Returns and standard deviations of local markets

Business

Returns and Standard Deviations of Local Markets Examining whether or not diversifying your domestic portfolio with international Investments is a question that has been posed since true financial globalization began in the latter part of the 20th century. In this case we were presented with a situation where a large investor voiced his concerns with his investment expert about Investing In foreign financial instruments. The client was concerned with Investing abroad when the home markets were performing so well In addition to other concerns about exposing his Investments to the currency market fluctuations.

In order to examine whether or not his concerns were Justifiable enough to cease all foreign Investments In favor of a purely domestic portfolio, quantitative analysis was utilized to show the various risks and rewards that comes with milling foreign Investments with domestic Investments In any given portfolio.

The rest of this paper describes the analytical assessments that we have made as well as our conclusions to this pressing issue.

Our first step in this analytical journey resides with the determination of the overall returns of several foreign stock index returns and the Latinity that is associated with each index based off of past performance. We begin by determining our annulled returns in the following indices: 1) Australia, 2) Canada, 3) France, 4) Germany, 5) Hong Kong, 6) Japan, 7) The united Kingdom (Britain), and 8) The United States. Taking our monthly returns from 1981-2003 in each of the aforementioned stock indices over the course of the 22 year period, we translated these overall returns into annulled returns.

This is due to the fact that GAR adjusts negative numbers in order to avoid the canceling out effect that we see with EAR. This will allow both our long-term and short-term expectations to be more in line with what we will perceive in the real world.

However, we have included both values to suit the preferred measure of average returns of the investor and allow a more complete and diverse analysis. Comparing the three tables above, we can easily see that different periods being analyzed have different returns as well as different volatility levels associated with them, some of which are quite substantial.

For example, comparing Australia’s volatility rate in Tables 2 and 3 shows an SD of 23. 38% and 12. 69% respectively.

This difference is over 10%, which is a substantial change in risk taken and something that must be used when taking into account the overall risks of our portfolio. Similar comparisons can be made between Japan’s returns in the two periods as well as the I-J and others. Understanding that these volatility figures can change quite substantially from one period to the next is something that must be taken into account when creating a portfolio.

While we can never predict the future, we can develop a set of expectations based off of the past to try and predict, or at least prepare for future possibilities. Knowing what historical volatility trends have been can lead us to create a set of best case/worst case scenarios, their respective probabilities, and allow us to create a set of expected values on our investments. Returns and Standard Deviations of Local Markets (in USED)

Our investor is also interested in the returns they actually realize after the effects of currency fluctuation have been factored in.

To address this currency issue, we have taken these same returns and factored in the exchange rate differences and put them in terms of the US dollar (S). These monthly returns were annulled over the ours of the entire 22 year period as well as the two shorter periods we evaluated above. I en volatile TTY AT tense returns also nucleates Walt ten change In currency values. Therefore, different volatility measures are associated with each countries respective overall return. The new SD needed to be calculated and included along with these new rates of return.