

Taking Advantage of Global Markets by Diversifying Your Portfolio Internationally

Despite the deluge of information over the past few years about the benefits of investing outside of Canada and the increased foreign content limit allowed in RSP investments, many Canadians still are not taking advantage of the opportunity to invest in global economies. In fact, most Canadians still have less than 10% foreign content, or one-third of what they are permitted, in their RSP's. (Royal Bank Financial Group RRSP Survey, 2000)

In addition, many investors tend to invest only in countries whose economies are “sizzling” and are receiving favourable attention by the media. This can be dangerous as was discovered by the people who invested heavily in the “new” Russia before the Russian currency crisis of 1998. When the Russian economy plummeted, many investors lost a great deal of money because their holdings were not diversified enough to offset that economic downturn.

International diversification of equity mutual funds by spreading investments across various countries allows you to benefit from those world economies that are doing well in any given year.

Think of it this way: You like to collect wine, and you only ever buy French wine. Your entire wine cellar is filled with French wines and you refuse to buy any others. Medical researchers suddenly discover that all the wine produced in France over the past 50 years has been tainted with chemicals - your entire collection has to be destroyed. If you'd purchased wines from several countries, only a portion of your collection would have been lost.

You'll benefit from diversifying among various world economies because you'll take advantage of whichever economy happens to be performing well at any given time. The result is that even though some economies in which you are invested may not do well for a period of time, you can be assured that your overall portfolio will.

Source: AGF Funds Inc.