# INVESTOR

Russell Investments

## Global Investing

Helping you make informed investing decisions.

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## We are most comfortable with what we know. The same applies to investing.

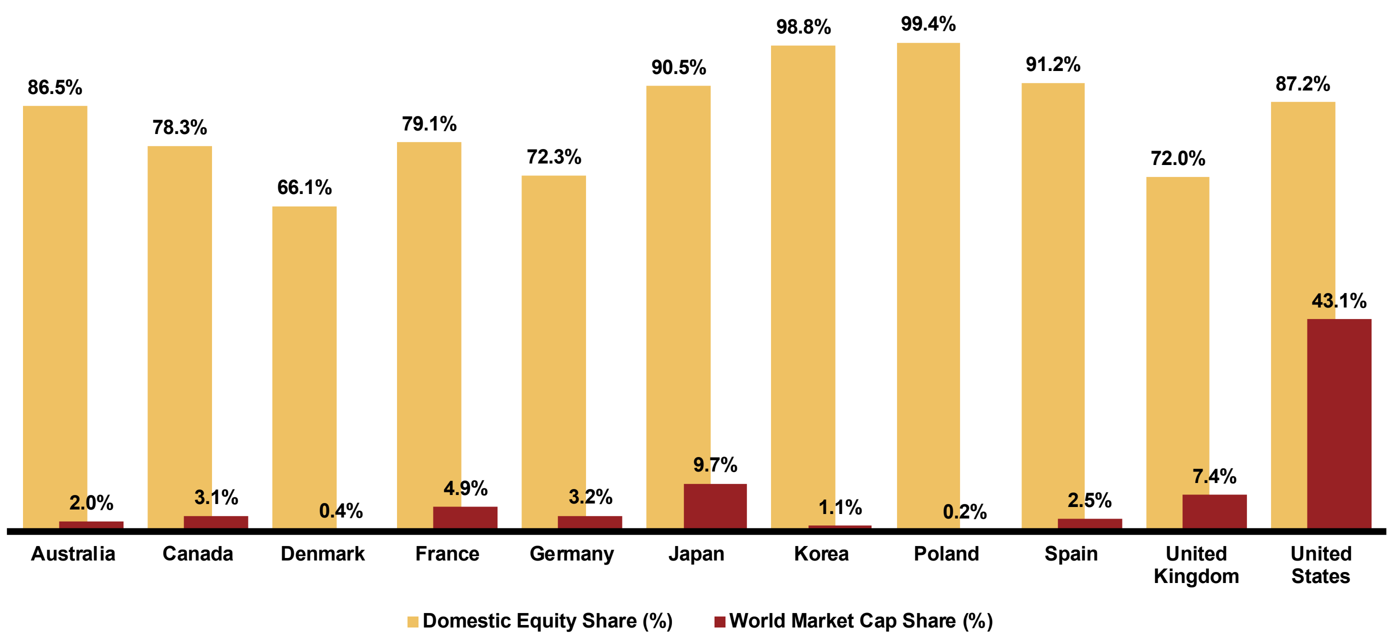
If you are like most investors, the bulk of your assets are concentrated in the country where you live. You may own real estate and other physical assets such as cars or boats, and most likely have most of your investment portfolio in domestic equities or bonds. This is known as "home-country bias," and it is a common trait of investors globally.[1]

But having a "home-country bias" in your investments is like placing all your eggs in one basket. You may be missing out on growth opportunities not available in your own country and some sectors may be overrepresented in your portfolio: For example, Canada's key S&P/TSX Composite Index is dominated by bank and resource stocks and has little in the way of technology names. Whether you are over-concentrated domestically or within specific sectors, you may put your portfolio at risk of a major drawdown.

Also, by remaining within your borders, there is a strong correlation between your portfolio and other assets that make up your financial wealth – such as income from your job or real estate holdings – all of which would be vulnerable to the same factors that affect your country's economy.

Since the opportunity set of investable assets has expanded as the world economy has globalized, your portfolio should also diversify beyond your borders.

**Home-country bias /** Market weight of country's stock market compared to world market capitalization share of domestic equity in the country's equity portfolio




Source: From Figure 8.3 of "Familiarity Breeds Investment" by J.R. Nofsinger, 2014, The Psychology of Investing, p. 89, Copyright 2014 by Taylor & Francis.

1 "Familiarity Breeds Investment" by J.R. Nofsinger, 2014, The Psychology of Investing

## Why go global?

There's no denying that we are all more closely connected now than ever before. Information flows freely across borders. So does commerce: The sum of exports and imports across nations now amounts to more than 50% of the value of total global output.[2]

More importantly, economic growth is now occurring faster outside of the U.S., Canada, and other developed countries. The International Monetary Fund forecasts that emerging and developing economies (Asia, Latin America, Africa, the Middle East) will grow by around 4.4%–4.9% per year between now and 2024—with some of those countries experiencing growth rates of more than 6% per year.[3] Canada's economic growth, in contrast, is expected to slow from 1.8% in 2018 to 1.6% in 2024.[4]

What's more, emerging markets stocks today have a combined market capitalization of US$1.75 trillion—about equal to the total U.S. market capitalization two decades ago.[5] Canada represents 3% of world stock market capitalization, but emerging markets now represent 11.5% of world stock market capitalization[6] and are home to 86% of the world's population.[7] These are huge markets that you will miss out on by having too narrow a focus in your portfolio.

The reality is that your portfolio is already likely to have global exposure, even if you have a strong home-country bias. Some companies you may think of as Canadian, are headquartered elsewhere. Molson Canadian beer is part of Molson Coors, with its head office in Denver, Colorado. Labatt Brewing Company is now part of a Belgian multinational.

Even those companies headquartered in Canada may have a large percentage of their assets in other countries, and may obtain a large percentage of their profits elsewhere. Consider Lululemon Athletica Inc. The Vancouver-based athletic wear company operates more stores in the U.S. (270) than it does in in Canada (54), and it is expanding rapidly in Asia and Europe.[8] Communications-giant BlackBerry, headquartered in Waterloo, Ont., obtains 30% of its revenue outside North America.[9]

## Not just about geography

Investing globally is no longer just about ensuring you have a diverse mix of geographies in your portfolio. True diversification also encompasses a range of asset classes, which are by nature global: e.g. high yield bonds, small cap equity, unconstrained fixed income, listed real estate and infrastructure. Most investment funds focused on these specific asset classes search for the best opportunities around the world, many designed to match your risk tolerance. As the saying goes: *The world is your oyster.*

Remember that investing has its rewards, but also its risks. When investing globally, there are several key risks to bear in mind:

**Currency risk**

The value of a country's currency can fluctuate, sometimes dramatically, depending on political and economic circumstances. This can affect the value of securities denominated in that currency when translated to your home country's currency.

**Foreign-company risk**

Companies domiciled in other countries are subject to the regulatory regime, business cycle and political environment of their home country. Certain foreign-based companies may operate with vastly different legal, accounting, environmental, corporate governance and safety regulations than in Canada and are therefore potentially vulnerable to greater risks.

**Liquidity risk**

Stocks of lesser-known companies or domiciled in smaller countries with a limited investor base may be difficult to buy or sell quickly enough to prevent or minimize a loss.

These risks can be mitigated through the use of various strategies such as currency hedging, diversification among globally focused funds and allocation strategies by experienced investment managers.

2 Source: www.ourworldindata.org/trade-and-globalization
3 Source: From Table A2 in Statistical Appendix, World Economic Outlook: Growth Slowdown, Precarious Recovery, April 2019 https://www.imf.org
4 https://www.imf.org/en/Countries/CAN
5 https://www.capitalgroup.com/pcs/latest-perspectives/global-investing.html
6 Based on weighs in the MSCI All-World Index
7 Source: IMF DataMapper, World Economic Outlook (April 2019) People. www.imf.org
8 www.lululemon.com
9 www.blackberry.com Q4 FY19 earnings report

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Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth.

As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns. Rebalancing your portfolio may create tax consequences on the taxable portion.

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