



Falling Back in Love with International Stocks

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The international stock markets have underperformed U.S. stock markets for three straight years. China came out of the gate in 2016 like a lead balloon, causing other markets in Asia to decline as well. To make things worse, China devalued its currency, possibly signaling a pessimistic view of their economy and putting pressure on European countries to do the same.

If we look back at the relationship of U.S. and international stocks over the past 28 years, (that's how far back index data will take us), there were more than a few months where international stock returns underperformed U.S. stock returns. In fact, to be exact there were 183 out of 336 months — roughly 54% of the time. But that also means there were 153 months (roughly 45% of the time) where international stock returns outperformed U.S. stock returns. So the relationship hasn't been all one sided.

This is the point where Dr. Phil intervenes to do a relationship rescue and says "it starts with you" and gives you a list of tips on how you can possibly reboot your relationship with international stocks. Dr. Phil doesn't do investment psychotherapy, but if he did I imagine his investment relationship rescue list would look something like this:

1. Forget what you think you know is going to happen with international stocks and what the talking heads are saying; no one knows for certain.
2. Decide to measure the quality of your international stocks based on long-term results instead of short-term speculation.
3. Decide whether you would rather be globally diversified or not.
4. Stop making investment decisions based on recent investment returns because recent investment returns are not indicative of future long-term results.

5. Shift your portfolio focus from seeking short-term returns to seeking long-term goals.

If underperformance the last three years and China's start to 2016 is a sign of international stock returns to come, then your relationship with international stocks might feel like it's on the rocks, perhaps making you feel a breakup is warranted. But before you dump your international stocks, let me point out what this breakup has cost in the past.

The Cost of Dumping International Stocks

Money lost over last 28 years on \$100,000 initial investment if you missed the best international stock returns



Source: Morningstar Direct, January 2016.

Each period represents consecutive months, i.e., best 6 month period, best 12 month period, etc., over the last 28 years. U.S. stock returns represented by Russell 3000 Index, international stock returns represented by MSCI All Country World ex USA Index (gross dividends). The cost of missing the best months for each period was calculated as the difference in ending value between a portfolio that was 50% U.S. stocks and 50% international stocks (rebalanced annually) all 28 years and a portfolio that was 100% U.S. stocks during the best 12, 36, or 60 months of international stock returns and 50% U.S. stocks and 50% international stocks the remaining months. Past performance is not indicative of future results. All investments involve risk, including loss of principal. 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.

Over the last 28 years a \$100,000 investment in a portfolio of U.S. and international stocks grew to almost \$1,000,000. If you decided you needed time apart at some point during this 28-year relationship and that happened to be a time when international stocks did well, the cost to your portfolio may have been painful.

The difference in value after 28 years between a portfolio invested in international stocks the entire time and one that dumped international stocks during the best 12 month period was over \$20,000. That number grew to over \$100,000 if the best 36 month period was missed. If the best 60 month period was missed the portfolio value was cut almost \$200,000.

Returns, like relationships, are unpredictable and the timing of your break up could have a significant impact on your terminal wealth.

We never know ahead of time when the best or the

worst moments will occur. Returns are like relationships in that way. Even the strongest relationships experience some challenges along the way.

International markets involve additional risks, including, but not limited to, currency fluctuation, political instability, foreign taxes, and different methods of accounting and financial reporting. As a result, they may not be suitable investment options for everyone.

Changes in currency exchange rates, differences in accounting and taxation policies and political and economic instability can raise or lower returns.

Twitter Accounts You Need to Follow makeuseof.com

New to Twitter? Try following these must follow handles to start with. Courtesy of makeuseof.com

Richard Branson @richardbranson

As rich people go, Branson is pretty down to Earth. His tweets are likely to inspire you to better yourself and the world around you.

Beautiful Pictures @BEAUTIFULPICS

With nothing but an endless succession of beautiful shots, this account proves the old adage that “a picture is worth a thousand words.”

Modern Seinfeld @SeinfeldToday

Despite having been off the air for many years, Seinfeld remains a highly watchable show. If only they were making more episodes...

Boring Tweeter @b0ringtweets

Some people on Twitter are extremely boring. Don't follow them, but do follow this account, which satirizes those dullards.

Snopes.com @snopes

The Twitter account of Snopes, the website which looks past the headlines and seeks the truth. Which is more essential than ever in these days when everything is shared online.

Bill Gates @BillGates

Bill Gates is probably the biggest geek in the world. He's also the richest man in the world, and a generous philanthropist. Why wouldn't

you want to follow him?!

Earth Pics @EarthPicturz

We often forget to look around us at the majesty of the planet we all call home. This Twitter account should remind everybody that Earth is rather wonderful.

Guy Kawasaki @GuyKawasaki

This former Apple evangelist is now a social media monster. And the content he pushes out will both entertain and enlighten.

George Takei @GeorgeTakei

George Takei was once Mr. Sulu on Star Trek. But now he's a social media maven with millions of followers. Oh my!

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