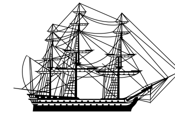


HEADLINE RISK

Overcoming biases against global stock investing

Investors faced with bad economic or financial market news are well-served when they maintain long-term perspectives. Remember that:

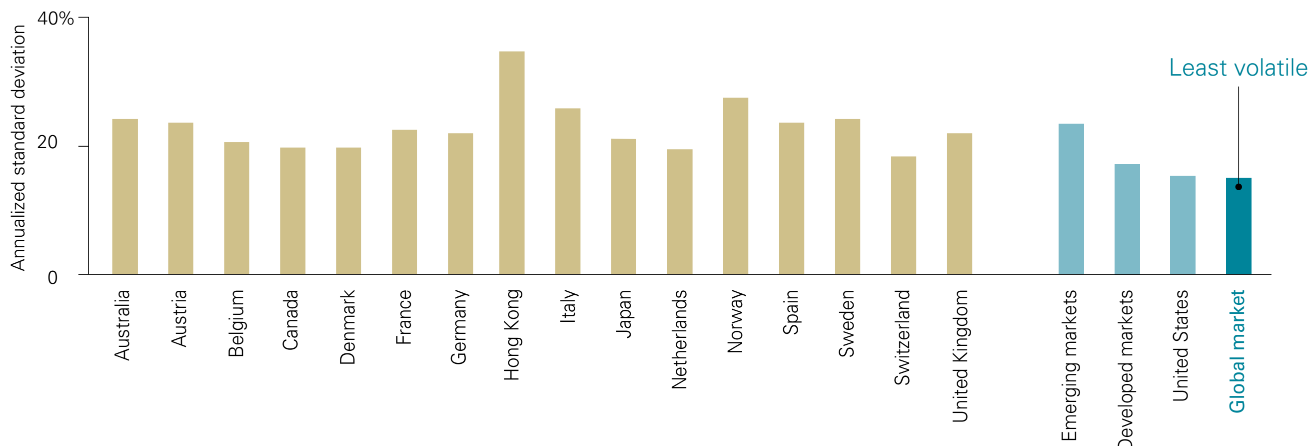
- If there were no risk, potential investment rewards would be small, or nonexistent. "Risk-free" assets typically offer only modest returns.
- Markets can change rapidly in response to news, accounting for much of the difficulty in timing trades in an effort to beat broad-market averages.
- News providers naturally have a short-term focus. Investors' horizons should be more akin to those of historians—years or even decades long.

If you look beyond headline risk, you can realize that, historically:

- Global stock market indexes have been less volatile than most national indexes.
- Investing part of a stock portfolio in international markets has reduced volatility relative to a 100% U.S. stock portfolio.

Historically less volatile: A global approach to stocks

Volatility of returns for country and regional indexes, 1970–2014



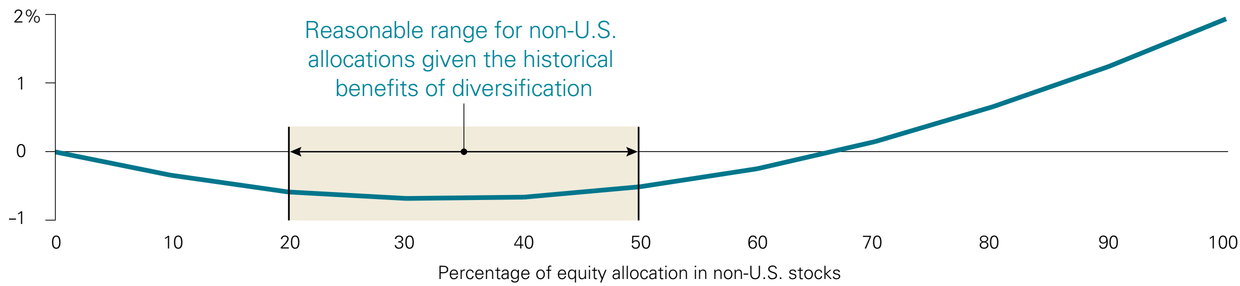
Notes: A statistical measure such as standard deviation is a common way of describing volatility. Standard deviation captures the dispersion of returns for a given security or market index. Country volatility levels reflect the performance of MSCI country indexes. Emerging markets are represented by the MSCI Emerging Markets Index. Developed markets are represented by the MSCI World Index ex USA. The global market is represented by the MSCI World Index until 1987 and the MSCI All Country World Index thereafter. Emerging markets data begin in 1988.

Past performance is no guarantee of future results. The performance of an index is not an exact representation of any particular investment, since you cannot invest directly in an index.

Source: Thomson Reuters Datastream.

Diversification in action

Average annualized change in portfolio volatility when adding non-U.S. stocks to a 100% U.S. portfolio, 1970–2014



Notes: Volatility is measured by the standard deviation of total returns. Standard deviation captures the dispersion of returns for a given security or market index. Non-U.S. equities are represented by the MSCI World Index ex USA from 1970 through 1987 and the MSCI All Country World Index ex USA thereafter. U.S. stocks are represented by the MSCI USA Index.

Past performance is no guarantee of future results. The performance of an index is not an exact representation of any particular investment, since you cannot invest directly in an index.

Sources: Vanguard, using data from Thomson Reuters Datastream.

THE BOTTOM LINE

Investing globally enhances diversification and can help reduce portfolio risk.

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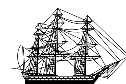

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All investments are subject to risk, including the possible loss of the money you invest.

Diversification does not ensure a profit or protect against a loss.

Investments in stocks issued by non-U.S. companies are subject to risks including country/regional risk and currency risk. Stocks of companies based in emerging markets are subject to national and regional political and economic risks and to the risk of currency fluctuations. These risks are especially high in emerging markets.

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