In Finance classrooms, many students will use Risk and Volatility interchangeably. This is a mistake as they are two different things. Volatility is the measure of how much the price of an asset fluctuates over time, in terms of how quickly and how often. Risk on the other hand is the possibility that an investment will fail to achieve an expected return or lose some or all its value.

To better understand the difference, think about it in terms of a rollercoaster ride in an amusement park. A rollercoaster is an attraction that consists of a light railroad track with many tight turns and steep slopes, on which people ride in small fast open cars, for a brief thrill ride.

Volatility is the fast-changing position of the cart along the light railroad track with many tight turns and steep slopes. Risk on the other hand is the possibility of an actual accident due to a malfunction of the ride that could cause injury or even death to its riders.

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