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"Investing Over There"

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The following Commentary discusses investing in international equities, including emerging markets. Such investing carries different risks than investing domestically. The main risks of international and emerging market investing are currency fluctuations, differences in accounting methods; foreign taxation; economic, political or financial instability; lack of timely or reliable information; or unfavorable political or legal developments. While we believe there are numerous opportunities, we understand that allocations to developed international and emerging market equities will vary depending upon the needs and interests of the client.

2013 was a big year for U.S. stocks. The S&P 500 was up 32.4%, and the DOW jumped over 23%. Even the EAFE index (Europe, Australia, and the Far East) had a respectable 23.3% gain. But Emerging Markets (e.g. China, Indonesia, Brazil) were *down* 2.3%, after being up 18% in 2012, and losing 18% in 2011 (source, MSCI.com). Given this volatility, the relative underperformance of emerging markets, recent news about China's growth slowing, and the financial problems in Argentina, Venezuela and other emerging economies, you might wonder why we think it could be a fine time to invest overseas (please read our disclosure at the beginning of this Commentary).

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You see, we take the long view of investing, certainly longer than the life of headline news items. If you reposition your overseas allocation every time the news reports a potential currency crisis, aggressive posturing by North Korea, or rising tensions in the Middle East . . . you'll spend half of every day overturning your accounts, and you'll probably be worse off.

By stepping back and looking at global, macro, longer range factors and catalysts, we feel the picture for investing "over there" is compelling. Now, a word about "longer term" investing: we know that some of you get sick and tired of hearing about "invest for the long term". You feel, "Heck . . . I don't have a long term!" Our answer is simply that we are mindful that many people live into their 90s, and that almost all of our clients have decades to invest. We'd be poor advisors if we didn't take this into consideration in managing accounts.

Looking abroad, investment opportunities abound. Some because companies are undervalued; some because new technologies are taking hold; some due to government spending and monetary policies; and many more due to the global rise of a consumer class of wage earners.

For a moment, consider consumer purchasing. The U.S. is an example of a developed, mature economy in which almost 2/3 of our economic growth is driven by people buying stuff. Look around you. Everything you see in your home or your office was purchased from a company with employees who made that item, and because you bought it, they earn a wage, and now *they* can go out and spend it on something someone else made. That's the backbone of the economy, and the more of this that happens, the more the economy grows (a little simplistic, we know).

Consider, then, that most *less* developed countries (the majority of global population) have citizens who desire many of the same comforts and amenities we have . . . some as basic as good, nutritional food, and some as upscale as a ring from Tiffany's or a bag from Coach. Couple this desire for lifestyle enhancing goods and products with the fact that many, many countries are experiencing huge wage growth for the working class. The result, we believe, is a long term trend of increasing consumer growth (as a percent of GDP) among emerging markets.

According to The Economist Intelligence Unit ("EIU", a research arm of The Economist) the median household income in China is expected to grow 450% by 2030; 435% in India; 300% in Indonesia; and 280% in Malaysia. Just these four countries have a combined population of almost 3 billion today. Another EIU report ("Retail 2022") estimates that China, alone, will account for 25% of global retail sales by 2022, *twice* that of the U.S. Yes, our overseas neighbors will do a whole lot of buying, and there are and will be chances for the U.S. investor to capitalize on this decades-long buying spree.

We don't want to give you the impression that the only overseas investment prospects we see reside in the emerging economies with growing populations and wages. Even in Europe, sorely troubled through the financial crisis, and slow to recover . . . there are companies growing their profits, gaining market share, and whose stock prices may represent bargains. The best professional investment managers tell us that they invest in "companies, not countries". So, even though Greece or Italy may have high unemployment and very slow growth, there may well be worthwhile companies domiciled there and which have good global growth prospects at an attractive valuation. According to the 2014 Outlook by Oppenheimer Funds, European stocks are 30% undervalued using historical standards (FactSet).

By presenting you with this brief case for international investing remaining a part of your plan (depending upon your own unique circumstances) we are not saying you need to throw out your U.S. stock allocation and divert that overseas. What we want investors to consider is the big picture, the long game. You will no doubt find, weekly, reasons to turn away from international investing, and we agree that it isn't for the faint of heart. Some of these markets, stocks, and countries are highly volatile . . . but you're not likely to be successful by jumping in and out of them.

This is why we favor a disciplined approach, and one that tries to be a little more cerebral than some of the headline news bites. We generally favor an "active management" approach to investing abroad, wherein the management team is sifting through local companies and trying to find those to embrace and those to avoid, when to buy and when to sell . . . versus a more passive approach of buying a basket of stocks which may be country or sector specific. You can occasionally get too many bad apples in that basket.

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We are in one of those periods where it pays to be selective when it comes to overseas stocks. Things will be different from country to country, maybe even entire regions, so having your investment professionals "on the ground" in those countries can give you an edge.

Globally, the persistent movement toward more democracy and the lowering of barriers to trade bodes very well for international investing, in our minds. It will be a difficult and bumpy ride from time to time . . . certainly more volatile than investing solely domestically.

But keep in mind that over the next 10-15 years and far beyond, we will see working populations of billions from Eastern Europe, to Africa and throughout Asia spending wages that may increase by 300-400% over the next few years. They will buy not just from the great global companies of the developed economies (Coca-Cola, Tiffany's, Caterpillar, and Mercedes Benz) but from great and growing companies in their own regions . . . regions that continue economic growth that is at least twice ours (J. P. Morgan Global Economic Research).

We take this future very seriously with our clients, and believe that those who shy from investing "over there" may miss significant opportunities. Each investor is different, with different objectives. But globalizing a portfolio is a conversation worth having.

Craig Pulliam and Michael Comstock are CERTIFIED FINANCIAL PLANNER™ professionals practicing at 112 Westwood Place, Suite 310 Brentwood, TN. They own Premier Asset Management and are registered representatives and investment adviser representatives with/and offer securities and advisory services through Commonwealth Financial Network: a Registered Investment Adviser, Member FINRA, SIPC. Fixed insurance products and services offered by Premier Asset Management are separate and unrelated to Commonwealth.

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