International master of business administration

Business

ASSIGN BUSTER

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Based on the financial rationality, the hypothesis of efficient market, do you think that: It's possible to invest in an asset which has both a low risk and a high return? While we see very serious organism or journals offering low risk - high return product, such as Cooperative bonds, through the argument that investing in the bond market is viewed as being more predictable than say, equities. The underlying attraction in a bond lies in the certainty of repayment. Despite this, definition bonds still remain high risk asset.

When investing in an asset, the relationship between risk and return is one of the essential concepts to understand. It is also very different from an investor to the other, since people are risk adverse (a big majority) while some are risk assertive. Consequently some investors would agree to withstand a higher level of market volatility and risk, while others would prefer a more conservative and " safer" approach. The risk profile of an investor translates into a more or less disciplined approach to investing.

Risk can be seen as the potential of an investment to generate financial loss while return is the usual measure of performance, as investments that offer higher potential for total return generally carry a higher potential for risk. The major determinant of the required return on the asset is its degree of risk. Risk refers to the probability that the return and therefore the value of an asset may have alternative outcomes. Risk is the uncertainty (today) surrounding the eventual outcome of an event which will occur in the future.

We can therefore conclude that a high return can not be expected from an investment in a low risk asset, but it does not mean that a low risk asset will not be able to have a high return. 2 Multinational firms are more or less risky than purely domestic firms? Although multinational corporations are confronted with many added risks when venturing overseas, they can also take advantage of international diversification to reduce their overall risk-ness. Foreign operations can enable MNC's to retaliate against foreign competitive intrusions in their home-market and to have access to benchmarking information on their competitor, reducing the risk of being blind sided by new overseas developments.

International diversification allows firms to reduce the total risk they face. Much of the general market risk facing a company is related to the cyclical nature of the domestic economy of the home country. Operating in a number of nations whose economic cycles are not perfectly in phase may, therefore, reduce the overall variability of the firm's earnings. Thus, even though the risk-ness of operating in any one country may exceed the risk of operating in the home country, much of that risk is eliminated through diversification by investing in several foreign countries.

In fact the more the firm becomes internationally oriented, the more variability of earnings declines. International investment helps to diversify away the national market risk; we can consider that most MNC are less risky than purely domestic firms. Access segmented capital markets to lower its overall cost of capital; shift profits to lower its taxes; benefits from diversification of markets and product sites to reduce the risk-ness of its earnings.

For the same level of domestic risk, international investing such as MNC can provide superior returns. Although most other studies fail to find risk-return benefits of MNCs, while shares of multinationals are not significantly affected by foreign factors, with shares behaving like shares of counterpart domestic firms, 3 as MNC's have lower systematic risk, lower total risk, consequently it can be expected a higher risk-adjusted return.