

# Finding the right int'l market for your investments

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Very few people in India make use of financial instruments like stocks and bonds as they save for retirement. Gaurav Patankar, an analyst at Bloomberg Intelligence, told Al Jazeera in an interview that Indian households invest only 7% of their household income in equities, compared to 30% on average for other emerging markets, 40% for Latin American and 50% for US households. Furthermore, according to a 2019 survey by the Reserve Bank of India (RBI), a mere 8% of Indian households held financial assets in shares or mutual funds. Only 3% of the Indian population invests in the stock market, compared to 13% of the Chinese population and 55% of the US.

As investors become more sophisticated, their understanding of different investment choices goes far beyond selecting specific companies. Investing becomes about balancing exposure to different sectors and even looking beyond domestic markets. Technology can allow investors to buy assets across foreign markets and add geographical diversification to their portfolios. Having a portfolio that includes assets with a low degree of correlation lowers volatility and increases the chances of long-term success.

An investment portfolio success is, eventually, determined by asset allocation. Creating a portfolio that includes all major asset classes (bonds, stocks, cash or equivalents) balances risks and returns. Adding geographical diversification to the mix generally also decreases risk and may enrich your investment strategy to bring better results. The question, then, is how do you compare and evaluate different capital markets to be comfortable in making international investment allocation decisions?

According to LCR Wealth Management, a subsidiary of the US-based private investment and advisory services firm LCR Capital Partners, international investors decide whether they will allocate funds in international capital markets based on liquidity (the ease with which an investment can be turned into cash), efficiency (speed and cost of transactions), investor protection (fair return of capital), and currency (risks to foreign investors that come from fluctuating exchange rates).

Investing in developed markets, such as the US equities or fixed-income markets, can provide real benefits to investors as these economies are more stable and can protect investments and reduce risks. Developed markets are deeper, which makes them more liquid if investors want to change their portfolio. Besides, investor protection is usually better. There is higher price stability, greater yields, and less disparity between retail and institutional investors.

They offer flexibility and transparency when making changes to portfolios. The US particularly stands out for its efficiency.

Many international investors have a strong desire to allocate a portion of their investable assets to US equities, the larger global equity market. The main drivers of this desire are diversification, creating a dollar-denominated asset and protection against local currency deflation, and the historical returns of the US equity market over the last 20 years. In the last five years, there has been more interest in the European market too.

This last year has shown a growing appetite for investments that are eligible for alternative residency programmes such as the Portugal Golden Visa, Spain or Malta. Immigrant investor programmes, in addition to diversifying one's portfolio internationally, can offer permanent living, working and studying rights in a foreign country. Usually, investments in such programmes primarily occur with the family's goal of enhancing educational and professional opportunities for children, access to better healthcare and general quality of life and lifestyles.

In all investment strategies, whether in India or abroad, good financial advisors usually recommend that investors distribute their assets across investment types, markets and even geographies. Diversification reduces risk and avoids the danger of betting on a single market or company.

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