

Example of article review on discuss last portfolio

[Business](#), [Marketing](#)



Discuss the risks associated with global investing.

There are various risks associated with global investing. First is the sovereign risk which involves the central bank making changes on its foreign exchange regulations. Failure to pay government debts is also a sovereign risk that may prevent a country from investing globally since it becomes difficult for the country to borrow funds to support its investments. In addition, is the interest rate risk which comes as a result of global investment. Interest rate risk involves the increase of interest rates by banks which in many cases come up during recession period. Central bank increases these rates as a strategy to control inflation by reducing money supply in circulation (Brooks & Negro, 2002). Many investors at such scenario are unable to afford loans and thus central bank through this reduces the inflation rates. Nevertheless, political risk is another key risk which is associated with global investing. Political risk is a risk which affects an investment following a political change or instability in a country. It also includes strategies, financials and personnel losses which face a firm following nonmarket factors such as social policies and macro economy (Baele & Inghelbrecht, 2008).

Moreover, economic risks are also associated with global investments and they influence them negatively which influence. Economic risks are those risks which a rise as a result of change in the world economy. Such risks include increased exchange rates and increased inflation levels. When there is an increase in exchange rates of one currency relative to another, a country whose currency value is lower face a difficult in trading with other countries whose currency values are high. On the other hand, increased

inflation levels discourage investors from investing globally. This is because the standards of living go higher hence forcing assets and securities to become more expensive. Finally, liquidity risk is another key risk which influences global investment. It is a risk which prevents an asset or a security from being traded at a faster rate in the market. It arises as a result of one party holding stock to increase its profits relative to the other party.

2. There are recommendations on the appropriate international diversification level in domestic portfolios. Explain the recommendation given and find another source that gives different international diversification strategies.

There are various recommendations which are appropriate for international diversification level as provided by this article. First is the idea of investing less than 40% of a country's stock holdings to foreign markets. An investment of 40% and more brings about a bumpier ride on a country's portfolio. Economists such as Francis Kinniry argue that investing 30% of stock's holdings minimizes ups and downs of a portfolio. In addition, in order to minimize diversification risk, focus should be to buy shares of a big company which sails overseas. This is because such share holdings move at a faster rate than those of foreign markets and thus stand in a better chance to get the full benefit of diversification.

On the other hand, it is recommendable to consider a diversifying strategy of blending international and domestic markets in order to reduce portfolio risks. Investing in foreign securities plays a big role in mitigating the risk better. This is because the economic cycles in the foreign market differ

with those of individual country's market. In addition, is the multinational diversification strategy which aims at diversifying investors activities after the diversification at the national level (Brooks & Negro, 2002). It also considers business and national markets diversification. It calls for well-developed and executed diversification process at different levels of the company or country. It targets companies with big openings for their long term growth by venturing in business segments and growth of the existing business in the market. If these two strategies are well utilized then an investor stands to maximize profits and minimize diversification risks (Brooks & Negro, 2002).

References

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