

Systematic Risk

Systematic risk is the risk in an investment that is not a function of individual characteristics of that investment. Systematic risk is the risk inherent in that investment that is related to the broad economy and the broad market of investments. And therefore, it cannot be diversified away even if that investment is held in a well-diversified portfolio of investments.

It is only systematic risk (as the theory goes) for which investors are rewarded. If investors were rewarded for holding unsystematic (and therefore diversifiable) risk, then investors could put together well-diversified portfolios of those investments, diversify away all the unsystematic risk, and achieve return without risk.

Systematic risk is usually used in conjunction with the Capital Asset Pricing Model (CAPM). And an investment's systematic risk is captured in a statistic known as beta.