

15 Reasons to Invest Internationally



Historically, globally diversified portfolios have earned superior risk-adjusted returns over the long run compared to portfolios composed of only domestic (U.S.) equities and bonds. Following are some of the reasons behind this performance gap.

1 GLOBAL MARKET SHARE

International equities have grown to account for about half of the global equity market. Despite strong growth and market share, U.S. mutual fund investors hold an average of only 27% of their total equity allocation in non-U.S. funds, resulting in imperfect global markets.

2 REDUCED PORTFOLIO VOLATILITY

An analysis of portfolio volatility from 1970 to 2013 for various stock-to-bond portfolios showed that diversification benefits get stronger as more international is added, until the 30-40% range is reached.

3 MULTINATIONAL CORPORATIONS

By only investing in U.S.-based multinational corporations, investors lose the benefits of accessing global leaders outside of the U.S., the diversification of foreign currencies, and different technologies that are only prevalent in less-developed economies.

4 PERFORMANCE

It is nearly impossible to predict which market will perform best in a given year, and it is rare to find a single market that consistently outperforms for multiple years. Having exposure to a diversified portfolio provides more stable returns over time.

5 DIVERSIFICATION

Diversification typically results in reduced volatility at the total portfolio level over the long term. Historically, considerable diversification benefits can be attributed to the independent movement of various international markets in reaction to a wider array of economic and market forces than those in the U.S.

6 CORRELATIONS

All else equal, it tends to be preferable to add asset classes that have lower correlations, as this may lower portfolio volatility. An investor should realize a diversification benefit from investing on a global scale due to low correlations between the U.S. and various international markets.

7 RETURN DISPOSITION

As long as there is a gap among returns of different asset classes, significant diversification benefits exist. Historically, there has been a wide dispersion of returns between domestic and international investments.

8 INTERNATIONAL SMALL-CAPS

Many large international companies are global giants, selling their products and services all over the world. On the other hand, many smaller companies are more dependent on the conditions within their local economies, therefore making them an effective diversifier.

9 EMERGING MARKETS (EMS)

Emerging markets have lower correlations than developed markets and thus higher diversification benefits. While it is true that individual EM countries have unique political, financial, and economic risks, they are also uncorrelated with each other, meaning broad EMs generally have less overall risk.

10 FRONTIER MARKETS (FMS)

Frontier markets offer even more diversification benefits than EMs from lower correlations. But beyond risk reduction, FM investments may offer growth opportunities as these markets are at the earliest stage of development with high potential for improvement.

11 DIVIDENDS

Dividends offer enhanced total return, particularly in uncertain market environments where they also offer potential reduced volatility. Historically, dividends from developed international have not only been higher than the U.S. market, but have also grown at a faster rate.

12 CURRENCY

Currency can be considered an additional alternative asset class that has a low correlation with equities. Fluctuations in currencies are unpredictable in some foreign markets, but over time this translates into further diversification benefits.

13 ECONOMICS

Economic activity and investment returns are typically related. Economic activity varies by country so it's important to diversify investments globally to take advantage of economic growth, as well as different central banks' easing and tightening cycles.

14 INTERNATIONAL FIXED INCOME

International bonds add some of the same benefits as international equities. Lower correlations with U.S. bonds provide diversification benefits when the U.S. bond market is struggling. Further, countries have differing interest rates and inflation levels, which are two main drivers of bond returns.

15 ACCESS TO ETFS

It's difficult to invest in individual securities in international markets. Using Exchange Traded Funds (ETFs) is a simple way to access a broadly diversified international portfolio at a low cost and with minimal effort. A recent surge in available ETF options has opened up markets not previously accessible to the average investor.

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International investing is an investment strategy where investors chose global investment instruments. International investing can be accomplished utilizing a variety of investment vehicles including, but not limited to, ETFs, American Depositary Receipts, or a direct investment in a foreign stock exchange. Diversifiable risks include, but are not limited to, political risk and currency risk. Emerging market investing refers to the practice of investing in a developing market of a foreign nation. The pre-requisites of this practice include a market within the foreign nation along with some form of regulatory body. Emerging markets involve greater risk and potential reward than investing in more established markets. Diversifiable risks for emerging markets include, but are not limited to, political risk, currency risk, and liquidity risk. Frontier Markets refer to markets within developing countries that are considered pre-emerging. Diversifiable risks for frontier markets are similar to the risks of emerging markets, but to a higher degree. These risks include, but are not limited to, political risk, currency risk, and liquidity risk.

An ETF is a type of investment company whose investment objective is to achieve the same return as a particular index, sector, or basket. To achieve this, an ETF will primarily invest in all of the securities, or a representative sample of the securities, that are included in the selected index, sector, or basket. ETFs are subject to the same risks as an individual stock, as well as additional risks based on the sector the ETF invests in.

