

TDC ISSUE BRIEFS

HOME BIAS AND GLOBAL DIVERSIFICATION



TDC
INVESTMENT ADVISORY

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Every day we enjoy the benefits of an interconnected world. We might start our day with a cup of coffee that originated in South America, check our email on a smartphone designed in California and manufactured in Taiwan, then shower and change into clothes woven from Egyptian fabrics before driving a German-made car or riding in a French-built train to work.

As consumers, we rarely think twice about the benefits of access to the cornucopia of goods the global market has to offer. Yet, as investors, we will often concentrate our portfolios in favor of our home market at the expense of global diversification. For example, while US stock markets represent just over 50% of the value of global equity markets, many US investors tend to allocate around 70% of their equity assets to domestic stocks.¹ This phenomenon, which can be observed across countries around the world, is known in the investment community as “home-country bias.”

By pursuing a globally diversified approach to investing, one doesn’t have to attempt to pick winners to achieve a rewarding investment experience.

Given that certain frictions may be associated with investing abroad, a home-country bias may make sense for an investor in certain cases. For example, for tax-deferred investors in the US, foreign dividend tax withholdings may present a disadvantageous tax drag on international investments. In general, however, neglecting the benefits that global diversification has to offer may increase risks and decrease the investment opportunity set.

As **Exhibit 1** illustrates, 13 different developed countries (out of 21) had the best-performing equity market in a given calendar year for the 20 years ended in December 2016, and no country had the best-performing market for more than two consecutive years.

1. Willis Towers Watson, *Global Pension Assets Study 2017*.

EXHIBIT 1. EQUITY RETURNS OF DEVELOPED MARKETS
ANNUAL RETURN (%)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
HIGH	Switzerland 44.2	Finland 121.6	Finland 152.6	Switzerland 5.9	New Zealand 8.4	New Zealand 24.2	Sweden 64.5	Austria 71.5	Canada 28.3	Spain 49.4	Finland 48.7	Japan -29.2	Norway 87.1	Sweden 33.8	Ireland 13.7	Belgium 39.6	Finland 46.0	USA 12.7	Denmark 23.4	Canada 24.6
	Italy 35.5	Belgium 67.7	Singapore 99.4	Canada 5.3	Australia 1.7	Austria 16.5	Germany 63.8	Norway 53.3	Japan 25.5	Ireland 46.8	Hong Kong 41.2	Switzerland -30.5	Australia 76.4	Denmark 30.7	New Zealand 5.5	Denmark 31.3	Ireland 41.2	New Zealand 7.3	Ireland 16.5	New Zealand 18.4
	Denmark 34.5	Italy 52.5	Sweden 79.7	Denmark 3.4	Ireland -2.8	Australia -1.3	Spain 58.5	Belgium 43.5	Austria 24.6	Singapore 46.7	Germany 35.2	USA -37.6	Singapore 74.0	Hong Kong 23.2	USA 1.4	Singapore 31.0	USA 31.8	Denmark 6.2	Belgium 12.1	Norway 13.3
	USA 33.4	Spain 49.9	Japan 61.5	Norway -0.9	Austria -5.6	Norway -7.3	Austria 57.0	Ireland 43.1	Denmark 24.5	Norway 45.1	Norway 31.4	Spain -40.6	Sweden 64.2	Singapore 22.1	UK -2.6	Germany 30.9	Germany 31.4	Hong Kong 5.1	Japan 9.6	Australia 11.4
	Spain 25.4	France 41.5	Hong Kong 59.5	Italy -1.3	Belgium -10.9	Italy -7.3	New Zealand 55.4	Sweden 36.3	Norway 24.3	Sweden 43.4	Canada 29.6	France -43.3	Hong Kong 60.2	Canada 20.5	Switzerland -6.8	New Zealand 29.3	Spain 31.3	Belgium 4.1	Austria 3.5	Austria 11.3
	Germany 24.6	Ireland 35.3	Canada 53.7	Netherlands -4.1	Spain -11.4	Japan -10.3	Canada 54.6	New Zealand 35.2	Finland 16.7	Denmark 38.8	Singapore 28.4	Canada -45.5	Belgium 57.5	Japan 15.4	Norway -10.0	Hong Kong 28.3	Netherlands 31.3	Singapore 3.0	Italy 2.3	USA 10.9
	Netherlands 23.8	USA 30.1	Norway 31.7	France -4.3	Norway -12.2	Switzerland -10.3	Australia 49.5	Italy 32.5	Switzerland 16.3	Belgium 36.7	Australia 28.3	Germany -45.9	Canada 56.2	USA 14.8	Belgium -10.6	Austria 25.9	Belgium 27.6	Ireland 2.3	Finland 2.0	France 4.9
	UK 22.6	Germany 29.4	France 29.3	Australia -10.0	USA -12.4	Singapore -11.0	Denmark 49.3	Denmark 30.8	Australia 16.0	Austria 36.5	Denmark 25.6	Singapore -47.4	New Zealand 50.4	Australia 14.5	Australia -11.0	Australia 22.1	Japan 27.2	Canada 1.5	Netherlands 1.3	Netherlands 4.8
	Finland 17.3	Switzerland 23.5	USA 21.9	UK -11.5	UK -14.0	Canada -13.2	Norway 48.1	Australia 30.3	Singapore 14.4	Germany 36.0	Spain 24.0	Denmark -47.6	Spain 43.5	Switzerland 11.8	Netherlands -12.1	Sweden 22.0	Switzerland 26.6	Switzerland -0.1	USA 0.7	Germany 2.8
	Ireland 15.8	Netherlands 23.2	Germany 20.0	Austria -12.0	Denmark -14.8	Belgium -15.0	Ireland 43.8	Spain 28.9	Netherlands 13.9	France 34.5	Netherlands 20.6	Netherlands -48.2	UK 43.3	Norway 10.9	Spain -12.3	France 21.3	France 26.3	Finland -0.7	Switzerland 0.4	Japan 2.4
RETURNS	Belgium 13.6	UK 17.8	Australia 17.6	Ireland -12.7	Hong Kong -18.6	UK -15.2	France 40.2	Hong Kong 25.0	Sweden 10.3	Italy 32.5	France 13.2	UK -48.3	Austria 43.2	Finland 10.3	Canada -12.7	Netherlands 20.6	Denmark 25.2	Australia -3.4	France -0.1	Hong Kong 2.3
	Sweden 12.9	Sweden 14.0	New Zealand 12.9	USA -12.8	Canada -20.4	Spain -15.3	Hong Kong 38.1	Singapore 22.3	Germany 9.9	Netherlands 31.4	New Zealand 8.9	Sweden -49.9	Netherlands 42.3	Austria 9.9	Japan -14.3	Switzerland 20.4	Sweden 24.5	Netherlands -3.5	Hong Kong -0.5	Singapore 1.4
	Canada 12.8	Denmark 9.0	UK 12.5	Finland -14.2	Switzerland -21.4	Denmark -16.0	Italy 37.8	Canada 22.2	France 9.9	Australia 30.9	UK 8.4	Italy -50.0	Denmark 36.6	UK 8.8	Sweden -16.0	Norway 18.7	UK 20.7	Japan -4.0	Germany -1.9	Sweden 0.6
	France 11.9	Australia 6.1	Denmark 12.1	Hong Kong -14.7	Netherlands -22.1	Hong Kong -17.8	Singapore 37.6	UK 19.6	Belgium 9.0	UK 30.6	Italy 6.1	Australia -50.7	France 31.8	Germany 8.4	Denmark -16.0	USA 15.3	Italy 20.4	Spain -4.7	Sweden -5.0	UK -0.1
	Norway 6.2	Japan 5.1	Netherlands 6.9	Germany -15.6	France -22.4	Netherlands -20.8	Japan 35.9	France 18.5	Hong Kong 8.4	Hong Kong 30.4	USA 5.4	Hong Kong -51.2	Italy 26.6	New Zealand 8.3	Hong Kong -16.0	UK 15.3	Austria 13.4	UK -5.4	New Zealand -6.3	Spain -1.0
	Austria 1.6	Austria 0.4	Spain 4.8	Spain -15.9	Germany -22.4	France -21.2	Belgium 35.3	Germany 16.2	UK 7.4	Finland 29.9	Switzerland 5.3	New Zealand -53.8	USA 26.3	Netherlands 1.7	France -16.9	Finland 14.6	New Zealand 11.3	Sweden -7.5	UK -7.6	Finland -4.7
	Australia -10.4	Hong Kong -2.9	Italy -0.3	Belgium -16.8	Singapore -23.4	USA -23.1	Switzerland 34.1	Japan 15.9	USA 5.1	Switzerland 27.4	Austria 2.2	Finland -55.2	Switzerland 25.3	Belgium -0.4	Singapore -179	Italy 12.5	Hong Kong 11.1	Italy -9.5	Australia -10.0	Switzerland -4.9
	New Zealand -14.1	Canada -6.1	Switzerland -7.0	Sweden -21.3	Italy -26.6	Ireland -26.2	UK 32.1	Switzerland 15.0	Spain 4.4	Canada 17.8	Sweden 0.6	Norway -64.2	Germany 25.2	France -4.1	Germany -18.1	Canada 9.1	Norway 9.4	France -9.9	Norway -15.0	Ireland -7.1
	Hong Kong -23.3	Singapore -12.9	Austria -9.1	Singapore -27.7	Sweden -27.2	Finland -30.3	USA 28.4	Netherlands 12.2	Italy 1.9	New Zealand 16.6	Belgium -2.7	Belgium -66.5	Ireland 12.3	Italy -15.0	Italy -23.2	Japan 8.2	Canada 5.6	Germany -10.4	Spain -15.6	Belgium -7.6
	Japan -23.7	New Zealand -22.6	Ireland -12.6	Japan -28.2	Japan -29.4	Sweden -30.5	Netherlands 28.1	USA 10.1	New Zealand 1.7	USA 14.7	Japan -4.2	Austria -68.4	Finland 11.1	Ireland -18.1	Finland -31.9	Ireland 5.7	Australia 4.2	Norway -22.0	Singapore -17.7	Italy -10.5
LOW	Singapore -30.0	Norway -30.1	Belgium -14.3	New Zealand -33.5	Finland -38.2	Germany -33.2	Finland 19.4	Finland 6.1	Ireland -2.3	Japan 6.2	Ireland -20.1	Ireland -71.9	Japan 6.3	Spain -22.0	Austria -36.4	Spain 3.0	Singapore 1.7	Austria -29.8	Canada -24.2	Denmark -15.8

In US dollars. Source: MSCI developed markets country indices (net dividends). MSCI data © MSCI 2017, all rights reserved. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

This trend was also observable in emerging markets. As Exhibit 2 illustrates, 13 different emerging market countries (out of 20) had the best-performing market in a given year, and no country had the best-performing market in consecutive years.

This data shows that it is difficult to know which markets will outperform from year to year. By holding a globally diversified portfolio, investors are instead well positioned to capture returns wherever they occur.

EXHIBIT 2. EQUITY RETURNS OF EMERGING MARKETS
ANNUAL RETURN (%)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
HIGH	Turkey	Korea	Turkey	Czech Rep.	Russia	Czech Rep.	Thailand	Colombia	Egypt	China	Peru	Colombia	Brazil	Thailand	Indonesia	Turkey	Taiwan	Egypt	Hungary	Brazil
	118.1	141.1	252.4	1.6	55.9	44.2	144.6	133.0	161.6	82.9	94.7	-25.1	128.6	56.3	6.5	64.9	9.8	29.3	36.3	66.7
	Russia	Philippines	Russia	Poland	Korea	Indonesia	Turkey	Egypt	Colombia	Indonesia	Brazil	Chile	Indonesia	Peru	Malaysia	Philippines	Egypt	Indonesia	Russia	Russia
	112.1	13.5	247.1	-4.0	48.7	42.8	125.9	126.2	107.5	74.8	80.0	-35.4	127.6	53.3	0.1	47.6	8.2	27.2	5.0	55.9
	Hungary	Thailand	Malaysia	Brazil	Colombia	Hungary	Brazil	Hungary	Russia	Peru	Turkey	South Africa	Russia	Chile	Philippines	Egypt	Malaysia	Philippines	India	Peru
	95.2	11.6	114.3	-11.4	45.8	30.7	115.0	92.5	73.8	62.6	74.8	-37.9	104.9	44.8	0.1	47.1	7.7	26.4	-6.1	55.6
	Mexico	Czech Rep.	Indonesia	Chile	Peru	Peru	Peru	Czech Rep.	Korea	Philippines	India	Peru	India	Colombia	Thailand	Poland	Korea	India	Philippines	Hungary
	53.9	0.5	93.5	-15.1	19.9	30.5	94.3	87.3	58.0	59.7	73.1	-40.1	102.8	43.4	-2.4	41.0	4.2	23.9	-6.3	35.4
	Colombia	Poland	Korea	Malaysia	Mexico	South Africa	Egypt	Poland	Brazil	Russia	China	Malaysia	Turkey	Malaysia	Czech Rep.	Colombia	China	Turkey	Korea	Thailand
	41.8	-6.7	92.4	-16.0	18.5	28.0	91.8	61.5	57.0	55.9	66.2	-41.2	98.5	37.0	-5.0	35.9	4.0	19.1	-6.3	27.0
	Egypt	Hungary	Egypt	South Africa	Taiwan	Thailand	China	Indonesia	Turkey	India	Egypt	Czech Rep.	Chile	Philippines	Colombia	Thailand	Poland	Thailand	China	Colombia
	31.2	-8.2	88.4	-17.2	10.5	27.6	87.6	52.2	56.9	51.0	58.4	-42.7	86.7	35.5	-5.0	34.9	3.6	16.8	-7.6	26.5
	Brazil	Taiwan	India	Mexico	Thailand	Colombia	Chile	Mexico	Mexico	Brazil	Czech Rep.	Mexico	Colombia	Indonesia	Korea	Mexico	Russia	Peru	Taiwan	Taiwan
	27.3	-20.6	87.3	-20.5	5.3	25.4	84.4	48.3	49.1	45.8	55.9	-42.9	84.3	34.6	-11.8	29.1	1.4	10.5	-11.0	19.6
	Peru	India	Mexico	India	Malaysia	Russia	India	South Africa	Czech Rep.	Poland	Indonesia	Taiwan	Taiwan	South Africa	Mexico	India	Mexico	Taiwan	Mexico	South Africa
	20.5	-21.2	80.1	-21.7	4.6	15.7	78.4	44.9	46.2	41.9	55.0	-45.9	80.2	34.2	-12.1	26.0	0.2	10.1	-14.2	18.4
	India	Egypt	Brazil	Peru	Czech Rep.	Korea	Indonesia	Turkey	India	Mexico	Thailand	Thailand	Hungary	Mexico	South Africa	China	Philippines	China	Czech Rep.	Indonesia
	11.3	-27.0	67.2	-23.8	-2.0	8.6	78.2	42.0	37.6	41.4	46.6	-48.3	77.6	27.6	-14.4	23.1	-2.0	8.3	-16.5	17.5
	Chile	South Africa	South Africa	Hungary	Chile	India	Russia	Brazil	Peru	Malaysia	Malaysia	China	Thailand	Korea	China	Hungary	India	South Africa	Chile	Chile
	5.5	-27.6	57.2	-26.8	-2.8	8.4	75.9	36.5	35.0	37.1	46.1	-50.8	77.3	27.2	-18.2	22.8	-3.8	5.7	-16.8	16.8
	Taiwan	Chile	Taiwan	Russia	Indonesia	Egypt	Colombia	Chile	South Africa	Czech Rep.	Philippines	Philippines	Korea	Taiwan	Russia	Korea	South Africa	Czech Rep.	Indonesia	Korea
	-6.3	-28.5	52.7	-30.0	-8.5	1.6	66.9	29.0	28.3	34.7	41.7	-51.9	72.1	22.7	-19.3	21.5	-5.8	-2.4	-19.1	9.2
	South Africa	Malaysia	Thailand	China	Hungary	Poland	Czech Rep.	Philippines	Poland	Hungary	Korea	Egypt	Peru	Turkey	Chile	Peru	Hungary	Mexico	Malaysia	China
	-8.2	-30.8	47.2	-30.5	-9.2	1.3	66.2	26.6	25.0	33.7	32.6	-52.4	72.1	21.2	-20.0	20.2	-5.8	-9.2	-20.1	1.1
	Poland	Indonesia	Chile	Colombia	Brazil	Malaysia	South Africa	Korea	Philippines	Chile	Poland	Poland	Philippines	India	Taiwan	South Africa	Czech Rep.	Malaysia	Thailand	Poland
	-22.4	-31.5	39.0	-38.9	-17.0	-0.7	45.9	22.9	23.9	29.3	25.8	-54.5	68.0	20.9	-20.2	19.0	-8.1	-10.7	-23.3	0.7
	Czech Rep.	Mexico	Poland	Egypt	South Africa	Mexico	Philippines	India	Chile	Taiwan	Russia	Korea	China	Russia	Peru	Taiwan	Thailand	Korea	Egypt	India
	-22.7	-33.5	31.5	-43.7	-17.2	-13.3	42.8	19.1	21.6	20.9	24.8	-55.1	62.6	19.4	-21.4	17.7	-14.3	-10.7	-23.5	-1.4
	China	Brazil	Peru	Taiwan	Philippines	China	Taiwan	Malaysia	China	South Africa	Chile	Brazil	South Africa	Poland	Brazil	Russia	Brazil	Chile	Poland	Czech Rep.
	-25.3	-39.6	18.9	-44.9	-19.3	-14.0	42.5	15.2	19.8	20.5	23.7	-56.1	57.8	15.9	-21.6	14.4	-15.8	-12.2	-24.9	-2.5
	Philippines	Peru	China	Philippines	India	Chile	Korea	Taiwan	Hungary	Egypt	South Africa	Indonesia	Mexico	Egypt	Poland	Malaysia	Colombia	Poland	South Africa	Malaysia
	-62.6	-40.2	13.3	-45.0	-19.5	-19.8	35.9	9.8	18.5	17.1	18.1	-56.2	56.6	12.4	-29.5	14.3	-21.1	-13.6	-25.1	-3.9
	Korea	Colombia	Hungary	Turkey	China	Taiwan	Poland	Russia	Indonesia	Colombia	Hungary	Hungary	Malaysia	Brazil	Hungary	Chile	Chile	Brazil	Turkey	Philippines
	-66.7	-41.7	11.7	-45.6	-24.7	-24.5	35.5	5.7	15.8	13.8	16.8	-61.5	52.1	6.8	-33.6	8.3	-21.4	-13.7	-31.6	-6.1
	Malaysia	China	Czech Rep.	Korea	Poland	Philippines	Mexico	Peru	Thailand	Korea	Colombia	Turkey	Poland	China	Turkey	Indonesia	Indonesia	Colombia	Peru	Turkey
	-68.0	-42.4	5.3	-49.6	-27.4	-29.0	32.8	3.2	9.2	13.2	15.0	-62.1	42.5	4.8	-35.2	5.2	-23.1	-19.8	-31.7	-8.1
	Thailand	Turkey	Philippines	Thailand	Turkey	Brazil	Hungary	China	Taiwan	Thailand	Mexico	India	Egypt	Czech Rep.	India	Czech Rep.	Turkey	Hungary	Brazil	Mexico
	-73.4	-52.5	3.3	-56.3	-32.7	-30.7	32.3	1.9	7.3	11.6	12.2	-64.6	39.7	-1.7	-37.2	3.5	-26.5	-27.4	-41.2	-9.0
LOW	Indonesia	Russia	Colombia	Indonesia	Egypt	Turkey	Malaysia	Thailand	Malaysia	Turkey	Taiwan	Russia	Czech Rep.	Hungary	Egypt	Brazil	Peru	Russia	Colombia	Egypt
	-74.1	-83.0	-14.4	-61.9	-41.3	-35.7	26.6	-0.9	2.3	-7.0	9.1	-73.8	27.8	-9.6	-46.9	0.3	-29.8	-45.9	-41.8	-11.4

In US dollars. Source: MSCI emerging markets country indices (gross dividends). MSCI data © MSCI 2017, all rights reserved. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Due to the recent positive performance of international stocks, investors today may be less worried about a global approach to investing than they may have been in the past. Over the last several years, however, strong performance in the US equity markets has led some market participants to question the value of

holding a globally diversified portfolio. In different market environments, and as sentiments about global diversification and its value ebb and flow, it is helpful to remember that history has not shown any one market around the world to be a consistent outperformer.

Clearly, attempting to pick only winning markets in any given period is a challenging proposition. By pursuing a globally diversified approach to investing, one doesn't have to attempt to pick winners to achieve a rewarding investment experience. By expanding the investment opportunity set beyond their domestic stock market, investors can help increase the reliability of outcomes. Thus, investors can be confident that a globally diversified portfolio will hold the best (and worst) performing countries each year.

Source: Dimensional Fund Advisors LP.

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