

Book Review

INTERNATIONAL DIVERSIFICATION OF AUSTRALIAN EQUITY PORTFOLIOS INTO EMERGING EQUITY MARKETS

Rakesh Gupta, 2011, VDM Verlag, Saarbrucken, Germany, 2011, pp.220, \$113.00.

In the current scenario, investing in stock markets is a major challenge even for seasoned professionals. And it is no surprise that Security Analysis and Portfolio Management is a tough subject for many students. This book is targeted at post-graduate students of management and commerce, and reflects my understanding of the requirements of students. The book offers conceptual clarity, in-depth coverage with its emphasis on a student-friendly approach, and an attempt to demystifying the tough subject.

Portfolio Diversification is considered as a best possible solution for various investors in reducing the risk associated with their investments. Dr. Rakesh Gupta has thrown some light with the help of his book on international diversification into foreign markets. With the giant step towards globalization among the world economies increasing correlation between international equity markets is common now.

The book also focuses on the benefits and theory of diversification, the factors affecting such change, and the use of various econometric models. Various financial tools and models are used for calculating the benefits available to the Australian Investors. The study emphasizes on the various aspects of investing outside the national boundaries and the benefits of the international diversification.

Domestic and International Diversification objectives have been explained through various portfolio models. A review of the Australian Financial System, the changes in the market and the recent developments have been detailed along with the help of various financial data. The review indicates the emerging trends after the Asian crisis and the increasing flow of capital in the equity investment, and helps to understand the flow of funds and the Australian financial system from a practical stand point.

The book helps to understand the differences in key characteristics between emerging and developed markets, and their interdependence which helps in understanding the emerging market diversification. The book highlights the benefits available to Australian investors for investing in emerging markets, and the volatility and correlation among these markets.

The study shows the growth and expansion of world equity markets, and the benefits of international diversification from the stand point of major equity markets have been well researched with the help of various financial models.

The Book has seven chapters with an introduction in the beginning and conclusion at the end. The book highlights on the capital flows to the emerging Australian markets, and the Australian financial System. Various Portfolio Diversification theories have been explained with their effects on domestic and international diversification. The literature review shows a complete picture of the emerging markets, international diversification and the Australian Investor's perspective for it.

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Chapter 2 focuses on the Australian financial markets and the capital inflow of funds from various emerging markets to Australia. The book helps in understanding the flow of funds from Australia into emerging markets, and its significant practical relevance for the fund managers who seek to diversify their portfolios internationally.

Chapter 3 focuses on the portfolio diversification with its practical and theoretical aspects. This section explains the concept of diversification, its practical implications and theoretical underpinnings of diversification.

Chapter 4 highlights the differences in key characteristics between emerging and developed markets, providing a theoretical framework of the interdependence of the global equities markets for empirically analyzing the benefits from emerging markets diversification.

Chapter 5 explains the methodology used and the various test performed to evaluate the correlation matrix for asset returns of a sample of emerging markets, and Australia using Asymmetric DCC GARCH model, and estimates the potential benefits for Australian investor by diversifying into emerging markets.

The Book provides important theoretical and empirical contributions to existing knowledge. The research and contribution made also have significant practical implications for fund managers seeking to exploit the opportunities available through international diversification into emerging markets. The book is a must read as it helps one to acquire knowledge in respect to emerging trends in investment management and financial world.

- Chintan Vadgama