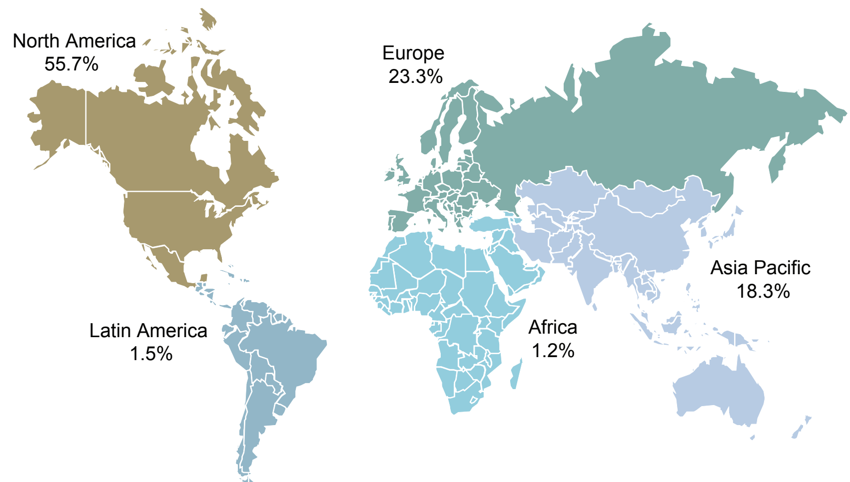
Asset Class Investing **FYI**

Why Invest in International Stocks?

Investors often tend to invest in what they know. Perhaps they keep a large portion of their 401k assets in their own company's stock, or maybe they buy other companies' stock within the same industry because they feel they know their business better. Similarly investors often concentrate their portfolio in their domestic market, a behavioral finance issue known as home bias.

Home Bias

For the average American investor who lives and works in this country, home bias investing has a certain appeal because it provides a feeling of patriotism and security, but the average investor may not realize that this perceived feeling of security comes at the expense of potential missed opportunities abroad. Also, just as we know that concentration in one company or industry can be risky, the same applies to investing in just one country.



Source: MSCI 2015. Map reflects countries in the MSCI provisional All Country World Index, MSCI All Country World Small Cap Index, and MSCI Frontier Markets Index.

Opportunities Outside The U.S.

Over the last few decades we have seen enormous shifts in the relative stock market capitalization of the world. While the U.S. remains far and away the largest country by market capitalization, the availability of alternative investment destinations has grown rapidly. The U.S. no longer makes up even half of the world market capitalization. According to Professor Jeremy J. Siegel (*CFA Institute Conference Proceedings Quarterly* (09/07)), by 2050 the United States will account for only 17% of the world market capitalization.

Ranking of Markets Around the World
Ten-Year Performance in US Dollars
Annualized Returns Year Ending December 31, 2014

1. Philippines	16. Korea	31. New Zealand
2. Peru	17. Switzerland	32. UK
3. Colombia	18. Australia	33. Spain
4. Indonesia	19. Turkey	34. Finland
5. Egypt	20. Sweden	35. Poland
6. China	21. Canada	36. France
7. Thailand	**22. USA**	37. Belgium
8. Denmark	23. Morocco	38. Japan
9. India	24. Chile	39. Russia
10. Mexico	25. Germany	40. Italy
11. Malaysia	26. Netherlands	41. Hungary
12. Singapore	27. Taiwan	42. Portugal
13. Brazil	28. Israel	43. Austria
14. Hong Kong	29. Czech Republic	44. Ireland
15. South Africa	30. Norway	45. Greece

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Growth Opportunities

The returns and risks associated with investing domestically versus internationally have varied widely over time. While in any given year the U.S. may outperform or underperform other markets, over the last decade there has been significant growth outside of our borders. And, as the table on the previous page shows, the U.S. was only the 22nd best performing market.

Effective Diversification

The year-by-year returns of world markets vary widely as seen in the table below. To help ensure that a portfolio is effectively diversified and owns strong performing countries each year, we recommend diversifying among domestic, and international developed and emerging markets.

Randomness of Returns

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Highest Return	66%	-9%	-3%	-6%	56%	26%	34%	32%	39%	-37%	79%	19%	2%	18%	32%	14%
	27%	-14%	-12%	-16%	39%	20%	14%	26%	11%	-43%	32%	15%	-12%	17%	23%	-2%
Lowest Return	21%	-31%	-21%	-22%	29%	11%	5%	16%	5%	-53%	26%	8%	-18%	16%	-3%	-5%

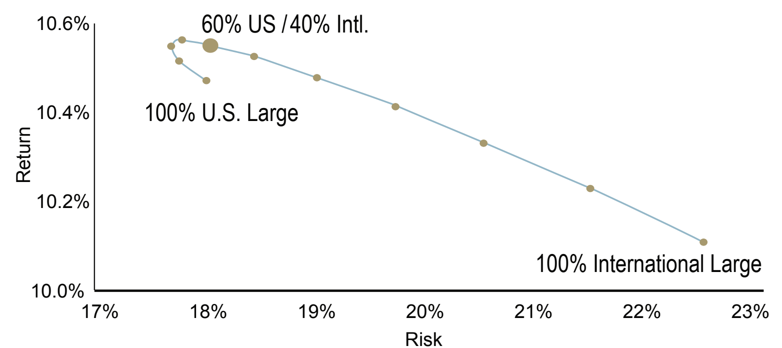
S&P 500 Index
MSCI Emerging Markets Index (net div.)
MSCI EAFE Index (net div.)

Source: Morningstar Direct 2015

Efficient Portfolio

Based on the data since 1972, investing outside of the U.S. has resulted in higher returns coupled with increased volatility. However, many U.S. investors still tend to have substantial U.S. exposure, with an average allocation, according to Morningstar, of 74% U.S. stocks/26% international stocks (as of December 2014). Because the international and U.S. markets are not perfectly correlated, there are potential diversification benefits to combining the two within a portfolio. Through a mix of U.S. and International stocks it is possible to create a more efficient portfolio in terms of risk and return. This table summarizes this relationship, and highlights a typical model portfolio allocation of 60% US stocks/40% International stocks.

January 1972 – December 2014



Source: Morningstar Direct 2014. U.S. Large represented by the S&P 500 Index, International Large represented by the MSCI EAFE Index (gross dividends). Diversification neither assures a profit nor guarantees against loss in a declining market. Past performance does not guarantee future results.