

Should You Be a Global Investor?

Investment opportunities don't stop at the U.S. border. But what should you know about investing internationally?

To begin with, what is an international investment? Essentially, it's an investment in companies based outside the United States. Investors can purchase individual foreign stocks, but many people choose international mutual funds or international exchange-traded funds (ETFs), which can be traded like stocks and track a specific market index. It's also possible to invest in bonds issued by foreign governments or entities. However, investors should typically focus on diversified funds and ETFs for international exposure in their portfolios.

When you invest internationally, you can receive at least two key benefits. First, international investments can help diversify your portfolio. When you spread your investment dollars among a variety of investments, you can help reduce the impact of market volatility that might affect one type of asset particularly hard. For example, if you only owned stocks and the market went through one of its inevitable downturns, your portfolio would likely take a bigger hit than if you also owned bonds, government securities, certificates of deposit and other investments. And when you invest internationally, you're adding still another layer of diversification — because in any given year, U.S. stocks may be down while those from other regions of the world could be up. Keep in mind, though, that while diversification can help protect you somewhat from market movements, it can't guarantee profits or prevent all losses.

Another advantage of international investing is that it can give you more opportunities for growth. You can benefit from taking part in emerging markets that may offer significant growth potential, fueled by rising consumer spending and rapid advances in technology. Of course,

you can certainly find many growth-oriented investments in the U.S., but by broadening your outlook to include the whole world, you also widen the playing field for growth possibilities.

While international investing does offer some clear benefits, it also carries some risks, including the following:

- *Currency risk* – The exchange rate between the U.S. dollar and foreign currencies will change constantly. When you invest internationally, this shifting rate can sometimes work in your favor, but it might also reduce your investment returns.

- *Political risk* – Foreign countries may experience political turmoil that could negatively affect their financial markets and the industries and companies in which you're investing.

- *Liquidity risk* – Some foreign markets have lower trading volumes than U.S. exchanges and may be open fewer hours. This can lead to lower liquidity, possibly making it somewhat more difficult for you to move in and out of international investments.

You'll want to weigh the benefits and risks of investing internationally before taking action. You'll also want to think carefully about the percentage of your portfolio that you might want to devote to international investments. There's no one "rule" regarding an appropriate amount because everyone's situation is different. And since it's more challenging to understand the global investment picture, you might want to consult with a financial professional. Still, it's a big world out there — and as an investor, you may want to explore it.

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