



HAVING OTHER CURRENCIES IN YOUR INVESTMENT PORTFOLIO

Bermuda Sun – January 13, 2012



CARLA SEELY – Guest Columnist

The challenge of achieving profitable diversification faces most investors and fund managers today.

Diversification in the international markets is becoming more and more difficult; everything seems to be interlinked. No longer is it safe to assume that your stock investment will go up in value; a lot of it now falls on macroeconomics. The bond markets have, as a rule, been highly correlated, and equity markets are becoming increasingly connected. With foreign exchange, some fund managers seek to gain diversification through currency, which has traditionally been regarded as a key component of better performance.

A common question that I get as a senior wealth manager is “should I have other currencies in my investment portfolio?” There really is no simple answer. It comes down to where you live. If the majority of your obligations are in Bermuda then being weighted in Bermuda dollars /US dollars makes sense. If you perhaps plan to spend a portion of your retirement in Bermuda and a portion abroad, then having access to an additional currency would also make sense.

Being diversified in multiple currencies simply because you want to add greater diversification can be very dangerous because it’s not like you will just sit and hold the currencies; you are going to invest the money. The issue becomes even greater because you would be exposing yourself

“Being diversified in multiple currencies simply because you want to add greater diversification can be very dangerous ...”

to both the risk of the investment and the risk of the foreign currency. A great deal of research and monitoring is needed because not only are you managing the investment but the foreign currency as well.

RISK

When considering the foreign currency risk, you need to think about what you are comparing that risk to. The fact is that you are comparing it to your base

currency, i.e. your home currency that funds the majority of your obligations.

More often than not, currency values are tied more to inflation speculation than economic growth. History demonstrates that economic growth does not necessarily result in a stronger currency. If you think corporate profits are hard to predict, try predicting inflation. So you really have to think about whether diversifying in multiple currencies is worth it.

It’s also important to remember that a diversified portfolio of stocks and bonds already provides underlying exposure to global currencies.

Large US multi-national corporations may trade in US dollars, but they conduct business in foreign countries using foreign currencies. By default they are already affected by exchange rates.

So through a well-diversified portfolio you will have exposure to multiple asset classes and exposure to underlying currencies as well. If you are concerned



HAVING OTHER CURRENCIES IN YOUR INVESTMENT PORTFOLIO

Continued...

about your base currency being devalued or you feel that the opportunities for investment in your local currency may be limited, then you may have to think outside the currency box.

Firstly, work with a wealth manager who will guide you and discuss the pros and cons attached to each geographical location that interests you.

Secondly, realize you are never going to hit a home run when exchanging our local dollars for another currency.

I am sure we have all been in the position at least once in our lives when we headed to the bank to buy foreign currency for travel purposes and we thought that we

had received a great exchange rate only to discover days later that we would have gotten more bang for our buck had we waited. It doesn't matter how much research we do, that's just life!

Lastly, actively manage your investments; the greater the risks the more monitoring that is required. Your wealth manager will do a great deal of that for you, but you also have to be actively responsible for your own money.

Carla Seely is a Senior Wealth Manager at AFL Investments Ltd. She may be reached at 294-5712 or cseely@aflinvestments.bm