

Investing International makes Sense

Last updated: February 1, 2024

Stocks issued by non-South African companies often perform differently than their South African counterparts, providing exposure to opportunities not offered by South African securities. If you're searching for investments that offer higher potential returns and less risk, International Investments are worth a look.

Advantages of Foreign Portfolio Investment?

Foreign portfolio investment is a type of investment that an investor has abroad. A foreign portfolio investment can include various assets held in foreign countries, including bonds, stocks, and cash equivalents. They can be managed by finance professionals or directly held by an investor.

The investor passively holds most foreign portfolio investments. Though their liquidity does depend on the volatility of the foreign market in which they are held, foreign portfolio investments can be very liquid.

There are many benefits to having a foreign portfolio investment. It offers investors a way to diversify their holdings and benefit from international investment diversification.

Benefits From Exchange Rate

International currency exchange rates keep changing. Sometimes the currency of the investor's home country may be strong, and sometimes it may be weak. There are times when a stronger currency in a foreign country where an investor has a portfolio may benefit the investor.

Access to a Bigger Market

Home markets in the United States has become very competitive, as many businesses offering similar services, however, they offer a less competitive and sometimes larger market. For instance, a business may make more sales selling shoes in one African country than in the entire U.S.

Liquidity

Where foreign portfolio investments are very liquid, they can be bought and sold quickly and easily. Higher liquidity means greater buying power for investors, giving them access to a ready cash stream. That means that investors holding foreign portfolio investments are better positioned to act quickly when good purchase opportunities arise.

Example of Foreign Portfolio Investment, foreign portfolio investment occurs when a non-resident of a foreign country participates in a cross-border transaction to purchasing securities, cash equivalents, or other portfolio assets in that country. If an SA-based investor, for example, bought shares in a company based in Japan, that would be an example of a foreign portfolio investment. It should not be confused with foreign direct investment, in which a non-resident provides financing for a venture in a foreign country, and receives an ownership stake and some degree of management control as a result.

Why savings isn't enough

Saving money is essential, but it's only part of the story. Smart savers start by building sufficient emergency savings within a savings account or investing in a money market account. But after building three to six months of easy-to-access savings, investing in the financial markets offers many potential advantages.

The power of compounding

Compounding occurs when an investment generates earnings or dividends which are then reinvested. These earnings or dividends then generate their own profits. So, in other words, compounding is when your investments generate earnings from previous earnings, if you invest in a dividend-paying stock, for example, you might consider taking advantage of the potential power of compounding by choosing to reinvest the dividends.

The risk-return trade-off

Different investments offer varying levels of potential return and market risk. Risk is an investment's chance of producing a lower-than-expected return or even losing value. Return is the amount of money you earn on the assets you've invested, or the investment's overall increase in value.

Investing in stocks, for example, has the potential to provide higher returns. In contrast, investing in a money market or a savings account likely won't offer the same return potential but is considered less risky than investing in stocks, the amount of risk you carry depends on your appetite — or tolerance — for risk. Only you can decide how much risk you're willing to take for the potential of higher returns. But taking on some risk may be necessary if you're seeking to outpace inflation. An increase in risk may provide more potential for your money to grow.

To help increase the potential benefits of compounding, start investing as soon as possible and automatically reinvest your dividends and other distributions.

Please don't hesitate to contact the support team by email (info@sainvestmentgroup.co.za) for any general or admin related enquiries that are not stipulated in the T&C's or FAQ.

Remember, "Time in the markets beats money in the market!"