

Many Ways to Invest Abroad

Domestic stock funds.

Although these funds may participate indirectly in overseas markets; you may want to invest in those markets more directly. In that case, you have a wealth of options – if not in your workplace retirement plan, then through other retirement accounts, such as IRAs, or ordinary taxable accounts.

But be aware that overseas funds entail higher risk than domestic investments. These risks include currency fluctuation, political and economic instabilities, and markets that are less liquid and less efficient. The right choice for your portfolio depends on your investment goals and risk tolerance. With that in mind, look over these options, ranked from most conservative to most aggressive:

International bond funds.

These funds typically invest in bonds issued by companies and governments throughout the world. Their primary goal is to provide current income; capital appreciation is secondary. Thus, they tend to be less volatile than international-stock funds.

The exception: some international-bond funds that invest in emerging markets, which can be much more volatile and risky than other types.

Global stock funds.

These are the most diversified of the overseas equity funds. Generally, they invest in stocks from a variety of regions of the world, but also reserve some assets for U.S. stocks. That twist adds diversification that may help smooth out these funds' returns over time.

International stock funds.

Funds in this category invest in a broadly diversified portfolio of foreign stocks, but make little or no investment in U.S. shares. Thus, their returns are more closely tied to those of overseas markets. Diversified emerging-market funds are funds that invest in a mix of stock markets in developing regions, such as Latin America or the Far East and may suffer large losses from time to time. But for patient investors, they can offer significant long-term rewards.

Single-region funds.

You can invest in a particular part of the world, for example Europe or the Pacific Rim, by choosing a fund that specializes in one of those areas. Your fund's value will fluctuate with the fortunes of that region, so be ready for an up-and-down ride.

Single-country funds

These funds invest in shares that trade in a particular overseas market ranging from developed markets, like Germany or England, to emerging markets, such as Chile or Russia. Either way, your investment is at risk if the country suffers economic, financial or political problems. And if you choose a fund that invests in an emerging market, your risk is extremely high, but so are your potential rewards.

© 2009 SmartMoney. Prepared by SmartMoney Custom Solutions. SmartMoney is a joint publishing venture of Dow Jones & Company, Inc. and Hearst Communications, Inc. All Rights Reserved.

CustomSolutions
FROM SMARTMONEY