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WEALTH MANAGEMENT



Monthly Insight

Investing Globally: Can You Pick Winners?

It surprises some people to learn that the equity markets in the United States, while certainly possessing the world's largest market capitalization, include only about half of the world's equity investments.

This means that those who limit their investment in stocks or stock

mutual funds to only those stocks traded on U.S. markets have access to only about half of the equity investments available worldwide. Imagine shopping in only half of a supermarket or limiting yourself to only half of a well-balanced diet.

Now, of course, for some investors, it may make sense to keep most investments closer to home, for individual reasons such as tax advantages. But for most investors, who are trying to maximize their equity returns while limiting the overall volatility of their portfolios, some global diversification is usually a good strategy.

The problem is, the world of global equity investing can be pretty bewildering. There are about 15,000 publicly traded companies, located in more than 40 countries, worldwide. How is the average investor supposed to research that many different opportunities in order to find the best performers? For that matter, how can an investor even decide which countries' stock markets offer the best prospects for returns in any given time period?

The answer, of course, is that you can't. As a matter of fact, when you put global equity returns on a grid chart, with each column of the grid representing a year and each colored block of the grid representing a different country's equities markets, the result looks something like a crazy quilt: there is no easily recognizable pattern.

For example, take a look at the following chart, which shows each country of the world's developed equities markets, ranked from highest to lowest annual return in each column and showing results from 1999 to 2018. Each colored block represents a different country.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Finland	152.6	5.9	NZ	NZ	Sweden	Austria	Canada	Spain	Finland	Japan	Norway	Sweden	Ireland	Belgium	Finland	US	Denmark	Canada	Austria	Finland	
Singapore	89.4	5.3	Australia	Australia	Germany	Norway	Japan	Portugal	HK	Switz	Australia	Denmark	NZ	Denmark	Ireland	NZ	Ireland	NZ	Switz	Finland	
Sweden	79.7	3.4	-2.8	-1.3	59.5	63.8	53.3	25.5	47.4	43.5	46.8	Germany	US	Singapore	US	Denmark	Belgium	Norway	Singapore	US	
Japan	61.5	-0.9	Austria	Norway	Norway	Austria	Ireland	Denmark	Singapore	Norway	Spain	Sweden	Singapore	UK	Germany	Germany	HK	Japan	Australia	Denmark	HK
HK	59.5	-1.3	Belgium	Italy	NZ	Sweden	Norway	Norway	Canada	France	HK	Canada	Switz	NZ	Spain	Belgium	Switz	Austria	Nether.	Norway	
Canada	53.7	-4.1	-11.4	-10.3	54.8	25.2	16.7	43.4	29.4	-35.5	57.5	Belgium	Japan	Norway	HK	Nether.	Singapore	Italy	US	France	
Norway	31.7	France	Norway	Switz	Australia	Italy	Switz	Denmark	Austria	Germany	Canada	US	Belgium	Switz	Austria	Belgium	Ireland	Canada	France	Italy	Singapore
France	29.3	-10.0	-12.4	-11.0	Denmark	Denmark	Australia	Belgium	Denmark	Singapore	NZ	Australia	Australia	Denmark	Japan	Canada	Nether.	Nether.	Nether.	Portugal	
US	21.9	Portugal	UK	Canada	Norway	Australia	Singapore	Austria	Portugal	Denmark	NZ	Spain	Switz	Nether.	Switzerland	Switz	Portugal	Portugal	Germany	Australia	
Germany	20.0	UK	Denmark	Portugal	Ireland	Spain	Nether.	Germany	Spain	Nether.	UK	Norway	Spain	France	France	Finland	UK	Germany	Spain	France	
Australia	17.6	Austria	HK	Belgium	Portugal	HK	Sweden	France	UK	Austria	Finland	Canada	Nether.	Denmark	Australia	Switz	Japan	Japan	Japan	Japan	
NZ	12.9	Ireland	Canada	UK	France	Portugal	Germany	Italy	France	Nether.	Sweden	Nether.	Austria	Japan	Switz	Sweden	Nether.	HK	Portugal	Nether.	
UK	12.5	-12.8	-21.4	-15.3	38.1	Nether.	Switz	Singapore	Nether.	Italy	Switz	UK	Sweden	Norway	UK	Switz	Japan	Switz	Sweden	Sweden	
Denmark	12.1	-14.2	Portugal	Denmark	Italy	Canada	Belgium	Australia	UK	Australia	Denmark	Germany	Denmark	US	Italy	Germany	Spain	Germany	Sweden	UK	
Nether.	9.9	-14.7	Nether.	HK	Singapore	UK	HK	UK	Italy	France	Switz	France	NZ	HK	Austria	Switz	Switzerland	UK	UK	Denmark	
Spain	4.8	Germany	France	Nether.	Japan	France	UK	HK	US	Portugal	Italy	Nether.	France	France	NZ	Sweden	Spain	US	US	Spain	
Italy	-0.3	-15.9	-22.4	-21.2	35.8	18.5	7.4	30.4	5.4	Portugal	Italy	26.6	1.7	-16.9	14.6	11.3	-7.5	-6.3	-1.0	2.2	
Switz	-7.0	Sweden	Singapore	France	Belgium	Germany	US	Finland	Switz	NZ	US	Belgium	Singapore	Italy	HK	Italy	UK	Finland	Sweden	Canada	
Portugal	-8.9	-16.8	-23.4	-23.1	34.1	15.9	4.4	27.4	2.2	-55.2	25.3	-4.1	-18.1	9.1	11.0	-9.9	-10.0	-4.9	19.8	-17.8	
Austria	-8.1	Singapore	Sweden	Finland	US	Nether.	NZ	Belgium	Denmark	Ireland	Belgium	Ireland	Italy	Italy	Canada	Norway	Spain	Spain	Switz	Austria	Italy
Ireland	-12.6	-26.2	-29.4	-30.5	28.1	US	Portugal	US	Japan	Austria	Finland	Finland	Finland	Portugal	Australia	Austria	Singapore	Italy	Canada	Belgium	
Belgium	-14.3	-33.5	Finland	Germany	Finland	Finland	Ireland	Japan	Ireland	Ireland	Japan	Spain	Austria	Spain	Singapore	Portugal	Canada	Denmark	NZ	Austria	

Source: Dimensional Fund Advisors LP

Can you see a clear pattern? Neither can I. By the way, in the past 20 years, the U.S. equities market (represented by the royal blue boxes in the above chart) turned in the world's top return only once, in 2014. It placed ninth overall, with an average annualized return of 4.9%.

Want to know which country was the top performer? It was the one represented by the gray boxes: Denmark. Over the last 20 years, Denmark's equities market led the world only once, in 2015. And yet, Denmark's stock markets averaged an annualized yield of 9.1% from 1999 to 2018. And here's an interesting fact: Denmark's entire market capitalization, at \$250 billion, is about a third of the value of the market capitalization of Microsoft Corp., at \$750 billion.

Obviously, an investor who could have predicted that Denmark would turn in the world's best performance from 1999 to 2018 could have concentrated on Danish equities and significantly outperformed those investing in other countries, including the United States. But of course, no one could predict this.

In recent years, much has been made of the opportunities in emerging markets — countries with economies that are less mature than those of

the developed nations, including places like Brazil, India, Russia, and, largest of all, China (the so-called “BRIC” countries). Analysts point out that, because the economies in these countries are still expanding to meet the needs of a growing middle-class population, companies operating there have greater opportunities for growth.

But even in the active emerging market equities sector, predicting which country will turn in the best performance in any given year, or even any given decade, is still practically impossible. Take a look at the grid chart representing emerging markets from 1999 to 2018.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Highest Return	Turkey 253.1	Czech Rep. 1.3	Russia 55.5	Czech Rep. 43.7	Thailand 143.5	Colombia 132.4	Egypt 161.6	China 82.9	Peru 94.4	Colombia -25.1	Brazil 128.1	Thailand 55.7	Indonesia 6.0	Turkey 64.2	Taiwan 9.1	Egypt 29.3	Hungary 36.3	Brazil 66.2	Poland 54.7	Peru 1.6
	Russia 246.9	Poland -4.2	Korea 48.0	Indonesia 41.9	Turkey 125.3	Egypt 107.2	Colombia 107.2	Indonesia 79.8	Brazil 79.6	Chile -35.8	Indonesia 126.2	Peru 53.3	Malaysia 0.1	Egypt 47.1	Egypt 8.2	Indonesia 26.6	Russia 4.2	Peru 55.6	China 54.1	Russia -0.4
	Malaysia 114.3	Brazil -11.7	Colombia 45.1	Peru 30.5	Brazil 114.4	Hungary 91.5	Russia 73.1	Peru 62.1	Turkey 74.1	S. Africa 44.2	Russia 104.2	Chile 44.2	Philippines -0.9	Philippines 46.4	Malaysia 7.7	Philippines 25.6	India -6.1	Russia 54.8	Hungary 47.3	Brazil -0.5
	Indonesia 93.1	Chile -15.9	Peru 19.9	Hungary 30.3	Peru 94.1	Czech Rep. 85.8	Korea 57.1	Philippines 59.2	India 73.1	Peru -49.2	India 102.9	Colombia 43.4	Thailand -2.7	Poland 39.2	Korea 3.9	India 29.5	Korea -6.7	Hungary 35.4	Chile 42.2	Czech Rep. -4.4
	Korea 92.0	S. Africa -16.1	Mexico 18.4	S. Africa 28.0	Egypt 91.8	Poland 61.1	China 56.4	Russia 55.6	China 66.2	India -41.2	India 97.5	Malaysia 37.0	Colombia -5.0	Colombia 35.9	China 3.6	Thailand 18.7	Philippines -6.8	Thailand 26.6	Hungary 39.9	Thailand -5.5
	Egypt 89.3	S. Africa -17.5	Taiwan 10.0	Thailand 27.3	China 87.6	Indonesia 50.6	Turkey 56.1	India 51.0	Egypt 56.4	Mexico -42.9	Chile 85.6	S. Africa 34.2	Egypt -6.0	Thailand 34.5	Poland 2.6	Thailand 16.5	China -7.8	Taiwan 26.5	Hungary 38.8	Malaysia -6.0
	India 87.0	Mexico -20.5	Colombia 5.0	Chile 24.8	Chile 83.3	Mexico 48.3	Mexico 49.1	Brazil 45.3	Czech Rep. 55.3	Czech Rep. -43.1	Colombia 84.3	Indonesia 33.9	Korea -12.0	Russia 29.1	Mexico 0.8	Taiwan 10.5	Taiwan -11.7	Taiwan 18.5	Peru 38.4	Hungary -6.1
	Mexico 79.8	India -22.1	Malaysia 4.6	Russia 15.4	India 78.9	S. Africa 44.9	Czech Rep. 45.8	Mexico 41.4	Indonesia 54.2	Taiwan -46.5	Taiwan 79.2	Philippines 33.9	Mexico -12.1	India 26.0	Mexico 0.2	Taiwan 3.4	Mexico -14.4	S. Africa 17.9	Turkey 38.4	India -7.3
	Brazil 69.5	Peru -23.9	Czech Rep. -2.3	Korea 8.3	Indonesia 76.5	Turkey 41.4	India 37.8	Poland 40.7	Malaysia 46.1	Thailand -46.5	Hungary 77.6	Mexico 27.6	S. Africa -14.4	Hungary 22.8	Philippines -2.7	China 8.0	Chile -17.7	Indonesia 17.0	S. Africa 36.1	Taiwan -8.9
	S. Africa 57.6	Hungary -2.0	Chile -3.6	India 7.9	Russia 75.1	Brazil 35.8	Peru 34.7	Malaysia 37.1	Thailand 46.0	China -50.8	Thailand 76.6	Korea 26.7	China -18.4	China 22.7	India -3.8	S. Africa 5.2	Czech Rep. -18.4	Chile 15.6	Czech Rep. 35.5	Indonesia -9.2
	Taiwan 52.6	Russia -30.1	Indonesia -9.0	Egypt 1.6	Colombia 66.4	Chile 28.0	S. Africa 28.3	Czech Rep. 33.9	Philippines 40.4	Egypt -52.4	Peru 71.9	Taiwan 21.8	Russia -19.6	Korea 21.2	Hungary -5.8	Czech Rep. -4.4	Indonesia -19.5	Korea 8.7	Poland 34.5	Colombia -11.5
	Thailand 47.1	China -30.3	Hungary 9.4	Poland 1.0	Czech Rep. 84.4	Philippines 25.8	Poland 24.2	Hungary 33.7	Korea 31.9	Philippines -52.6	Korea 71.3	India 29.9	Chile -20.4	Peru 20.2	S. Africa -6.2	Mexico 8.9	Malaysia 20.1	China 0.9	Taiwan 27.5	Poland -12.9
	Chile 38.5	Colombia -38.9	Brazil -17.0	Mexico -0.7	S. Africa 45.9	Korea 22.1	Philippines 22.6	Chile 38.7	Poland 25.2	Poland -54.8	Philippines 65.6	Turkey 20.8	Taiwan -20.5	Czech Rep. -10.5	Malaysia -10.7	Thailand -23.5	Poland 0.1	Malaysia 25.1	Egypt -14.0	India -19.7
	Poland 31.3	Egypt -43.7	S. Africa -17.2	Mexico -13.3	Taiwan 41.9	India 19.1	Chile 20.5	S. Africa 24.5	Russia -55.3	China 62.3	Poland 19.1	Taiwan -21.4	Brazil -16.7	Malaysia -14.6	Chile -11.1	Poland -23.7	Egypt -1.4	Poland 24.6	Malaysia -15.5	Mexico -15.5
	Peru 19.7	Taiwan -45.0	Philippines -19.4	China -14.0	Philippines 41.5	China 15.2	Taiwan 19.8	Taiwan 20.0	Chile 23.0	Brazil -56.2	S. Africa 57.8	Poland 15.2	Brazil -21.8	Malaysia 14.3	Chile -16.0	Poland -13.0	Poland -25.4	Czech Rep. -3.9	Poland 24.2	Indonesia -16.5
	China 12.6	Philippines -45.1	India -19.8	Chile -20.3	Poland 35.1	Taiwan 9.0	Hungary 17.1	Egypt 17.1	S. Africa 18.1	Indonesia 56.5	Mexico 12.4	Poland -30.1	Russia 13.7	Colombia -21.1	Chile -14.0	S. Africa -25.5	Czech Rep. -5.0	Czech Rep. 24.1	Brazil -18.9	China -19.9
	Hungary 11.7	Turkey -45.8	China -24.7	Taiwan 24.7	Korea 35.0	Russia 13.6	Indonesia 13.6	Hungary 16.8	Hungary -81.5	Malaysia 52.1	Brazil 6.5	Hungary -33.6	Chile 7.5	Chile -22.0	Poland -14.2	Peru -31.7	Philippines -9.5	Poland 16.3	China -19.7	China -19.7
	Czech Rep. 5.2	Korea -49.9	Poland -27.7	Philippines -29.5	Mexico 32.8	Peru 3.0	Thailand 8.7	Korea 12.6	Colombia 15.0	Turkey -62.3	Poland 41.5	China 4.6	Turkey -35.4	Indonesia 4.6	Indonesia -23.5	Turkey -19.8	Turkey -31.9	Turkey -8.5	Mexico 16.0	Korea -20.9
	Philippines 3.3	Thailand -56.4	Turkey -32.8	Brazil -30.7	Hungary 32.0	China 1.9	Taiwan 8.4	Thailand 11.1	Mexico 12.2	India -64.6	Egypt 39.7	Czech Rep. -2.5	India -37.2	Czech Rep. 2.5	Turkey -29.6	Hungary -27.4	Brazil -41.4	Mexico -9.2	India 5.2	S. Africa -24.8
Lowest Return	Colombia -14.7	Indonesia -62.2	Egypt -41.3	Turkey -35.8	Malaysia -12.2	Thailand -1.2	Malaysia 2.3	Turkey 7.2	Taiwan 8.4	Russia -73.9	Czech Rep. 26.5	Hungary -9.6	Egypt -46.9	Peru 0.0	Peru -29.8	Russia -46.3	Colombia -41.8	Egypt -11.5	Egypt 5.1	Turkey -41.4

Source: Dimensional Fund Advisors LP

Once again, it is very unlikely that anyone would be able to discern a pattern in these performance statistics. Hungary and Russia, the two best performers in 2015, were the two worst performers the previous year, in 2014. This just points out that accurately predicting the performance of a particular equity, or even all the equities in an entire country, is exceedingly difficult.

So, what should investors do? Rather than giving up on equity investments altogether, which would be a big mistake in most cases, investors should employ a strategy of broad diversification across

many sectors and even across many countries.

As we have seen, there is no reason to believe that U.S. equities, despite being the world's largest market, will outperform other countries' stocks in any given year. Investors who wish to reduce the overall volatility of their stock portfolios while still capturing higher average returns may benefit from diversifying their holdings, not only among U.S. equities, but also internationally.

When you think about it, the randomness of global equity returns also emphasizes the randomness of any given equity's performance during a particular time period. If it is impossible to predict which country's stock market will outperform in a given year, how much more difficult would it be to accurately pick the one stock — or even one hundred stocks — that will lead the market at a particular time?

The answer, as decades of research demonstrate, is that no one can consistently “beat the market” over the long haul. And that is precisely why we recommend a program of diversified holdings, controlled transaction costs, disciplined rebalancing, and patiently sticking to a long-term strategy designed with the particular investor in mind. Rather than trying to predict the unpredictable, we recommend positioning investors broadly enough to benefit from a variety of market and economic outcomes, so that losses in one area may be offset by gains in another.

In today's equity markets, it certainly pays to think globally. But it's also essential, we believe, to think broadly.

Stay Diversified, Stay *Your* Course!



KIMBERLY FOSS
President, CFP® , CPWA®

"We understand that every person we serve has distinct values and ambitions, and they each need their own plan for wealth management."



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