

# INTERNATIONAL INVESTING

Although it is common in Canada to consider the S&P 60 as the market index portfolio, such practice is rather limited in scope. Equities actually make up 10 percent of total Canadian wealth and a far smaller percentage of world wealth. In one sense, international investing may be viewed as no more than a straightforward generalization of our earlier treatment of portfolio selection with a larger menu of assets from which to construct a portfolio. One faces similar issues of diversification, security analysis, security selection, and asset allocation. On the other hand, international investments pose some problems not encountered in domestic markets. Among these are the presence of exchange rate risk, restrictions on capital flows across national boundaries, an added dimension of political risk and country-specific regulations, and different accounting practices in different countries.

In this chapter we will see the importance of world markets and the benefits of diversification for risk-return tradeoffs; we also introduce the possibilities for making international investments. We then examine the effect of currency fluctuations on returns. Following this, we review the processes of appraising international investing, including the identification of factors underlying those returns and the determination of success in selecting areas and assets for portfolios in the context of active, rather than passive, international investment. Finally, we examine the issue of segmentation of markets, which underlies the expected benefits of diversification across national or regional borders.

