SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION MBA FA 406(A) SUBJECT NAME: INTERNATIONAL FINANCIAL MANAGEMNT

TOPIC NAME: INTERNATIONAL INVESTMENT STRATEGY

MEANING:

- International investing involves selecting global investment instruments as part of a geographically diversified portfolio. People often invest internationally to increase the diversification of their portfolio and spread investment risk among foreign markets and companies.
- International investing provides investors with a broader investment universe for selecting portfolio investments. It can broaden an investor's diversification, potentially adding new sources of return. In some cases, it can also help mitigate some systematic risks associated with specific country's economies.

INTERNATIONAL INVESTING CONSIDERATIONS:

International Government Debt:

- Governments across the globe issue debt to help fund their financial budgets. Government debt is issued in the form of notes and bonds with varying maturities and interest rates derived from the underlying investment duration. Globally, countries can be classified as developed, emerging or frontier to better understand their economies and country risks. Developed countries are the world's most advanced economies and therefore have more conservative risks. Emerging and frontier markets offer greater opportunity as economies and infrastructures develop over time.
- Credit market ratings can help to provide an investor with an understanding of a fixed income investments' risk. Globally, countries receive credit ratings from credit rating agencies that help to determine their risk levels.

- **International Indexes:**
- In the equity markets, there are a wide range of international indexes providing a basis for international investment considerations.
- For comprehensive global market exposure, investors can look to all-country world indexes. These indexes include stocks from countries across the entire world. Two leading index examples are the FTSE Global All Cap Index and the Vanguard Total World Stock Index Fund.
- Developed, emerging and frontier market indexes also help to breakdown the global equity markets into three categories. Developed market equities typically offer the lowest risk since financial market infrastructures and corporate markets are more advanced. Emerging and frontier markets have greater risks. Emerging markets are often a category in high demand for international investors. These markets have higher risks due to their emerging growth but have greater potential for returns.

INTERNATIONAL INVESTING RISKS:

All types of investments involve risk and international investing may present some special risks. Some of the risks involved with international investing include the following:

- Fluctuations in currency exchange rates, known as foreign exchange risk (or currency risk).
- Changes in market value (price risk)
- Changes in foreign interest rates.
- Significant political, economic and social events (geopolitical risk)
- Lower liquidity
- Less access to important information
- Varying market operations and procedures (jurisdiction risk)

Savvy investors of of international securities can hedge against some of these risks using various instruments such as currency derivatives or swaps.

INVESTMENT STRATEGIES:

- Value Investing. An investment strategy made popular by Warren Buffet, the principle behind value investing is simple: buy stocks that are cheaper than they should be.
- Income Investing.
- Growth Investing.
- Small Cap Investing.
- Socially Responsible Investing.

OTHER STRATEGIES:

- Passive and Active Strategies
- Growth Investing (Short-Term and Long-Term Investments)
- Value Investing
- Income Investing
- Dividend Growth Investing
- Contrarian Investing
- Indexing

THREE WAYS YOU CAN INVEST INTERNATIONALLY:

- Investing directly in foreign stocks.
- Using internationally focused exchange-traded funds to gain foreign exposure.
- Buying shares of multinational corporations that are based in the U.S. but do almost all of their business internationally.

INTERNATIONAL INVESTMENT THEORY:

- International investment theory explains the flow of investment capital into and out of a country by investors who want to maximize the return on their investments. One of the major factors that influence international investment is the potential return on alternative investments in the home country or other foreign markets.

Identifying Opportunity Cost:

- International investment theory is largely determined by the opportunity cost of investment. Opportunity cost is a financial term that refers to the cost you face when picking one investment instead of another that might be more profitable in the long run. International investors compare various investment alternatives and select the opportunity that is likely to maximize returns.

Foreign Portfolio Investment:

- Foreign portfolio investment is passive foreign investment where investors do not directly participate in the investment in the foreign country. Instead, investors put their money into foreign securities and other investments to earn interest or dividends.

Foreign Direct Investment:

- Foreign direct investment is the other part of international investment theory and is an active investment in a foreign country. Instead of investing in securities, investors directly build factories or gain controlling interest in foreign businesses to earn profits. An investor may take a bigger risk with a direct investment versus a portfolio investment because that investor will have an overseas business that she must later sell, potentially at a loss depending on market conditions at the time.

BARRIERS TO INTERNATIONAL INVESTMENT:

- Not recognizing that corporate strategy is different from operational strategy
- Poor board governance and structures
- No checks and balance in the board
- Poor financial management systems
- Poor international expertise
- Inappropriate location of senior executive