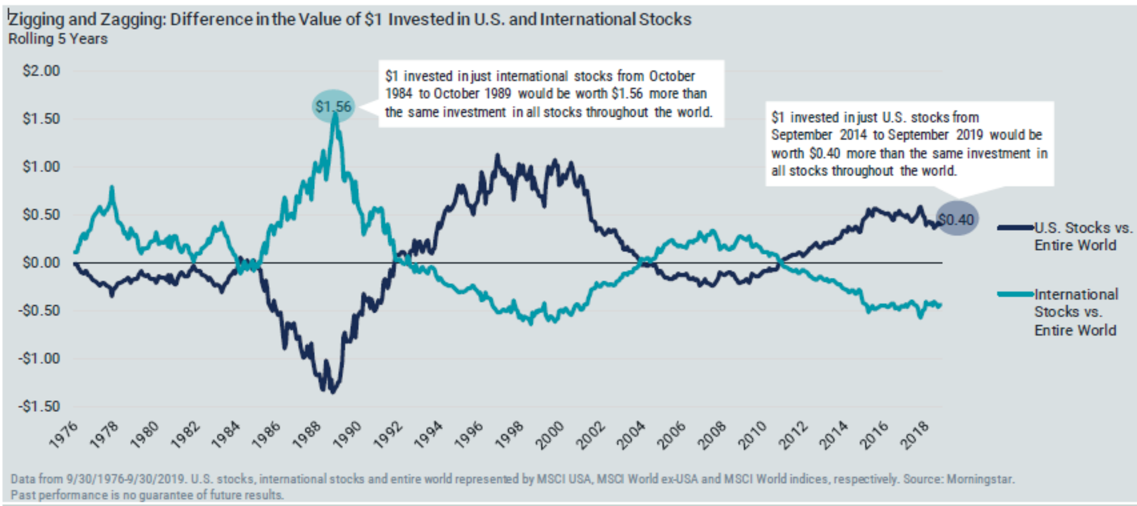
PERFETTA Capital

Why Not Invest in Only US Stocks?

Attached and below is a slide that shows the interplay between US equity and non-US equity in a global portfolio. We have found this lens to resonate with many investors. Diversification will always have potential opportunity cost of higher returns pursuing a more concentrated strategy, but embracing it means having more tools in the portfolio. [The Lost Decade] is not so long ago, but it seems in many people's minds it may be.



If we go back further than The Lost Decade, to 1988, we can observe time periods where non-US actually outperformed the US by even larger margins (see above). Since these patterns tend to have some cyclicality, it's not unreasonable to expect that at some point soon this performance paradigm will revert again. It's all very hard to predict, making the case for diversification even stronger. It also makes a point for maintaining a fairly static US/non-US allocation; we don't know when one region will outperform the others until after the fact.

How to Explain Global Diversification to Clients

"Global Diversification is the only free lunch." - Harry Markowitz

- When you build a portfolio, you can reduce your risk without reducing returns, simply by diversifying your investments. This is a powerful concept and one of the only "free lunches" in investing. In almost all other facets on investing, reducing risk results in a reduced expected return. Global diversification does not lower expected return vs a US-only portfolio but it does narrow the range of potential outcomes. Narrower ranges of outcomes means you can have more precision in planning for the future.

"How Many Boats are You Trusting to Deliver your Money?" - Benjamin Halliburton

- Begin this conversation by asking if the client would rather have one boat or five boats to transport their entire life savings across choppy seas. You can juice the story up by adding whatever details you like.

- Most people ride the ups and downs of the market, moving things around as needed in one boat and generally trying to stay abreast of the constantly changing circumstances of business and the financial markets—US stocks. However, if the US stock market hits an iceberg, and investors are just moving items around in the same boat with their stock funds, ETFs, and individual stocks, those assets are essentially all in the same boat and all go down together.

- If the boat (the US stock market), goes down, the investments all go down. Big institutions, foundations, and generational wealth are not keeping all their money in one boat. They have already split up their assets into multiple boats that are navigating different courses to the destination. If you do the same, and one of those boats is delayed or damaged, you still have reasonable results. That is the wisdom of diversifying assets. You will have some of your money in other boats. Diversification is the key to reducing risk.