

Global Investing

Investing for your retirement

Investing abroad may seem daunting at first but consider this: many products you use every day are made by companies based in other countries – Samsung, Honda, L'Oréal, Bayer and Volkswagen to name a few. Thanks to globalization, these brands have become household names, breaking down barriers and opening opportunities for investors worldwide. Take the next step and explore the benefits of a globally diversified portfolio.

Venturing Beyond the United States

There are many factors to consider when deciding whether to include international investments in an investment portfolio.

Missed Opportunities

International markets account for a large proportion of the world's available investments and offer a distinctly different set of investment opportunities than domestic markets. By ignoring investment opportunities outside of the United States, an investor would miss out on more than half of the investable developed stock market opportunities in the world.

Diversification

Including some international investments in a portfolio may provide additional diversification. International markets do not always move parallel to U.S. markets: when U.S. markets are down, international markets may be up, and vice versa. Diversification does not eliminate the risk of experiencing investment losses.

Growth Potential

Some international economies, particularly in emerging markets, are growing at a significantly faster rate than the U.S. economy. As they "catch up" to the developed countries, the growth potential could exceed what is available in local developed markets. When compared to developed stock markets worldwide, the U.S. market has rarely been the top performer in any given year.

The Risks of Venturing Beyond the United States

With any investment, there are risks. International investing has its own set of investment risks investors may wish to keep in mind when creating a portfolio. Greater risk may offer greater reward, but investors need to be comfortable with the potential for loss as well.

Currency Risk

Changes in exchange rates between foreign and local currencies can increase or decrease investment returns. When dividends are paid or assets are sold in foreign markets, the dividends or sale proceeds in local currency must be converted back into the investor's domestic currency. When a foreign currency is strong compared to the domestic currency, investors' returns in terms of local currency buy more, increasing the investment return. If the foreign currency weakens, this weakness reduces investment returns because the foreign earnings translate into fewer local currency units.

Economic/Political Risk

Political or economic upheaval in a country can jeopardize the performance of foreign investments. Although many investors may not be well- versed in the conditions of other countries, they are important factors to consider when choosing a global investment.

Market Liquidity Risk

In foreign markets there may be lower trading volumes, and the market may only be open for a few hours or hours different than the investors'. A foreign market may also restrict the amount or type of stock a foreign investor may purchase or even charge a premium price. All of these risks could lead to difficulty when it comes time to sell that foreign security.

Costs of Investing Internationally

Due to the increase in risk, investments in foreign securities generally have higher associated expenses compared to investments in domestic securities. These additional costs could include transaction costs and sales charges. There could also be unexpected taxes, such as withholding taxes on dividends.

As with any investment option, global investments have advantages as well as disadvantages.

Choosing investments and creating a portfolio is a very personal choice for each and every investor. Investors should consider all benefits and risks before making any investment choices.

Talk to your financial professional for more information about Global Investing.

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