



Looking for options to invest abroad? Here's what experts recommend

Easy availability of options shouldn't be the only reason to invest abroad. Investors must check their risk appetite first.

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There are quite a few options available for Indians willing to invest in the overseas market. Besides the popular investment options like Mutual Funds, Exchange Traded Funds (ETFs), Equities, Listed Debt Securities, Private Equity funds among others, Indian investors can also invest under the Overseas Direct Investment (ODI) and Overseas Portfolio Investment (OPI) rules and regulations.

Resident individuals can invest in a foreign country by way of investments in equity capital, subject to the overall ceiling under Liberalised Remittance Scheme (LRS) of the RBI. The LRS has a limit of \$250,000 per annum and includes travel, education, medical, investment, gift, donations, and so on.

Amongst the various options available to Indian HNIs/UHNIs for investing abroad, nearly all the experts who spoke with Moneycontrol, gave a clear mandate in favour of direct investment in listed stocks, diversified

funds/mutual funds and ETFs. However, ultimately the choice of investment instruments boils down to the risk–reward expectations of individual investors.

The most preferred destination for Indian investors looking to invest in equities is the US market. The compelling reason for this preference can be attributed to the fact that the US Economy accounts for nearly 25 percent of the world economy and US equities add up to about 35 percent of global markets. Besides, "The USD has nearly 42 percent weight, the largest, in the International Monetary Fund's (IMF) SDR (Special Drawing Rights), showing its importance in international trade," said Vikas Gupta, CEO & Chief Investment Strategist, OmniScience Capital.

Options are plenty, but do they suit your risk appetite?

Easy availability of options shouldn't be the only reason to invest abroad. Investors must check their risk appetite first. Ask yourself some basic questions: Do you understand the instrument or the company whose shares you wish to buy abroad? What would happen to your overall portfolio if, say the foreign country in which you wish to invest, goes through a crisis and your stock crashes?

Experts suggest that you shouldn't invest in foreign countries until your domestic portfolio is adequately diversified.

Exchange Traded Funds (ETFs)

Rajesh Saluja, Chief Executive Officer & Managing Director, ASK Wealth Advisors says that Indian investors who invest abroad find solace in equities. "Our observation is that more and more people are using their investment limits under the LRS to buy direct equities and ETFs in the USA", he said.

ETFs provide diversified exposure to the global economy and have a simple and cost-effective approach to investing. Apart from US, ETFs are also available for developed markets such as Europe and Japan. "Emerging market ETFs are a riskier option that need to be researched and understood before investing", said Sunil Sharma - Chief Investment Strategist, Ambit Global Private Client.

Assets under management (AUM) for Global ETFs have almost tripled from \$3.4 trillion in 2016 to over \$10 trillion in Nov-2021.

Anupam Guha, Head – Private Wealth Management, ICICI Securities, believes that, "To get exposure across the US markets, ETFs like Vanguard 500 Index Fund ETF (tracks the S&P 500), Invesco QQQ ETF (tracks the NASDAQ 100) or Vanguard Total Stock Market ETF (tracks the complete market index) which are very popular, can be really good investment ideas."

Mutual Funds

Mutual fund schemes in India that invest your money overseas also provide investment opportunities in existing global funds or a pre-designed portfolio of foreign assets.

"Investors can avail INR denominated foreign actively managed mutual funds and domestic asset management companies (AMCs) (such as ICICI, DSP, Nippon, Edelweiss, etc) offer such managed funds" said Sharma of Ambit Global Private Client. Some AMCs also offer thematic funds such as DSP World Mining Fund, Edelweiss US Technology Equity FoF, Mirae Asset NYSE FANG+ (ETF).

"However, these have a few constraints including an overall limit by the RBI on how much can be invested by the entire mutual fund industry globally", said Devina Mehra, Founder & Chairperson, First Global. Currently, there is a mandated limit of \$7 billion set by SEBI which was breached in January this year and fund houses had to stop new subscriptions.

“The other drawback pertaining to mutual funds is that it adds another layer of costs & charges by the domestic fund house for no additional benefit, whereas you still continue to pay what the overseas EPF or fund house charges”, added Mehra. “Also there is no accountability as the domestic AMC is just pass through entity”.

Stocks through Indian stock market platforms

These days, Indian investors can open an account with an international broker (Interactive Brokers) and directly own foreign equities and securities.

Investors can trade in foreign countries by opening a single truly global account in Global Access Platform. Global account can give access to investors in 135 markets, 33 countries, and 24 currencies.

INDIA INX – Global Access, is a subsidiary of INDIA INX and has presence in GIFT, IFSC (international financial services centre) with IFSC Authority as a Regulator. “Through INX Global Access, the Resident Indian and Investors across the Globe can invest in a wide variety of well diversified global equity portfolios of renowned global portfolio managers at lower cost,” said Naveen Mathur, Director – Commodities and Currencies at Anand Rathi Shares and Stock Brokers. Investors and traders can invest globally in stocks, ETFs, options, futures, currencies, bonds and mutual funds from a single integrated account.

Gupta of OmniScience suggests investors can also use the Stockal platform for investing in US Markets and his preferred strategies on the same are Omni Supreme US which is a focused portfolio of 20-40 stocks from the Top 1500 US stocks, typically represented by the S&P 1500. He says that this strategy is based on the principle that, “Most market participants chase alpha but get risks, while one could chase safety and get alpha”.

The other strategy that Gupta suggests is Omni AIoT which is focused portfolio of 15-30 stocks picked from a universe of nearly 200 US companies working on transformative technologies like Artificial Intelligence (AI), IoT (Internet of Things), 5G, Blockchain, Cyber security, Metaverse, Industry 4.0, etc.

Bonds

For investors looking at a higher yield in the debt markets, hard USD currency bonds may provide an appealing entry point. “When compared to local currency bonds, EM hard currency (USD) bonds typically trade with a negative carry”, said Saigal of Edelweiss Wealth.

According to the data from Bloomberg, the spread between local and hard currency bonds has occasionally reached as high as 150-180 bps in rare circumstances. “Currently, the difference between the dollar and Indian rupee bonds is close to 185 bps, and is a strong argument in favour of purchasing hard currency bonds over local currency bonds because apart from providing a higher yield on USD investments, this pool can be utilised to diversify portfolios and currencies”, added Saigal.

All said and done, an ideal investment portfolio should be across asset classes and across geographies which can provide a good hedge against any shake-ups in a specific asset class.

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