International equity investment research paper

Business, Company

Lucrative investing opportunities are continuously being offered by foreign markets which promise higher returns and promote diversification. There are many different ways to invest internationally, such as buying shares of international mutual funds. Investing is no longer confined to domestic markets and there has been a steady rise in the number of individual and international investors who pursue and try to improve on their investment goals. Taking America for example, in the past few decades, there has been a shift from investments in U. S. markets to foreign markets such as China. In 1970, foreign markets represented 34% of the world's investment opportunities and by 2008 foreign markets represented 56% of the world's investment opportunities. It is estimated that by 2030, the U. S. market will only account for 25% of the world market and investments in global markets will increase substantially.

Investments of an international nature have very many benefits associated with them. Amongst this and the most recognized is basically the fact that the investor’s portfolio gets to be diversified globally. The result of this knowledge thus is that there have been a lot of international investors, especially in the past two years who have been trying to take advantage of this fact.

There is a rising correlation between markets in various countries such as the United States, China Brazil and India. Due to this increased co-relation and amalgamation of economic ideas and principles, the benefits of international investment continue to be more profound by the day. How so? An international investor has simply increased his asset and capital base and at the same time provided an insurance policy should the effects of a market crash is more profound in one country than another. In light of this, international investments, albeit risk bearing, continue to be a lucrative investment opportunity especially for upcoming investors who are keen on the financial market. In light of this information however, Bruno Solnik (Professor of Finance and Economics at the HEC School of Management in Paris), defends " Correlations do not tell the whole story. Benefits from diversification can still be gained by investing non-domestically. In constructing portfolios, investors need to evaluate the rising importance of industry factors over the country factors when selecting securities. And above all, investors need to consider company factors, such as where the company does business and how much business is done there, not just where the company is headquartered."

In conclusion, international investing involves prolonged periods of time to yield the profits because diversification aims at getting high gains with low variability. Also, the country that the investment is being made will usually have governing customs and laws that tend to differ from the mother country of the investor. Learning and adapting to these changes is thus called for. There is also the transaction risk which basically is the risk that the investor will bear by exchanging the currency rates. The lower the rates, the lower the returns but higher rates mean Christmas for all.

References:

www. thornburginvestments. com/research/articles/modern_rationale. esp

http://institutional. vanguard. com/lip/pdf/international_developed_052004. pdf