

Go Ye into All the World

By **Dr. Erik Davidson, DBA, CFA**

CHIEF ECONOMIC ADVISOR

NOV 1, 2019

"And he said unto them, Go ye into all the world,
and preach the gospel to every creature."

MARK 16:15

I ONCE HEARD AN INTERESTING OBSERVATION that many people who live in rural areas can be very afraid of the perceived dangers of a big city . . . crime, traffic, strangers, etc. And as a corollary to that, many city dwellers can be exceedingly fearful of the risks to be found out in the country . . . wild animals, getting stranded, isolation, etc. This idiosyncrasy of human behavior is known as "familiarity bias" in that the risks with which we are most familiar appear less threatening to us while those risks with which we are less accustomed can be quite terrifying.

“ **This idiosyncrasy of human behavior is known as "familiarity bias"...** ”

In investments, one of the most well-researched examples of this familiarity heuristic is what is referred to as "home country bias". Home country bias is the condition by which investors show an

excessive preference for investments emanating from their home market over those opportunities found in other parts of the world. With this behavioral predisposition, domestic risks generally seem relatively tame because they are more



familiar when compared to those perils coming from overseas which are less well understood. While instinctual, home country bias could cause suboptimal decision-making by investors with possibly detrimental effects on their long-term investment results.

These days in particular, the flames of investors' home country bias are reasonably being fanned by a litany of worries that are coming from outside our borders . . . China trade disputes, Brexit, Hong Kong protests, slowing Chinese economy, stagnating European economy, declining Japanese population, Middle East tensions, terrorist threats, etc. Add to that the recent outperformance of the US stock market versus the rest of the world and it is quite understandable that US investors are currently beset by home country bias. However, because of this familiarity bias, investors may be making the behavioral mistake of focusing on the risks of investing internationally while overlooking the opportunities that can be found abroad.

“ **96% of the world's population is outside the United States.** ”

CONSIDER THE FOLLOWING:

- **96%** of the world's population is **outside the United States**.
- Amidst concerns for the greying US population with a median age of 38.2, the **median age** for the other 7.2 billion people on our planet is much **younger at 29.8**.
- While the US population growth is only 0.8% per year, the **population outside the US** is growing at **1.1%**.
- **85%** of the world's **economic production** (Gross Domestic Product) comes from **outside** the United States.
- The US may have the world's largest capital markets, but nevertheless **70% of the world's securities** (stocks and bonds) market value is found **outside** the United States.
- The US economy (real GDP) is likely to growing around 2.3% this year, but the **overall global economy outside** the US will grow about **3.5%**
- The US stock market is near its all-time highs, however International Developed as well as Emerging Market stock market indices are both still **20% below their 2007 all-time highs**.
- While there is growing concern that US stock market valuations (Price/Earnings, Price/Book, etc.) may be getting a little lofty, valuations of International **Developed and Emerging Market stock market indices trade at least a 25%** discount to their US peers. **Relative interest rate differentials** make these even more attractive.

Sources: CIA World Factbook, Standard & Poor's, MSCI, and Factset





Could that be why Jesus had to remind them several times about the importance of venturing into foreign lands? ”

WHILE WE DO NOT KNOW FOR SURE, IT IS POSSIBLE THAT THE DISCIPLES WERE ALSO WRESTLING with their own home country bias as they pondered what to do next with their lives as their physical time with Jesus came to an end. Could that be why Jesus had to remind them several times about the importance of venturing into foreign lands? Once, with the Great Commission (Matthew 28, Mark 16, and Luke 24) and again just prior to ascension (Acts 1), we see Jesus' instruction to go outside of their homeland. Even more so in today's global society, the Bible's instruction to go out into the world with the Gospel still applies. And as scary as it can be, we must go. Likewise, it can be scary at times like these to consider investing outside of our home country, and although not a direct command from scripture, wisdom compels us not to let fear hold us back from making the right choice!

Therefore, getting practical, as a general rule, it makes prudent investment sense to allocate between 25% – 50% of one's equity exposure to International Developed and Emerging Market stocks. For example, if an investor's overall portfolio allocation to equities is 60%, then 25% – 50% of that 60% should be allocated to international and emerging market stocks, i.e. 15% – 30% of the entire portfolio.

Go ye therefore into all the world!



Dr. Erik Davidson, DBA, CFA
Chief Economic Advisor
INSPIRE INVESTING



Dr. Erik Davidson, DBA, CFA, is the Chief Economic Advisor for Inspire Investing. Previously, Dr. Davidson served as Chief Investment Officer for Wells Fargo Private Bank, overseeing more than \$200B in assets. Davidson holds a doctorate degree from the DePaul University Graduate School of Business with a dissertation in the area of Behavioral Finance.

Advisory services are offered through CWM Advisors, LLC. dba Inspire, a Registered Investment Adviser with the SEC.