

The INVESTMENT LETTER

Volume 89, No. 10

October 2018



Why Don't I Have International Stocks In My Portfolio?

Investment strategies reflect a lot of decisions. They reflect our personalities, life experiences, convictions, and values. When you choose to invest in a company, you are entrusting a part of your financial well-being to them. Many US investors feel strongly about keeping their money in US equities, both to keep their money in their own country, and to support domestic enterprise. But, the reasons for keeping your investments within the US may go beyond a conviction or commitment to personally-held beliefs. It also makes financial sense too. Here's why:

Internal Controls: Oversight & Transparency

In the wake of the scandals affecting US companies such as Enron, WorldCom, and Tyco International, US legislators enacted the Sarbanes-Oxley Act of 2002, which is also lesser known as the Public Company Accounting Reform and Investor Protection Act. This federal law, best known as SOX, set new standards in terms of auditor independence while also establishing new requirements for companies in the areas of corporate governance, internal control assessment, and financial disclosures. SOX also created the PCAOB (Public Company Accounting Oversight Board), mainly to serve, among other things, as the auditor for public company auditors. SOX was created to restore faith in American financial markets and investor information in an era when investors were still reeling from the billions of dollars lost due to the collapsing share prices of companies affected by the scandals. While SOX has provided an internal control framework that protects investors from another onslaught of corporate and accounting scandals, it has also

restored investor confidence in the markets. Laws similar to SOX have been passed in subsequent years in countries such as Canada, Germany, France, and Japan.

The US Dollar is a strong, stable currency

When you invest in companies whose securities are monetized in your home currency, you eliminate direct currency risk and greatly minimize the risks inherent in currency fluctuations. By investing in an asset denominated in the US dollar, you follow the fortunes of that asset and its underlying company, and are not also adding in (at least not directly) the performance of the US Dollar against other currencies as a factor.

The strength and vigor of the US economy is backed by strong underlying fundamentals

With a Gross Domestic Product (GDP) approaching \$20 trillion and a population of 325 million people, the US boasts the largest consumer market on the planet. Household spending in the US alone makes up one-third of global household consumption. The market is also innovative; more international patents are registered in the US than anywhere else. According to a recent study by US News & World Report, the US is among the best in the world in encouraging entrepreneurial spirit. The US ranked third of 80 countries evaluated in that study, which included over 20,000 respondents from around the world. The US also ranks highly in access to capital, which is supported by its financial markets, widely held to be the most efficient, flexible, and developed in the world. All of these factors, bolstered by the

INVESTMENT COUNSEL INC.

Established 1929

continuing bull market, all contribute to make the US economy one of the most welcoming and rewarding to business, which translates to better performance in the securities and investments of its businesses.

The US economy is supported by a stable government

When you invest in securities, you are relying, indirectly, but importantly, on the infrastructure supporting those investments. That infrastructure includes the political environment supporting the securities you purchase. Political events that can affect investment performance are many and varied, but include labor laws, trade tariffs, regulation, all the way to governmental instability, just to name a few. In 2018, according to Marsh's Political Risk Map, the US earned a political risk score of 85, which places it among the most secure countries in the world politically, and in line with other developed economies in Europe, Australia, and Canada. By investing in the US, you eliminate a great deal of political risk, while also enjoying its robust, investor-friendly economy.

Have your cake and eat it too. Invest domestically while getting international diversification

While diversifying our portfolios into other global economies by directly purchasing foreign securities helps provide a sort of insurance against risks specific to the US market, it comes with all risks detailed above, and several more. The good news is that, in our economy today, S&P 500 companies who source more than 50% of their revenue from other countries post quarterly earnings growth nearing 20%, which doubles the performance of companies that keep their business within the US. Investing overseas is good, even advisable, but by investing in US companies already doing this, you receive a layer of insulation from the risks that these companies are directly assuming, while you enjoy in their globalized returns and diversification.

Developing your investment strategy, and choosing its component securities, provides the opportunity to personalize a portfolio so that it reflects your

values, beliefs, and objectives. For many US-based investors, supporting the US economy and business environment with their own assets is one of those values. However, this strategy also makes financial sense, allowing you to mitigate many risks inherent in globalized portfolios, while still enjoying diversification and globalized returns by investing in US-based multinational corporations. There really is a way to have that domestic cake, and still enjoy the rewards that our larger globalized world economy offers. ■

INVESTMENT COUNSEL NEWS

Inside the Office



We have simplified our email and website address. After decades of explaining

how to spell invest-counsel.com; How do you spell counsel? What is a hyphen? In anticipation of our 90th year in business we have changed these to ICI1929.com. The old address will continue to forward to our new website and email.

cwalker@ici1929.com

www.ici1929.com

Outside the Office



Chris' wife, Barbara, is traveling to Africa with her sister during the month of

October. Barbara has always had Africa on her bucket list. Due to the lack of golf courses in Africa, Chris is holding down the fort at the office.