



# **INTERNATIONAL INVESTING**

Capture the Opportunities. Reduce the Risk.



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# INTERNATIONAL OPPORTUNITY

Like most investors around the world, you're looking for opportunities. And to find them, you need to look beyond your home market. In fact, approximately half the world's investment opportunities lie outside the United States.

And because international investments react differently to various economic, political and market environments, they may help your portfolio perform regardless of U.S. market conditions. They do, however, come with additional risks. On top of the equity risk you expect, they layer currency risk—even when your investment is in U.S. dollars.

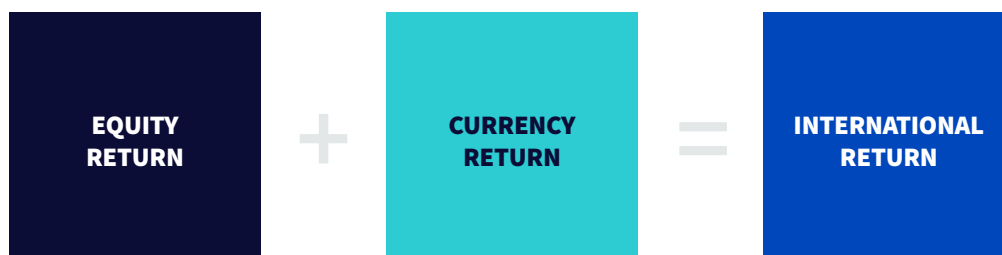
Investment innovations have created a simple way to reduce this risk—and maybe even use it to your advantage.

## WHAT DRIVES INTERNATIONAL RETURNS?

International investing is a smart way to gain diversification and performance potential. Consider that international investments:

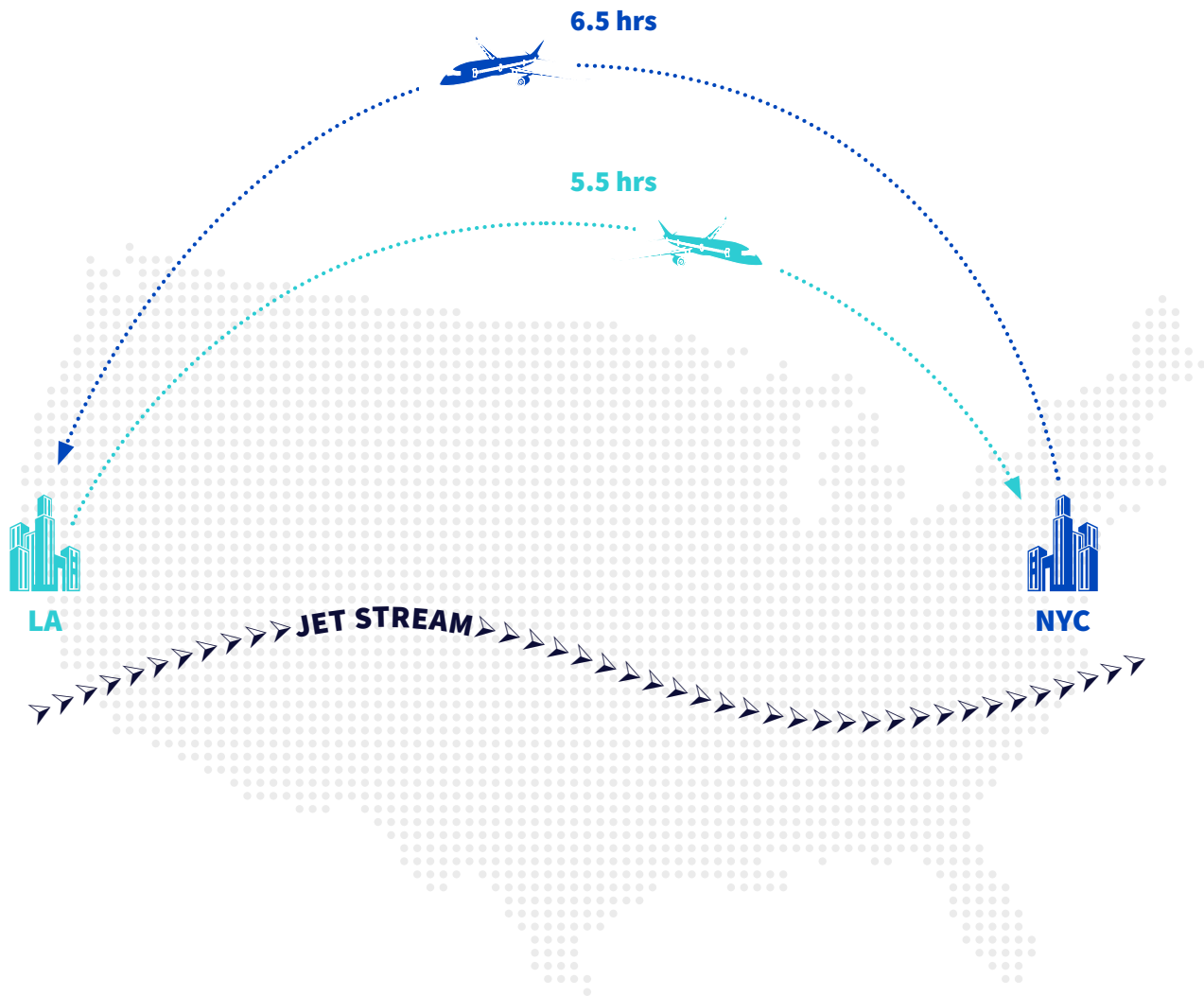
- + Offer the potential to go up when the U.S. market is down
- + Provide exposure to different trends, opportunities—and risks
- + Can diversify a portfolio of U.S.-based investments

But it's important to remember that international returns are made up of two pieces: equity return and currency return. And while currencies do not always hurt returns, they do not always help them, either—yet they often add volatility.



## CURRENCY CAN BE A TAILWIND—OR A HEADWIND

Let's consider a simple example. Imagine you're on an airplane heading from New York to Los Angeles. Because of the jet stream, which flows from west to east, you are facing a headwind that slows down the airplane and makes the flight take about 6½ hours. Your return trip, however, will only take about 5½ hours, because the jet stream now acts as a tailwind that helps propel the plane forward. Currencies are exactly the same. Sometimes they are the tailwind helping propel the security forward, and sometimes they are the headwind holding it back. But regardless of whether they are helping or hurting the security, they often add volatility, making the ride more turbulent.

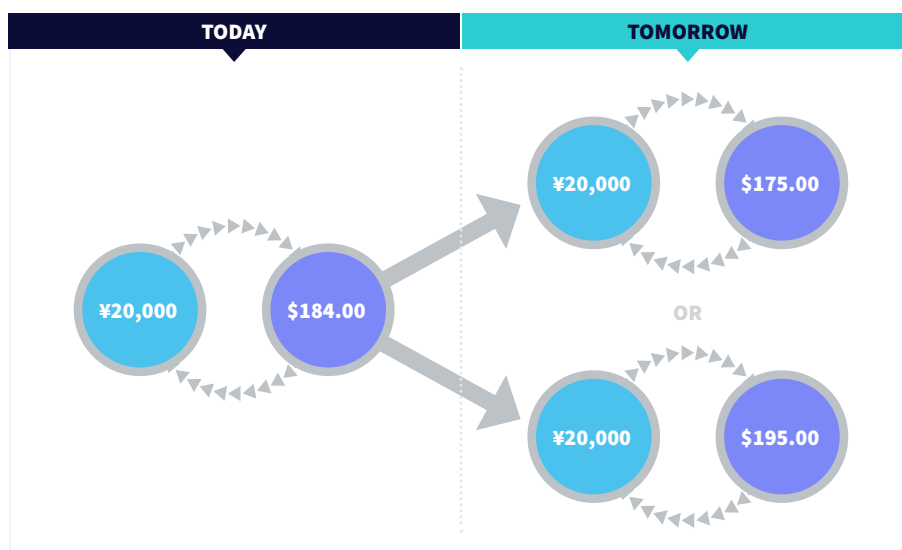


# THE ABCS OF CURRENCIES

If you've never had anyone speak to you about the currency risk in your investments before, there's a reason. Until recently, there was really nothing you could do about it. In the past, currency volatility was simply the price of admission to get into international investments, and unless you were a large institution or a very sophisticated trader, you had to accept it. Today's investors do have options—but why does it matter?

## CURRENCY IMPACTS YOUR U.S. DOLLAR INVESTMENT

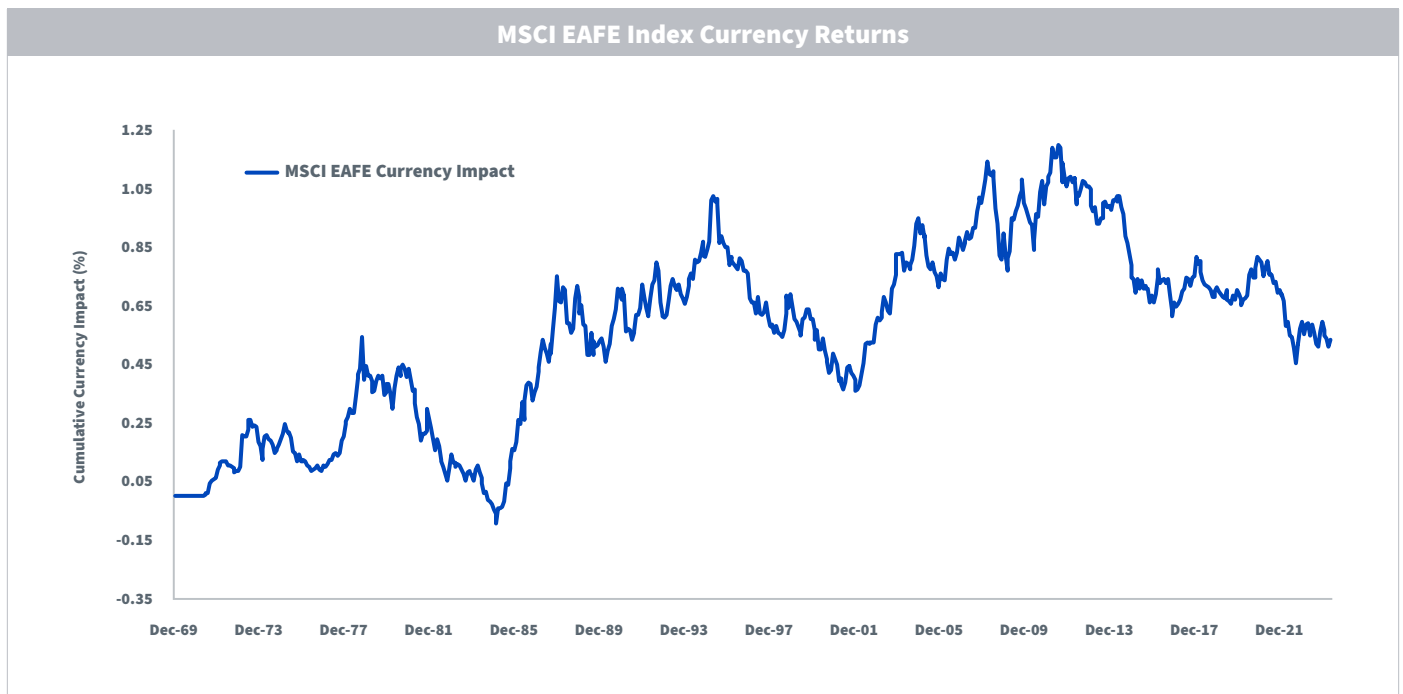
It can be a challenging concept for even the most sophisticated investors to understand. Why is currency affecting me if my investment is in U.S. dollars? If you've ever traveled abroad, you know that sometimes your dollar buys more, and the goods you purchase seem inexpensive. But sometimes the opposite is true. This is because of fluctuations in the strength of the dollar compared to the currency of the country where you are purchasing goods. Consider, for example, that if you were to buy a Japanese product that cost ¥20,000, you might pay \$184 today, but \$175 (or \$195) next week. These types of currency differences can impact a company's profits and the value of your investment over time.



Hypothetical example for illustrative purposes only. Not reflective of any actual investment.

## CURRENCY CAN BE HARD TO PREDICT

Over long periods, the expected returns of currency are very low—in fact, many say that the returns tend to “come out in the wash” (translation: they would be about 0%). But what about the short term? Currency does more than simply help or hurt returns—currency can add volatility. And because currency may move in waves, trending one way or the other, it can significantly impact your investments over certain periods. Predicting which way it will go, especially in the short term, is practically impossible for individual investors.



Sources: MSCI, Bloomberg, 12/31/23. Past performance is not indicative of future results. You cannot invest directly in an index.

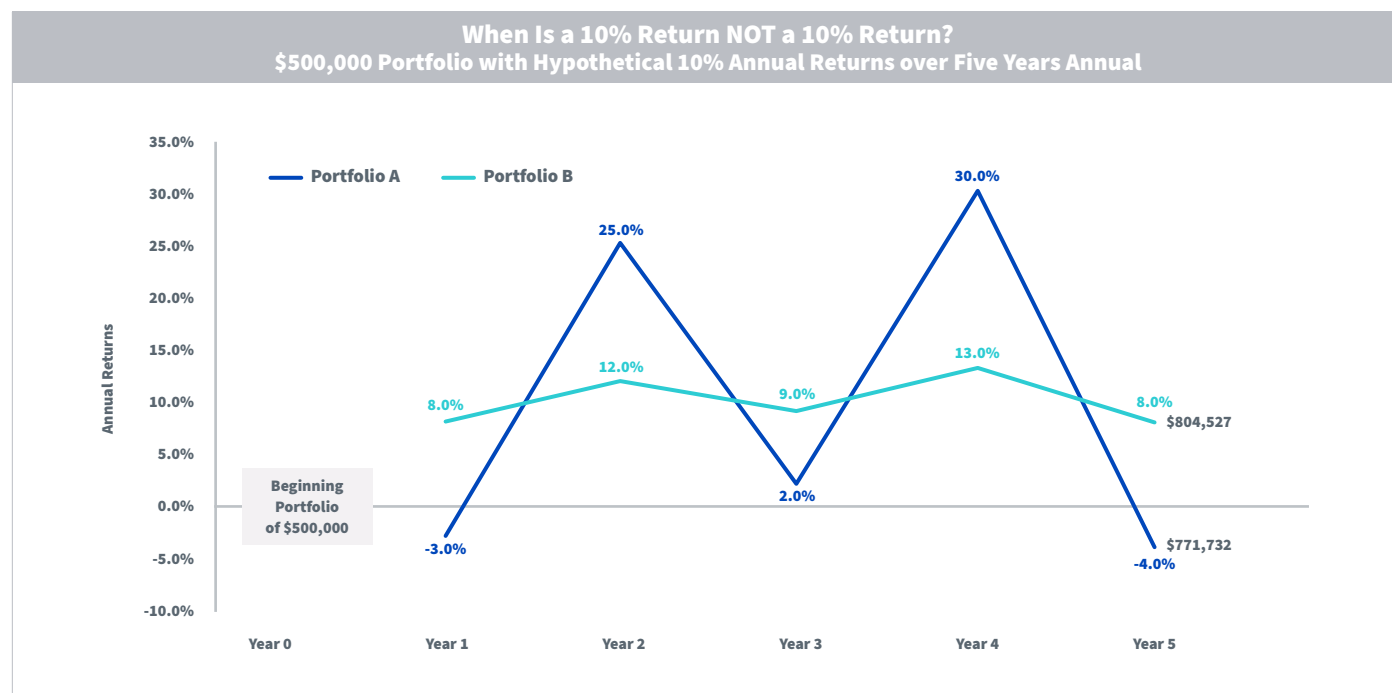
*Currency fluctuations can impact a company's profits, supply costs, payroll, cash flow and more—which, in turn, can impact the value of your investment (even when you are invested in U.S. dollars).*

# CURRENCY ADDS VOLATILITY— AND THAT CAN BE COSTLY

The movements of currency are challenging to predict, but there is one constant that is not: currency adds volatility. And while volatility is a natural part of investing, given the choice, most investors would likely reduce it wherever they can. And that could be more critical to your portfolio than you realize.

## VOLATILITY CAN COST YOU MONEY

A portfolio's average annual returns are important—but they do not tell the full story. In reality, two portfolios can have the same average annual returns, but very different portfolio values purely due to differences in volatility. In the example below, portfolios A and B both start out with \$500,000. Although it may not look like it, they both have average annual returns of 10%. After five years, however, portfolio A is worth just over \$804,000, while portfolio B is worth less than \$772,000. Why? Volatility.

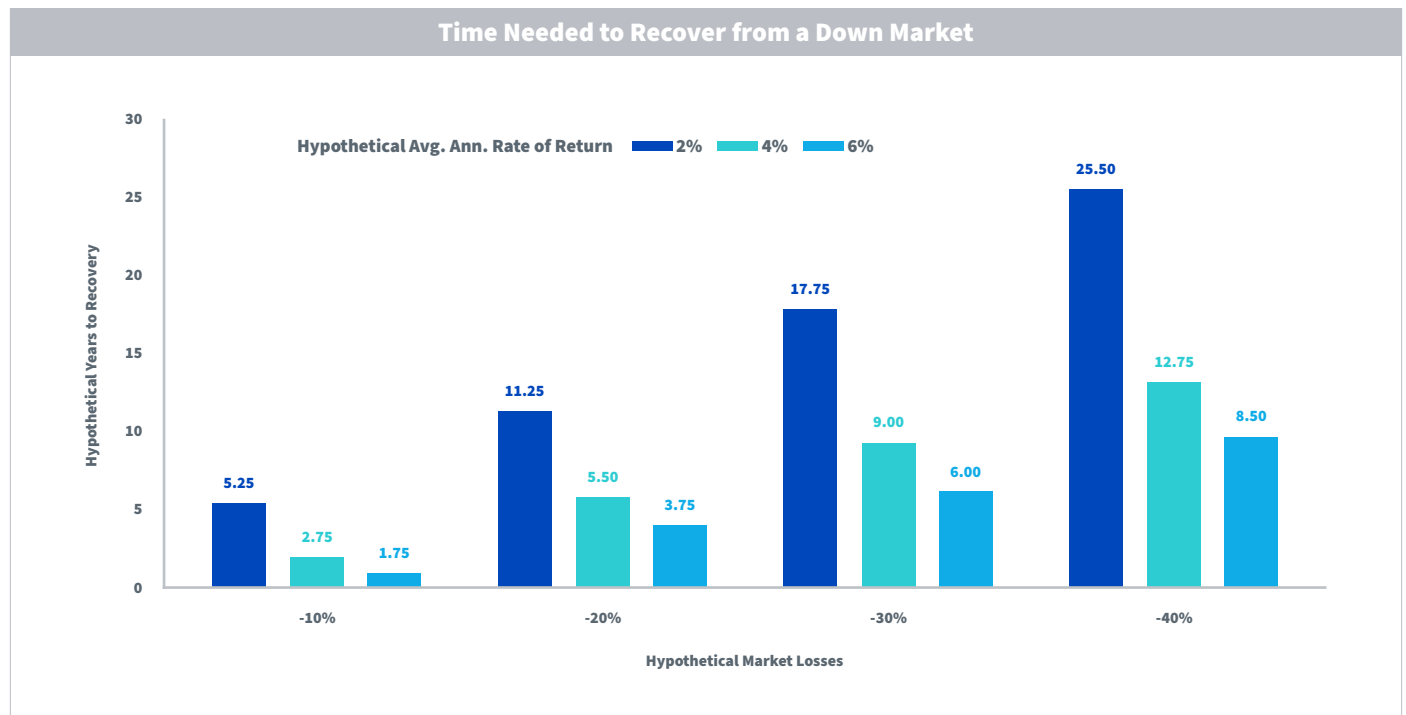


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*The bottom line: Currency adds volatility to international investments, and volatility can both hurt your portfolio value and take a long time to recover from. So, unless you have a strong opinion about which way a currency will go, why take the risk?*

## VOLATILITY CAN COST YOU TIME

Volatility can cost you not only money, but time as well. In fact, the more your portfolio drops, the higher a return you will need and the longer it could take to get you back to where you were. For example, a drop of 30% will take six years to recover from at 6% per year, nine years at 4%, or nearly 18 years at 2%. And this is simply to break even. If you want to get ahead, you need to earn much higher returns or spend even more time. That's fine when you're very young, but pre-retirees or retirees may not have the time—or ability—to wait.



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# CURRENCY HEDGING GIVES INVESTORS CHOICES

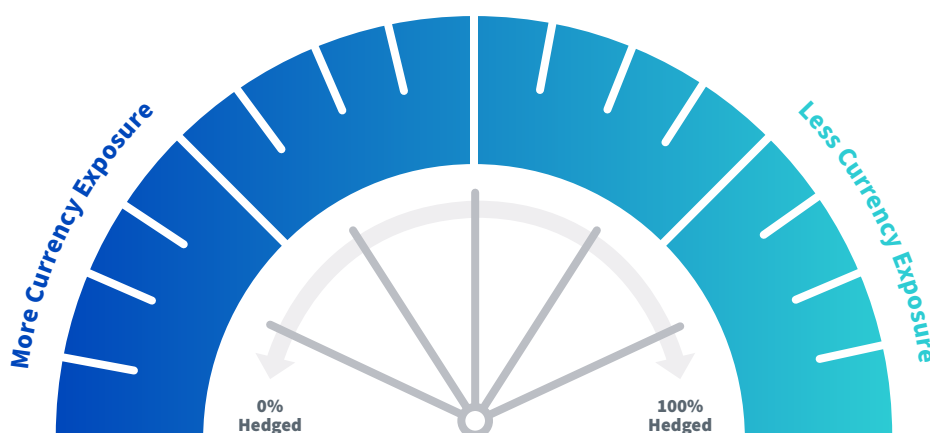
Today's investors no longer simply have to accept currency risk with their international investments. Now they have a choice. They can avoid the risk altogether with fully hedged ETFs, or they can attempt to opportunistically capitalize on it with dynamically hedged ETFs.

## FULLY HEDGED EXPOSURE

Fully hedged ETFs are designed to remove the currency exposure from an investment, regardless of market conditions. While this may impact returns positively or negatively, it should reduce overall volatility—and as we've seen, this can be critical for portfolio values.

## DYNAMIC HEDGING

Dynamically hedged ETFs attempt to determine the best times for a portfolio to be hedged. Depending on market conditions and specific quantitative indicators, these strategies automatically dial the currency exposure up or down. This may provide investors with the potential to opportunistically capitalize on currencies when they may help returns—and to avoid them when they may not. But it's important to remember that international returns are made up of two pieces: equity return and currency return. And while currencies do not always hurt returns, they do not always help them, either—yet they often add volatility.



For those investors who would prefer not to take the currency risk at all, fully hedged funds may make sense. But for those who want the opportunity to benefit when currencies could help returns—without having to actively trade—dynamic hedging may make sense.

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# AN INNOVATIVE APPROACH

Investment opportunities abound outside the United States. They are, in fact, already a part of your life—just look at the brands in your pantry, the clothes you wear and the electronics in your home. And these companies deserve to be a part of your portfolio. But you no longer have to accept the currency risk they offer.

Currency-hedged ETFs give investors the opportunity to fully hedge the currency risk or to potentially capitalize on it. WisdomTree pioneered the concept of currency-hedged ETFs and offers the largest family of dynamically hedged and fully hedged ETFs—covering single countries and regions around the world.

Learn more about currency-hedged ETFs at [WisdomTree.com/currency-hedging](https://www.wisdomtree.com/currency-hedging).



**Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before investing. For a prospectus or, if available, the summary prospectus containing this and other important information about the Fund, call 866.909.9473 or visit [WisdomTree.com/investments](http://WisdomTree.com/investments). Read the prospectus or, if available, the summary prospectus carefully before investing.**

Investing involves risk, including the possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Hedging can help returns when a foreign currency depreciates against the U.S. dollar, but it can hurt when the foreign currency appreciates against the U.S. dollar.

**MSCI EAFE Index:** A market cap-weighted index composed of companies representative of the developed market structure of 21 developed countries in Europe, Australasia and Japan.

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