International capital flows
Portfolio Investments
International Portfolio Investment
The purchase of stocks, bonds, and money market instruments by foreigners for the purpose of realizing a financial return, which does not result in foreign management, ownership, or legal control.
PORTFOLIO THEORY
What are THE BENEFITS OF INTERNATIONALEQUITY INVESTING?
International Diversification
- Diversifying across nations with different economic cycles
- Exchange rate risk reduction
- Political risk reduction
Offers more opportunities than a domestic portfolio
Emerging markets have higher risk and return than developed markets
Determinants of international portfolio investment flows
- tax rates on interest or dividends
- interest rates
- exchange rates
- liquidity
- political risk
- correlation between economies
- potential economic growth
In what country / what kind of assets would you invest 100 million USD?

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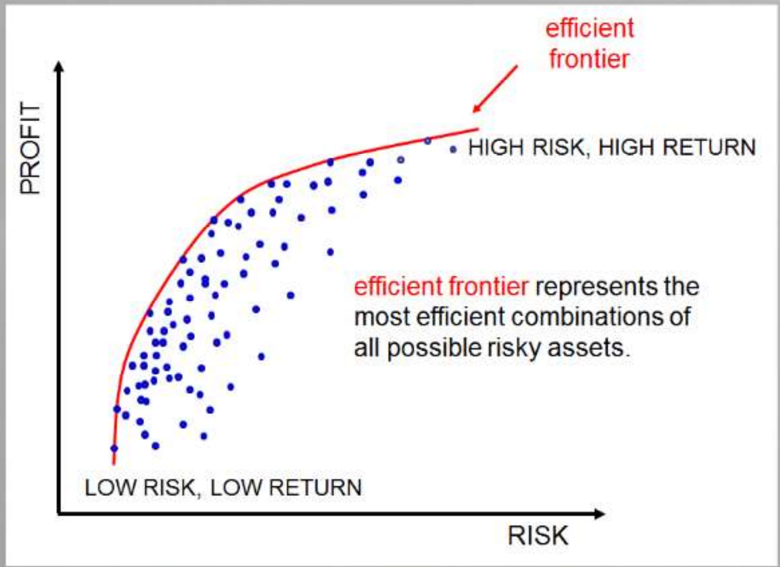
PORTFOLIO THEORY



Diversified portfolio— is the one that mixes assets so as to maximize return and minimize risk.

The broader the diversification, the more stable the returns and the more diffuse the risk.

RISK

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Impact of portfolio investment on the host economy.

Positive effect:

- Capital inflow
- Improvement in fiscal position.
- Better liquidity on the financial market.
- Appreciation of local currency

Negative effect:

- Dependent on international funds
- Increased risk of currency crisis
- Portfolio investment is highly volatile