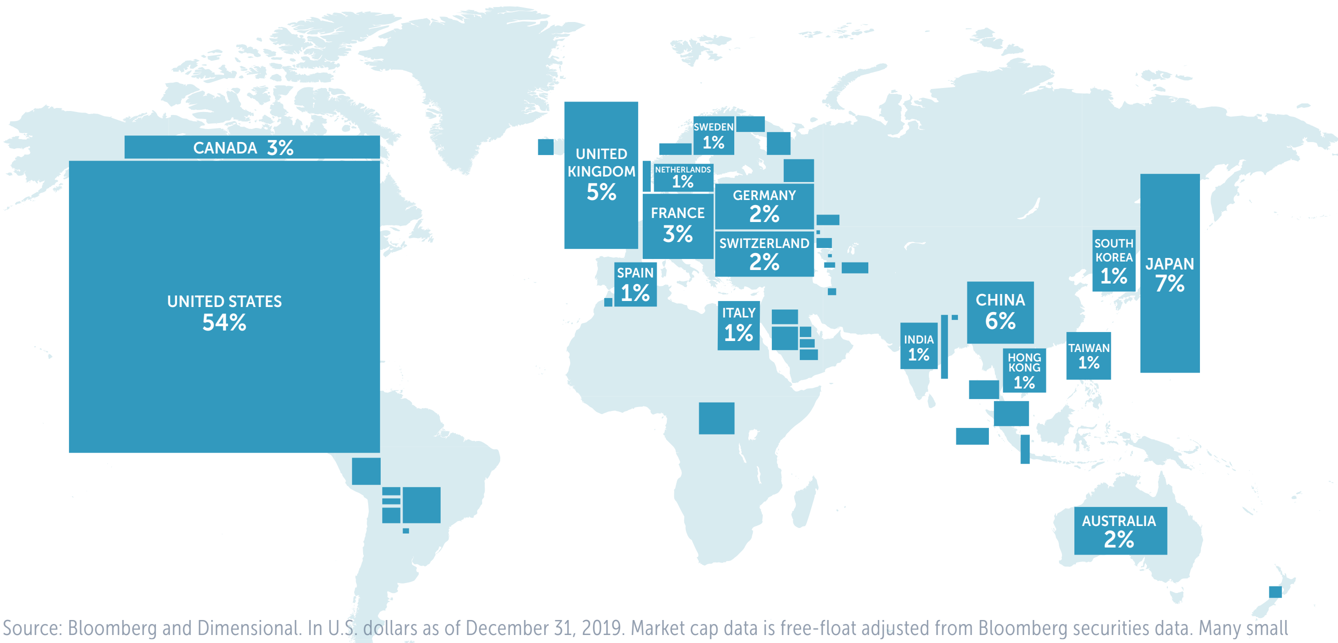
Why Invest in International Stocks?

Investors 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".



Source: Bloomberg and Dimensional. In U.S. dollars as of December 31, 2019. Market cap data is free-float adjusted from Bloomberg securities data. Many small nations not displayed. Totals may not equal 100% due to rounding. All investments involve risk. Foreign securities involve additional risks, including foreign currency changes, taxes, and different accounting and financial reporting methods. Indexes are unmanaged baskets of securities in which investors cannot directly invest; they do not reflect the payment of advisory fees or other expenses associated with specific investments or the management of an actual portfolio. In US dollars. Market cap data is free-float adjusted and meets minimum liquidity and listing requirements. Dimensional makes case-by-case determinations about the suitability of investing in each emerging market, making considerations that include local market accessibility, government stability, and property rights before making investments. China A-Shares that are available for foreign investors through HK Connect program are included in China. 30% foreign ownership limit is applied to China A-Shares. For educational purposes; should not be used as investment advice.

Home Bias

For American investors who live and work in this country, home bias investing has a certain appeal because it provides a feeling of patriotism and security, but investors 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.

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. Even though the U.S. currently makes up just more than half of the current world market capitalization, it will account for only 17% of the world market capitalization by 2050 according to Professor Jeremy J. Siegel (CFA Institute Conference Proceedings Quarterly (09/07).

RANKING OF MARKETS AROUND THE WORLD

Based on 10-Year Performance in U.S. Dollars as of December 31, 2019

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

Source: Morningstar Direct 2020. Countries represented by their respective MSCI IMI (net div.). Past performance is not indicative of future results.

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.

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Highest Return	34%	32%	39%	-37%	79%	19%	2%	18%	32%	14%	1%	12%	37%	-5%	32%
	14%	26%	11%	-43%	32%	15%	-12%	17%	23%	-2%	-1%	11%	25%	-14%	22%
Lowest Return	5%	16%	6%	-53%	27%	8%	-18%	16%	-3%	-5%	-15%	1%	22%	-15%	18%

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

Source: Morningstar Direct 2020

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 72% U.S stocks/28% international stocks (as of August 2016). 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.