



# Managing risk through international diversification



**Investing internationally may help you manage risk in your clients' portfolio and rescue it from the ebb and flow in the fortunes of one particular country's market. It is hard to tell which country is the best to invest in at a given time, bearing in mind that today's top performer may be tomorrow's laggard, so what investment techniques can you employ to manage this uncertainty?**

Top performing world stock markets over the last ten years											
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1st	Russia	Turkey	Korea	Russia	Israel	Russia	Pakistan	Turkey	Columbia	Egypt	Indonesia
2nd	Hungary	Russia	Finland	Turkey	Switzerland	Korea	Czech Republic	Argentina	Egypt	Columbia	Morocco
3rd	Egypt	Hungary	Greece	Finland	Canada	Columbia	Indonesia	Peru	Hungary	Russia	Philippines

Source: Standard & Poor's. Figures from 01.01.96 to 01.01.07, bid to bid gross in US dollars. Specific countries equity markets are represented by the relevant MSCI World index. Past performance is not a guide to future performance. Annual performance figures are for discrete years, for example '1996' equals 01.01.1996 to 01.01.1997.

The chart above details the performance of a range of stock markets over the last ten years, and shows the wide range of countries which have performed well over that time. It's certainly interesting to note that no single market, has been ranked first more than three times and it's also notable how quickly countries can drop out of the top three rankings from one year to the next – something which suggests that even the most robust economy will not offer the best results every year. You might also note that some of the most developed and established markets do not appear in the top three on a regular basis.

### Spreading risk may help increase your clients chances of success

By diversifying your clients' portfolios, you not only help your clients avoid the consequences of investing all their money in a lacklustre economy, but also improve their chances of participating in the best performers as demonstrated by the chart above. Investing your clients' money and diversifying their holdings across regions can be a good place to start; for one thing, it means that if one part of the world is having a bad year, exposure to other markets may be able to offset this.

By spreading your clients' investments around a number of different regions, can help ensure they capture a spread of the potential that exists – giving their portfolio the best possible chance of delivering good returns.

### Going global

As an investment portfolio grows in value it becomes even more important to diversify. Deciding to invest internationally may be a major change from your clients' usual strategy, and you should bear in mind that while it can diversify their portfolio, it also has risks not associated with investing solely in their domestic market. International diversification can be achieved by investing in overseas companies through a pooled investment fund. Investing in stock markets around the world offers access to the growth potential of the major global economies such as the US, Europe and Japan, as well as the smaller but potentially higher-return markets across Asia.

By spreading your clients' investments across different markets, you may reduce the risk of choosing the losers and of missing out on the winners. Spreading their investments far and wide allows your clients to benefit from exciting opportunities in individual markets, while reducing overall volatility (the degree by which the value moves up and down in the short-term) in their portfolio.

### **Mission impossible?**

However, it can be difficult, if not impossible, to predict which markets will perform well, and which not so well. Stock markets and economies around the world don't follow the same cycles; while one market could be weak, another might be showing exceptional returns. Similarly, one economy may be in recession while another is booming.

This is one of the many reasons that our managed and mirror fund ranges and our International Wealth Account platform offers investment options that can help your clients gain actively managed exposure to a range of global markets. Full details of Zurich International Life's funds and their charges are available in the 'Investments – Your guide', 'Mirror funds – Your guide' and 'International Wealth Account/Wealth Preservation Account – guide to your investments' booklets, copies of which are available on request.

Your clients should note that investing in some of these markets could result in the possibility of large and sudden falls in the prices of shares. The shortfalls on cancellation or loss on realisation could be considerable. In other words, just because a fund has produced negative returns one year, does not mean it will do the same the next year. Alternatively, if a fund has performed well in one year it does not mean it will perform well the following year. The movements of world markets can have more influence in absolute terms than how the fund is managed.

Zurich International Life's products are suitable for investors wishing to invest over the medium to long term, who are prepared to accept the risks associated with investing in shares, bonds and other real assets, which can go down as well as up in value.

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