International Investing

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The U.S. remains the largest and most liquid equity market in the world, but its representation in global markets continues to decline. This can be linked to several economic and demographic trends. Ever advancing technology has made the world a smaller place, and funds can now be invested globally with less difficulty and at a faster rate. Innovation is now stemming from all over the world. In fact, ten of the world's largest companies are located outside of the U.S. Foreign markets have become highly attractive due to diversification benefits, access to high growth economies, and the simple desire to tap into the proverbial capital pie. It is for these reasons that Tri Pillar believes that investing globally makes sense for our clients.

The trend of U.S. decline in global representation has been progressing over time. U.S. securities accounted for approximately 70% of total global equity market capitalization in 1969. By 2005, this number had fallen to approximately 52%. As of September, 2009, U.S. equity markets represented only 42.41% of global market capitalization. From an investment perspective, ignoring the remaining 58% of the world does not make sense.

Why has this occurred? An increasing amount of the world's financial growth originates from outside the U.S. Many economies are growing faster than the U.S. For example, in 2009 the U.S. Real GDP shrank 0.7%, while China's Real GDP grew 9.1%, and India's Real GDP expanded 7.4%. As a result, the U.S. has seen its share in world gross domestic product (GDP) fall from 31% in 2000 to approximately 25% in 2009. According to Fidelity, more than 80% of global stock markets have had higher returns than the U.S. during the past ten years .

Tri Pillar Investments utilizes these trends to further implement the 7Twelve strategy. We have researched and selected the top international equity mutual funds within the developed and emerging market sectors. This approach once again lowers volatility and increases returns by including uncorrelated asset classes in the portfolio. Sometimes these two asset classes move in tandem, and sometimes they diverge. Their movements vary enough over time to add return and lower risk. Owning both U.S. and foreign stocks has resulted in greater returns and greater stability than if owning just U.S. stocks alone.

Some investment advisors advocate shifting equity asset allocation from the U.S. to foreign stocks. This strategy is based upon the expectations for future performance. However, our team at Tri Pillar views such maneuvers as counterproductive. It is extremely difficult, if not impossible, to forecast which type of stock or which country will outperform another in a given period of time. Rather, we advocate periodic portfolio rebalancing to remain true to the original, long term investment plan put in place for each individual. This also allows for communication between Tri Pillar and our investors, to confirm that the original plan remains appropriate.

The unique risks posed by investing in foreign equities must always be considered. These risks can involve politics, currency exchange, economics, volatility and liquidity. For example, during the period 1988-2009, the annual standard deviation of the MSCI emerging market index was 37.5%. This is 94% higher than the 19.4% standard deviation of the S & P 500 and 75% higher than the 21.4% standard deviation of the MSCI EAFE Index. Tri Pillar Investments remains committed to international equity investing. We are confident that this type of diversification adds both value and stability.