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Global Investing: A Promising Mean for Investing

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Abstract:
The proposed paper discusses the Global investing as one of the promising means of investing. Investment in global investments is an effective way to gain international exposure in an investment portfolio. The multinationals in various developed and developing countries are at the vanguard in meeting customer needs with new and existing products. Global investment is an investment portal providing global investment opportunities that offer security, tangibility and impressive financial performance. Its service to investors is based upon three main principles: price, profit and performance. Global investments provide investors with opportunities to invest carefully in India and also some International investment in selected investment products from around the world, real investments that offer security, longevity and tangibility. The studies show that adding foreign stocks to a well – rounded portfolio may enhance total returns while reducing overall volatility. The combinations of domestic and foreign equities often produce lowest risk for a given expected level of return when seeking to achieve the benefits of global diversification, investors must be careful to select investments in countries that offer significant potential for risk reduction.

Keywords: Global investment, tangibility, Morgan Stanley capital International

Introduction of global investing

Global investment is an investment portal providing global investment opportunities that offer security, tangibility and impressive financial performance. Its service to investors is based upon three main principles: **price, profit and performance.**

Global investments provide investors with opportunities to invest carefully in India and also some International investment in selected investment products from around the world, real investments that offer security, longevity and tangibility.

The investors shun their local listing and start investing in global markets as they get better execution and lower transaction cost. In addition to this, they get advantage of trading in large, centralized and extraordinary investment opportunities. The recent research shows that stocks of foreign firms that cross list their shares for sale in both other countries and home markets have higher valuations than foreign stocks listed only in their home markets. The investors of higher income class who have risk taking capacity and expect to have high returns usually invest in global markets. The savvy investors know that attractive investment opportunities are available in many countries as they have large economies. The investors invest in countries like United States, Australia, Korea, China, Japan etc.

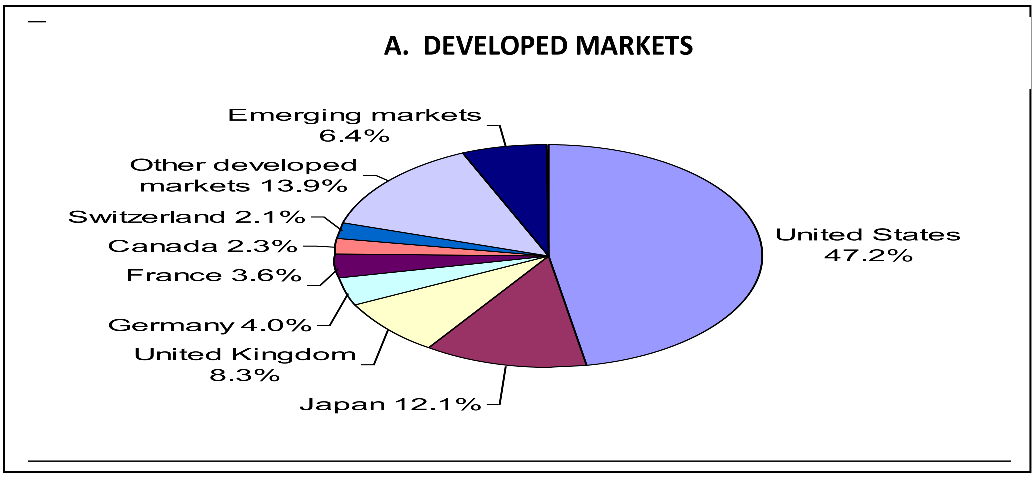
Diversification Benefits of investing Globally:

Diversification is an important consideration in any prudent investment program. In addition to providing global investors with more and perhaps better investment opportunities, added diversification is a prime benefit that can be derived through adoption of a global investment strategy. All global economics are directly affected by local economic conditions and many experience economic cycles that differ from those experienced in the domestic market by the investors. When Indian economy slows down or is in recession some foreign economies may contribute to grow and prosper. The foreign equity markets generally do not move in lockstep fashion with Indian equity market. As Indian stock prices rise or fall, foreign stocks can move in a different direction. Global diversification has the potential to cushion investor portfolios from downward fluctuations in domestic markets. Similarly, domestic portfolios can cushion the fall experienced in foreign stock portfolios.

For investing in different countries, it is necessary to understand about global market indexes. The stock market in each country has one or more indexes used to measure the performance of equities in that country. There is much better information available about foreign stock markets. Even novice investors can investigate global investment opportunities with a level of insight that was available only to most sophisticated professional managers before. This is due to the fast emerging computer technologies, that investor are well informed about all global companies. The investors need to know indexes of domestic as well as foreign companies. One problem with these local indexes is that they are generally not comparable across countries. Each index is computed in a local currency, and there are differences in the way each index is computed. Some are equally weighted, some are capitalization weighted, and some are price weighted, some add dividend back in etc.

To provide consistent information and bench marking services to investors, Morgan Stanley capital International (MSCI) Inc. applies the same company selection criteria and calculation methodology across all markets for all of its indexes. In fact MSCI is the only provider of indexes that are consistently developed and applied across developed and emerging markets. The Morgan Stanley capital international is the leading provider of global stock market and bond market indexes. Its indexes are the most widely used benchmarks for measuring the performance of global portfolio manager on the internet; MSCI gives global investors an abundance of information about the global economic environment and the risk and return characteristics of global stock and bond markets. Its objective in doing so is to create a series of indexes that together replicate the investment opportunities available in all equity markets around the world, a true global portfolio. The countries in developed markets are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, United Kingdom and United

States of America. The countries in emerging markets are India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Sri Lanka, Taiwan, Thailand, Turkey and Venezuela. Research in finance suggests that portfolio can be reduced for a given level of expected return through global diversification. Global diversification has the potential to enhance returns for a desired level of portfolio risk. The research in behavioral finance reveals that most investors commit very little of their investment portfolios to global equities. They believe in the domestic equities and domestic investment avenues more. The home bias attitudes of investors lead them to disbelieve the foreign markets. Sometimes due to foreign bias they over invest in one foreign country and under invest in another. For this, they need to design a portfolio rationally.



Pictograph: The share of countries in developed markets

Source : Investment management by Mark Hirschey & John Nofsinger, Mcgraw Hill companies pg. 496 Original Source : MSCI Barra, www.mscibarra.com. © MSCI

Pictograph: The share of countries in emerging markets

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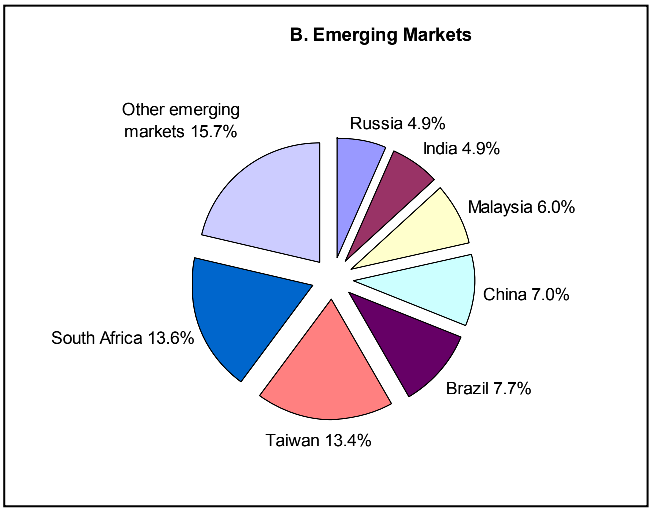

Source: Investment management by Mark Hirschey & John Nofsinger, Mcgraw Hill companies pg. 496 Original Source : MSCI Barra, www.mscibarra.com. © MSCI

Global Investment risk:

In investment market 'Risk' stands for possibility of something wrong with unknown uncertainty. Risks can be market risk, credit risk, liquidity risk, funding risk, operating risk, legal risk, reputation risk etc. In case of global investing, the potential investor faces risks of different nature which are discussed below:

Market volatility: Market volatility means market fluctuations. The global investing, particularly emerging market investing involves much higher market volatility than developed market investing.

Liquidity risk: Liquidity risk is loss potential tied to the fact that a stock can become difficult to buy or sell. This problem is greater in foreign stock market i.e. emerging markets. The liquidity risk in emerging markets is higher than developed markets. The liquidity risks are associated with higher equity transaction cost, brokerage commissions, exchange fees, currency translator cost and custodial fees etc.

Political risk: Many global markets are immature, vulnerable to scandal, subject to manipulation and lack strong investor projections. This is especially true in emerging markets in which political events have the potential to threaten the stability of returns. Governments of countries with emerging markets also tend to be moving towards democracy and struggling with long-standing political and social problems. Government policy risk is an important consideration for global investors.

Currency Risk: Currency risk is a pervasive risk that investors face when making global investments. The value of all currencies fluctuates over time. Just like any commodity, the value currency of particular country rises and falls according to the laws of supply and demand. The changes in the value of the currency have important implications for global investors. The big move in currency exchange rates can dominate the outcomes of international investments.

Global Investment Opportunities

International investors tend to invest in countries with well developed stock markets. They look for countries that seem familiar specifically they invest more in countries that are geographically close and have the same or similar language and culture. They also see the factors like economic development, existence of capital controls, transaction cost and investor protection laws while they allocate their savings and investments in foreign countries. The investors do not invest in foreign countries in same protection. There are various international investment opportunities available for the investors which are as follows:

(i) **Global depository receipts:**

A certificate issued by a bank representing shares of a stock traded on a foreign stock exchange. The IDR is denominated in the local currency, and entitles the bearer to any dividends and other benefits associated with the shares. IDRs can be traded like other any security. Using IDRs shields the investor from foreign exchange risk and any applicable tariffs he would have had to pay if he had bought the stock outright. It also exempts the investor from any requirements the foreign exchange might have levied. It is also know as a global depository receipt (GDR).

Several international banks issue GDRs, such as JPMorgan Chase, Citigroup, Deutsche Bank, Bank of New York. GDRs are often listed in the Frankfurt Stock Exchange, Luxembourg Stock Exchange and in the London Stock Exchange, where they are traded on the International Order Bank (IOB). Normally 1 GDR=10 Shares, but not always. It is negotiable instrument which is denominated in some freely convertible currency.

(ii) **American depository receipt:**

A negotiable certificate issued by a U.S. bank representing a specified number of shares (or one share) in a foreign stock that is traded on a U.S. exchange. ADRs are denominated in U.S. dollars, with the underlying security held by a U.S. financial institution overseas. ADRs help to reduce administration and duty costs that would otherwise be levied on each transaction.

This is an excellent way to buy shares in a foreign company while realizing any dividends and capital gains in U.S. dollars. However, ADRs do not eliminate the currency and economic risks for the underlying shares in another country. For example, dividend payments in euros would be converted to U.S. dollars, net of conversion expenses and foreign taxes and in accordance with the deposit agreement. ADRs are listed on the NYSE, AMEX or Nasdaq. Depository banks have numerous responsibilities to the holders of ADRs. The largest depository bank is The Bank of New York. Due to the goodwill, the ADR has earned, the investors are attracted towards them.

(iii) **Foreign Bonds:**

Companies and governments in countries with well developed capital markets can issue debt called domestic bonds. European companies issue euro-denominated bonds. For small foreign investors it is difficult to buy and sell in European bonds because they must exchange currency and open a brokerage account that operates in Europe.

Many companies from one country issue bonds in another country, which are called foreign bonds. The corporate bond market in many countries is nonexistent. Because of the large amount of capital available in United States, companies from all over the world issue dollar - denominated bonds in the United States which are called Yankee bonds. In Japan Yen denominated bonds are issued. In Britain pound - denominated bonds are issued. The investor as per convenience can choose the bond.

(iv) **Global mutual funds:**

International stock and bond mutual funds provide small individual investors with a cost efficient means for participating in foreign securities markets. Global equity fund invests in equity securities traded on a worldwide basis. The investment strategies of international funds vary widely. An international fund that invests in companies from a particular geographic region are called foreign regional fund. Share prices for regional funds fluctuate more than the share prices of broadly diversified international stock funds. Even more volatile is a single - country fund which is investment in single foreign country. Many single country funds are close end mutual funds that trade as an exchange at sizable discounts or premiums relative to net asset value. Single country funds are extremely risky because of their narrow focus.

(v) **International i shares:**

Barclays Global investors has been a leader in the development and marketing of index shares (called i shares) that offer investors the broad diversification of an index fund and the trading flexibility of common stocks. International i shares track market movements around the world. As is the case with any foreign market investment , investors in international i shares must be aware that international investing involves not only the neutral risks associated with equity investing but also the additional risk of capital loss due to unfavorable fluctuations in the currency markets. International i shares investors also face exposure to investment losses steaming from economic or political instability in other nations. The i shares are good options for investors who want to get international exposure in an easy and low cost way.

Conclusion:

Investment in global investments is an effective way to gain international exposure in an investment portfolio. The multinationals in various developed and developing countries are at the vanguard in meeting customer needs with new and existing products. Usually the investors prefer investment in domestic markets e.g. the NRI own investments like house property etc. in other countries. The investors are aware about global investing as an investment option but their investment is towards Indian market only. The studies show that adding foreign stocks to a well rounded portfolio may enhance total returns while reducing overall volatility. By moderating downward swings, a modest allocation to foreign stocks can also make it easier for investors to ride out downturns in domestic markets. The foreign equity markets may tend to be riskier than the domestic market but it may not seem reasonable that adding international stocks to an investment portfolio could reduce overall risk. The combinations of domestic and foreign equities often produce lowest risk for a given expected level of return. Likewise combination of domestic and foreign equities produce the highest expected rate of return for a given level of risk. When seeking to achieve the benefits of global diversification, investors must be careful to select investments in countries that offer significant potential for risk reduction.

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