Business

Owning European stocks without currency risk

Many investors want to own European equities, but they are worried about currency moves diluting profits. That's why the WisdomTree Europe Hedged Equity ETF (HEDJ), which hedges against a rising dollar, has seen an influx in assets.

While investors have gravitated to this ETF, a new low-cost competitor, the ProShares Hedged Europe (HGEU), was recently introduced to the market. More on that in a moment.

David Vomund
Market Pulse

With the Greece bailout falling into place, many analysts recommend having exposure to European markets.

While our Fed is nearing its first interest rate hike, the European Central Bank has a relatively accommodative monetary policy. Plus P/E ratios are lower in Europe and their exporters are being helped by the weakening euro.

When investing internationally, shareholders face more than the volatility of the securities they choose; they also face the volatility of the local currencies.

Because Europe is in the early stage of its quantitative easing (QE) most analysts believe the dollar will continue to rise against the euro. That's good news for U.S. citizens wanting to travel to Europe, but not necessarily good news for investors.

That's why international ETFs that hedge against a rising dollar are very popular. WisdomTree Europe Hedged (HEDJ) holds dividend-paying companies, with higher dividend payers accounting for a larger index weighting. German and French companies represent half of the ETF's holdings.

The new low-cost competitor, ProShares Hedged FTSE Europe (HGEU), also hedges against currency risk but its fees are less. HGEU has an expense ratio of 0.27 percent, well below Wisdom Tree's 0.58 percent fee.

Whereas WisdomTree weights its holdings on yield, ProShares is capitalization weighted and has exposure to non-euro countries like the U.K. and Switzerland.

The case for owning European equities hedged against a rising dollar is based on central bank activity. The difference in the monetary policies of the ECB and the Federal Reserve may drive the euro/greenback ratio down towards parity.

That's why U.S. investors should consider hedging their overseas investments. Fortunately, some ETFs do the work for us. Here are two examples to consider.

David Vomund is an Incline Village-based fee-only money manager. Information is found at www.VomundInvestments.com or by calling 775-832-8555. Clients hold the positions mentioned in this article. Past performance does not guarantee future results. Consult your financial adviser before purchasing any security.