

Chapter 2: Building an investment portfolio

Video 9

The impact of foreign exchange rates

Currency hedging

Currency hedging seeks to minimize the exposure of returns to changes in exchange rates between the currencies involved in the hedge. Hedging will remove the volatility associated with currency risk and allow an investor to benefit directly from the performance of the underlying securities.

Currency risk

Currency risk is also known as “exchange risk” or “FX risk.” It refers to the possibility of losing money due to unexpected changes in the value of one currency relative to another.