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3 Reasons to Diversify Your Portfolio with Foreign Currencies

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The forex market is the largest and most liquid in the world, with over USD 5 trillion traded daily. But far from the high-speed world of daily currency trading, it also serves as a strategic tool for long-term investors to manage risk, preserve wealth, and unlock global opportunities.

A well-diversified currency portfolio provides stability in uncertain times. Whether it's shielding assets from inflation, navigating geopolitical shifts, or gaining exposure to stronger economies, allocating investments across multiple currencies offers compelling advantages.

Here's why currency diversification should be part of every investor's strategy:

1. Protect Purchasing Power

While Malaysia typically runs a trade surplus, it still relies heavily on imports for essential goods such as raw materials, food, machinery, and consumer products. This import dependency makes the economy vulnerable to currency fluctuations. When the ringgit depreciates against major currencies such as the US dollar (USD), the cost of these imports increases. This effect often extends beyond imported goods themselves, influencing local prices as businesses pass on higher input costs to consumers.

Over time, this dynamic contributes to inflation. Imported inflation can raise the cost of living across broad sectors, affecting everything from household items to transport and utilities. For individuals and households, this results in a decline in purchasing power—especially for those earning and saving exclusively in ringgit.

As currency movements are unpredictable and largely cannot be anticipated, diversifying investments across different currencies provides a buffer against this risk. In essence, currency diversification serves as a form of protection against local inflationary pressures by maintaining value in stronger or more stable foreign currencies.

Here is an example of diversification in action. Consider 3 different approaches to foreign currency diversification over a 10-year period:

Scenario	Initial Capital	Initial Weight in Year 1	Year 1	Year 10
Convert to AUD only in Year 10	MYR 200,000	100% Nil	MYR 206,712 -	AUD 82,312
Convert to AUD in Year 1	MYR 200,000	Nil 100%	- AUD 72,083	AUD 88,357
Convert to a basket of currencies in Year 1, and consolidate into AUD in Year 10	MYR 200,000	25% 25% 25% 25%	MYR 51,678 AUD 18,021 SGD 18,950 USD 14,265	AUD 90,330

Source Bloomberg, as of 31 December 2024. Assumptions: Year 1 to Year 10 simulated with data from December 2014 to December 2023 respectively. Local deposit rates applied to respective currencies during holding period.

Convert to AUD in Year 10:

The investor who keeps all investments in MYR for 10 years before converting to AUD results in **AUD 82,312** at the end of the period. This strategy leaves the portfolio fully exposed to fluctuations of the MYR over time.

Convert to AUD in Year 1:

Shifting the entire portfolio to AUD at the start provides better protection against MYR depreciation, resulting in **AUD 88,357** by Year 10—higher than waiting 10 years to convert.

Convert to a basket of currencies in Year 1, and consolidate into AUD in Year 10:

Allocating 25% each to MYR, AUD, SGD, and USD in the first year and consolidating all his portfolio into AUD in Year 10 yields **AUD 90,330**. This approach delivers the highest value, showcasing the benefit of diversifying across multiple strong currencies rather than relying on a single one.

By allocating assets across a mix of stable currencies, investors reduce exposure to any single currency's decline while enhancing long-term resilience. In times of global uncertainty, such diversification serves as a hedge, ensuring that wealth remains intact despite currency fluctuations.

2. Reduce Overdependence on the Local Economy

A currency is fundamentally linked to the health and stability of its underlying economy. When a country experiences economic or political turbulence, its currency often reacts negatively—leading to potential losses across locally denominated savings and investments. Concentrating all financial assets in the local currency exposes investors to systemic risk, especially in smaller or more volatile economies.

Diversifying into foreign currencies provides a layer of protection by reducing exposure to domestic economic shocks. For example, during times of local market downturns, having part of one's portfolio in stronger, more stable currencies can help preserve overall asset value.

This approach also aligns with global diversification principles. Just as investors spread assets across industries and asset classes, diversifying currency exposure ensures that financial outcomes are not tied solely to the performance of one national economy. It provides access to opportunities in other regions that may be growing or more stable when local conditions are uncertain.

3. Improve Long-Term Financial Predictability

Diversifying across currencies isn't just about reacting to short-term market moves—it's also a way to bring greater clarity and stability to long-term financial planning, whether or not there's a current need for foreign currencies.

For those with future expenses abroad—like education, travel, medical treatment, or even retirement—building up exposure to those currencies ahead of time can make a real difference. It helps align savings with future spending needs and reduces the risk of having to convert large sums at unfavorable exchange rates later on. Instead of leaving it to unpredictability, individuals can lock in value gradually, giving them more certainty and control over their plans.

But even without a clear need for a particular foreign currency, diversification still offers long-term advantages. It reduces over-reliance on any one particular economy and insulates wealth from domestic risks like inflation, currency depreciation, or policy shifts. Over the long-term, this helps ensure one's savings retain their value and remain aligned with future financial needs and goals.

At AHAM Capital, we offer a range of foreign currency-based solutions, from hedged strategies to multi-currency investment classes, helping investors navigate an ever-changing financial landscape. Explore how you can future-proof your portfolio with us today.

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