

Wealth Notes

By Rob Wrubel

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Independent, Individualized Investment Advice and Financial Planning

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Wealth Notes offers an insightful look at financial planning topics. This quarterly column reviews current financial planning trends and seeks to educate you about planning and investment opportunities. This column covers a wide-range of topics to help you make informed financial planning and investment decisions.

Is it Time to Add More International Stock?

By Rob Wrubel, CFP®, AIF®

A few weeks ago, someone told me a statistic - on average, US investors have about 3% of their portfolios invested in stocks of companies based outside the country. I did not see a report and I'm not sure how accurate this statistic was but the anecdotal evidence seems about right to me as I see different portfolios of new clients who come to work with me at Cascade Investment Group. Portfolios are often made up of US stocks and bonds with little or no international exposure.

International investing offers potential benefits to be considered such as the ability to increase return over time and to reduce risks associated with investing in just one country's stock market.

How has this worked recently? The answer may depend on which period of time you review. Over the past few years until this year, US stocks have had higher returns on average than those in international and emerging markets. Over the past three years, the S&P 500 index returned 10.47% annually while the MSCI EAFE index of developed countries returned 0.86% and the MSCI EMF index of emerging markets returned 1.79%.

In 2017, the S&P 500 has returned 7.16% while the MSCI EAFE index of developed countries

has returned 9.97% and MSCI EMF emerging markets index has returned 13.88%.

Where do you go from here? It depends on how you see the opportunities that exist abroad. Roughly half of the world's publicly-traded stocks are from companies based outside this country. Should all those companies be excluded from the portfolio - especially those strong global brands we use every day? Bayer, Toyota, BMW, Samsung and Red Bull are all based outside the US. While you might not be interested in a wireless technology company in Peru or a clothing company in Thailand, there are plenty of great companies to choose from to diversify assets out of the US.

One estimate of global wealth creation expects the middle class ranks to swell from about 2.4 billion people today to 4.2 billion people by 2025. That's just 7-1/2 years away. Those people will want to live similar lifestyles to ours - and will include purchases of everything like homes, TVs, toothpaste, sneakers and cars. Some of these products will be sold by leading American companies like Apple, Ford and Colgate-Palmolive.

Many of these will be sold by companies located in India, China and every other place wealth is growing. Investments in funds that track global

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markets have a chance to invest more broadly than just those companies domiciled in the US.

Chinese consumers are now the global leader in the purchase of luxury goods, accounting for 25% of luxury spending. Even with the slowdown in the Chinese economy, growth continues.

Beer consumption in the US has been flat in recent years. Additionally, it seems like the large public companies are losing share to the microbrew revolution. Here in Colorado, the stores are filled with cans of small companies selling excellent beer and every part of town seems to have a new microbrewery. The story is different in other parts of the world. Asian beer volume was expected to grow 4% through last year and Latin American volume is expected to grow 3.5%. Some of those suds will be American brands but much of it will also be locally or regionally supplied.

Some funds we use find greater yield by investing outside the US. Part of this is a bias in individual markets; part of it comes from widening the pool of great companies across different industries.

There are additional risks to investing overseas. Currency fluctuations can impact the returns in accounts. Emerging or developing economy investments carry increased political and regulatory risk. It's unusual for an American company to be taken over by the government; it has happened more recently in Russia and Venezuela.

Talk with us about the international investments in your portfolio. For me, these are crucial investments to have. Yes, they can be hard to hold when the US looks great. But some years, like this one, they add additional value to provide returns.

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