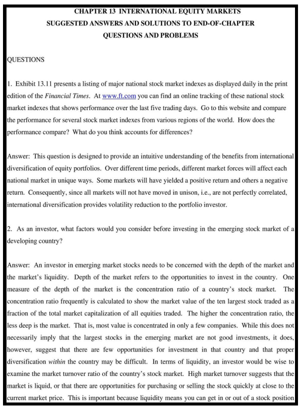
International diversification of equity portfolios

University College Dublin - Why Global Diversification Matters


CHAPTER 13 INTERNATIONAL EQUITY MARKETS
SUGGESTED ANSWERS AND SOLUTIONS TO END-OF-CHAPTER QUESTIONS AND PROBLEMS

QUESTIONS

1. Exhibit 13.11 presents a listing of major national stock market indexes as displayed daily in the print edition of the *Financial Times*. At www.ft.com you can find an online tracking of these national stock market indexes that shows performance over the last five trading days. Go to this website and compare the performance for several stock market indexes from various regions of the world. How does the performance compare? What do you think accounts for differences?

Answer: This question is designed to provide an intuitive understanding of the benefits from international diversification of equity portfolios. Over different time periods, different market forces will affect each national market in unique ways. Some markets will have yielded a positive return and others a negative return. Consequently, since all markets will not have moved in unison, i.e., are not perfectly correlated, international diversification provides volatility reduction to the portfolio investor.

2. As an investor, what factors would you consider before investing in the emerging stock market of a developing country?

Answer: An investor in emerging market stocks needs to be concerned with the depth of the market and the market's liquidity. Depth of the market refers to the opportunities to invest in the country. One measure of the depth of the market is the concentration ratio of a country's stock market. The concentration ratio frequently is calculated to show the market value of the ten largest stock traded as a fraction of the total market capitalization of all equities traded. The higher the concentration ratio, the less deep is the market. That is, most value is concentrated in only a few companies. While this does not necessarily imply that the largest stocks in the emerging market are not good investments, it does, however, suggest that there are few opportunities for investment in that country and that proper diversification *within* the country may be difficult. In terms of liquidity, an investor would be wise to examine the market turnover ratio of the country's stock market. High market turnover suggests that the market is liquid, or that there are opportunities for purchasing or selling the stock quickly at close to the current market price. This is important because liquidity means you can get in or out of a stock position

Description: -
-
Christmas -- Fiction.
Santa Claus -- Fiction.
Bears -- Fiction.
Polar bear -- Fiction.
Stock-exchange.
Investments.International diversification of equity portfolios
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Tags: #Guide #to #diversification

Domestic vs. International Stocks: Why Diversification Is Important

I manage individual portfolios in the U. He is a member of CFA Institute and CFA Society Atlanta. It is a violation of law in some jurisdictions to falsely identify yourself in an e-mail.

International portfolio diversification is better than you think

The bottom line Achieving your long-term goals requires balancing risk and reward. The idea is that some investments will do well at times when others are not. Additionally, an equally weighted mix of the two markets saw less volatility relative to a stand-alone domestic allocation, illustrated in the chart below.

Guide to diversification

To be sure, this analysis focuses on a broad, index-based approach to international investing.

An Examination of International Equity Diversification

The theoretical and empirical foundation for the VCMM is that the returns of various asset classes reflect the compensation investors require for bearing different types of systematic risk beta.

Domestic vs. International Stocks: Why Diversification Is Important

Forecasts are obtained by computing measures of central tendency in these simulations. The model generates a large set of simulated outcomes for each asset class over several time horizons.

International portfolio diversification is better than you think

Emerging market countries may be riskier than developed market countries.

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