds are fund-like investment entities that may be organised as limited companies or in other corporate forms that are not funds. These are regulated by a separate Norwegian Act relating to alternative investment funds.

For more information on mutual funds, see www.vff.no

Mutual funds are also classified on the basis of the fund's investment mandate. Below is a brief description of the most common mutual funds:

Equity fund - a mutual fund that must normally invest at least 80 per cent of its assets under management in shares (or other equity instruments), and which must normally not invest in interest-bearing securities.

Interest fund - a mutual fund that is to invest in interest-bearing financial instruments. These funds are divided into bond funds and money market funds.

Combination fund - a mutual fund that is not defined as a pure equity fund or interest fund. A combination fund may have a more or less permanent ratio of shares to interest-bearing securities, but the percentage of various securities may also change during the fund's lifetime.

Index fund - a mutual fund that is managed relatively passively in relation to the fund's benchmark index.

Fund of funds - a mutual fund that invests its assets in one (or possibly more) underlying mutual funds.

Specialised fund – domestic funds that are often called hedge funds. Specialised funds are managed in a more flexible way than normal mutual funds. Specialised funds may have very different levels of risk and protection. They may entail a high level of risk-taking. Specialised/hedge funds often use investment techniques such as the extensive use of derivatives, short sales, the debt financing of investments and open currency positions. Units in specialised funds can only be offered to professional clients. This means that specialised funds cannot be marketed or sold to non-professional (retail) clients, and this applies irrespective of whether the initiative is taken by the client or the investment firm. Specialised funds are under the supervision of Finanstilsynet (the Financial Supervisory Authority of Norway) and are also specially regulated by the Norwegian Securities Funds Act. Foreign hedge funds may be marketed in Norway to professional clients if Finanstilsynet grants permission for this.

3. EXCHANGE TRADED FUNDS AND FUND-LIKE PRODUCTS

ETP (Exchange Traded Products) is a generic term for ETF (Exchange Traded Funds) and ETN (Exchange Traded Notes). These products are traded in various trading systems, such as the Oslo Stock Exchange. They allow exposure to shares, indices, currencies, commodities and suchlike. Some of the products include a gearing element. The exposure can either be to a falling/bear market (short) or a rising/bull market (long). There may be huge variations in the way in which these products are structured, so investors must find out a lot about the product they choose.

An ETN is normally issued by a financial institution (bank/brokerage firm) and traded in the secondary market in the same way as a share. With this type of product, the investor normally incurs a **credit risk** in relation to the issuer. The credit risk is the risk that the issuer or a counterparty will be unable to pay. This means that if the issuer does not manage to fulfil its obligations, the securities may be worthless.

ETFs are fund units issued by a mutual/securities fund. This means that, through ownership of the fund units, the investor directly owns underlying assets and thus has no credit risk in relation to the issuer.

Several ETPs contain derivative elements and/or have inbuilt gearing which can lead to the product having a high **market risk**. This means that their prices may fluctuate more than those of the underlying assets, and that the products will normally include a greater risk of loss than a direct investment in underlying assets such as shares. In addition, the geared products are rebalanced daily. This means that the return over lengthy periods will deviate from market developments when the gearing factor is taken into account. The return may be negative even if the underlying assets have the same value on the purchase and sales dates. These properties make the geared products less suitable as long-term investment alternatives.

The fact that underlying assets are often sold in other markets and listed in currencies other than NOK also means that investors must be aware of the possible **foreign-exchange risk**. This may mean that even if the underlying developments indicate that the security should produce a positive return, the return may shrink, disappear or be negative as a result of exchange-rate developments.

ETPs normally have one or more liquidity guarantors (market makers) that have undertaken to provide bid and offer prices for the security. However, at times it may be difficult to execute trades in the ETP in question. This may be the case if, for example, there is little **liquidity** or if trading in the marketplace in question has been closed.

4. SHORT TRADING

"Short trading" means to sell financial instruments that one does not own. According to Norwegian law, uncovered short sales are illegal, so that anyone selling short has to borrow the financial instruments from the investment firm or in some other way ensure access to the instruments on the settlement date. At the same time, the borrower undertakes to return instruments of the same type to the lender on a predetermined later date.

Short trading is often used as an investment strategy when the financial instrument is expected to fall in value. The borrower expects to be able to buy the borrowed instruments on the later date when the instruments are to be returned, at a lower price than the price at which these instruments were sold. **If the price rises instead, the borrower will incur a loss which, in the case of a sharp price rise, may be considerable**.

Often, agreements to borrow financial instruments stipulate that the lender may at any time demand the return of the financial instruments by giving two-three days' notice. This increases the risk involved in a short sale.

5. TRADING FREQUENCY AND COSTS

The more frequent the trades, the higher the brokerage costs, since costs are normally incurred for each trade (purchase or sale). If the brokerage costs over time are larger than the return, this will result in a loss for the client. Please note that brokerage costs are also incurred in debt-financed trades.

Trading in securities incurs brokerage costs that normally increase in proportion to the size of the trade. If, for example, a client sells shares worth NOK 50,000 and the brokerage rate is 0.2%, the sale costs NOK 100. If, on the other hand, shares are sold for NOK 500,000, the brokerage cost will be NOK 1,000. In addition, minimum brokerage fees are used, so that the sale or purchase of securities for a small amount may be percentagewise more expensive than selling/buying for a larger amount.

6. LEVERAGED (DEBT-FINANCED) TRADING

Financial instruments can in many cases be bought for partially borrowed capital. Since both the capital invested by the client and the borrowed capital affect the return, the client may make a larger gain through debt financing if the investment develops positively compared to an investment made using only the client's own capital. The debt linked to the borrowed capital is not affected by any rise or fall in the prices of the purchased instruments, which is an advantage if prices rise. However, if the price of the purchased instruments falls, this results in a corresponding disadvantage since the debt remains the same. **In the case of a price drop, therefore, the client's own invested capital may be entirely or partly lost while the debt has to be repaid in whole or in part from the revenues from the sale of the financial instruments that have fallen in value. The debt must also be repaid even if the sales revenues do not cover the entire debt.**

The risk entailed in a debt-financed share purchase increases with the level of debt financing. For example, a portfolio which is 80% debt-financed will lose all its equity if share prices fall by 20%. If the portfolio is 60% debt-financed, the equity will be lost if share prices fall by 40%.

The return on equity in a partially debt-financed portfolio will fluctuate more than in a corresponding equity-financed portfolio and the debt financing will only produce an additional return when the return on the investment is higher than the borrowing rate.