



Emerging markets add spice

Can inject flavour into bland stock portfolios

Canada a small player in global capitalization

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Investing in foreign securities can add flavour to your portfolio.

But this type of investment "should be a spice, not the main course," said Kate Warne, Canadian market strategist at Edward Jones in St. Louis.

"Many of those markets tend to be volatile and risky," she said.

So, "Canadian investors should put a very small piece of their money in emerging economies."

Investment opportunities that look good today could change in a month.

"If (people are) going to pick which emerging market to invest in, they also have to think about how they're going to monitor it," said Warne.

Canadian investors should still think about going global, since Canada makes up only about 3.5 per cent of the global market capitalization, said David Bruce, associate portfolio manager for ScotiaMcLeod.

You can expect higher returns by investing in emerging economies, said Bruce.

And he said this type of investment lets you broaden your portfolio by generating diverse returns at different times. But while there are higher returns, there is higher political and economic risk and the volatility of the markets can make investors nervous, said Bruce.

Consider investing in countries that have good property rights and that treat foreigners fairly, he said.

"Russia is terrific in terms of growth," but investors can expect to deal with weak property rights, said Bruce.

"The securities markets aren't very well regulated, so foreigners can't be assured of being dealt with fairly."

India's economy is also growing rapidly, Bruce noted. "It's a large democracy with a well educated middle class. Jobs are shifting from agriculture to manufacturing," he said.

But Bruce cautions investors about China, since he feels that Chinese investors are favoured over foreigners in some cases. Foreign investors "can only buy shares in companies with less voting rights than locals," said Bruce. "Many investors tend to invest right after some of these markets have done well," Warne said.

"Expectations are very high and there's more potential for disappointment."

It's hard enough to predict which economies will do their best, so owning different countries and companies is a good way to benefit without having to choose the right ones, he added.

Warne suggests investing in mutual funds instead of picking specific emerging economies since the funds give investors access to a variety of countries.

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