

# Home Bias and Global Diversification

By pursuing a globally diversified approach to investing, one doesn't have to attempt to pick winners to achieve a rewarding investment experience.

Every day we enjoy the benefits of an interconnected world. We might start our day with a cup of coffee that originated in South America, check our email on a smartphone designed in California and manufactured in Taiwan, then dress in clothes woven from Egyptian fabrics before driving a German-made car or riding in a French-built train to work.

As consumers, we rarely think twice about the benefits of access to the variety of goods the global market has to offer. Yet, as investors, we will often concentrate our portfolios in favour of our home market at the expense of global diversification. For example, while UK stock markets represent just six percent of the value of global equity markets, many UK investors tend to allocate around a third of their equity assets to domestic stocks.<sup>11</sup> This phenomenon, which can be observed across countries around the world, is known in the investment community as “home-country bias.”

Given that certain frictions may be associated with investing abroad, a home-country bias may make sense for an investor in certain cases. In general, however, neglecting the benefits that global diversification has to offer may increase risks and decrease the investment opportunity set.

As **Exhibit 1** illustrates, 13 different developed countries (out of 21) had the best-performing equity market in a given calendar year for the 20 years ended in December 2016, and no country had the best-performing market for more than two consecutive years.

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1. Willis Towers Watson, Global Pension Assets Study 2017.

**Exhibit 1. Equity Returns of Developed Markets  
Annual Return (%)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
HIGH	Switzerland 50.0	Finland 119.2	Finland 160.8	Switzerland 14.2	New Zealand 11.3	New Zealand 12.3	Sweden 48.0	Austria 59.9	Canada 43.5	Spain 31.0	Finland 46.2	Japan -2.0	Norway 66.6	Sweden 38.0	Ireland 14.6	Belgium 33.4	Finland 43.3	USA 19.7	Denmark 30.6	Canada 48.6
	Italy 40.9	Belgium 65.9	Singapore 105.8	Canada 13.7	Australia 4.4	Austria 5.4	Germany 47.3	Norway 42.9	Japan 40.4	Ireland 28.8	Hong Kong 38.8	Switzerland -3.8	Australia 57.1	Denmark 34.8	New Zealand 6.3	Denmark 25.5	Ireland 38.5	New Zealand 14.0	Ireland 23.2	New Zealand 41.2
	Denmark 39.9	Italy 50.8	Sweden 85.5	Denmark 11.6	Ireland -0.2	Australia -10.8	Spain 42.5	Belgium 33.8	Austria 39.4	Singapore 28.7	Germany 32.9	USA -13.6	Singapore 54.9	Hong Kong 27.1	USA 2.1	Singapore 25.2	USA 29.3	Denmark 12.8	Belgium 18.6	Norway 35.2
	USA 38.7	Spain 48.2	Japan 66.7	Norway 6.9	Austria -3.2	Norway -16.2	Austria 41.2	Ireland 33.4	Denmark 39.2	Norway 27.3	Norway 29.2	Spain -17.8	Sweden 46.2	Singapore 26.0	UK -1.8	Germany 25.2	Germany 28.9	Hong Kong 11.6	Japan 15.9	Australia 32.9
	Spain 30.4	France 40.0	Hong Kong 64.7	Italy 6.5	Belgium -8.5	Italy -16.2	New Zealand 39.8	Sweden 27.1	Norway 39.0	Sweden 25.8	Canada 27.4	France -21.5	Hong Kong 42.6	Canada 24.2	Switzerland -6.1	New Zealand 23.6	Spain 28.9	Belgium 10.6	Austria 9.5	Austria 32.7
	Germany 29.6	Ireland 33.8	Canada 58.7	Netherlands 3.5	Spain -9.0	Japan -18.9	Canada 39.0	New Zealand 26.0	Finland 30.5	Denmark 21.7	Singapore 26.2	Canada -24.6	Belgium 40.2	Japan 19.1	Norway -9.3	Hong Kong 22.6	Netherlands 28.9	Singapore 9.4	Italy 8.2	USA 32.3
	Netherlands 28.7	USA 28.7	Norway 35.9	France 3.2	Norway -9.9	Switzerland -18.9	Australia 34.4	Italy 23.5	Switzerland 30.1	Belgium 19.9	Australia 26.2	Germany -25.1	Canada 39.1	USA 18.4	Belgium -10.0	Austria 20.4	Belgium 25.2	Ireland 8.7	Finland 7.9	France 25.1
	UK 27.5	Germany 28.0	France 33.4	Australia -2.8	USA -10.1	Singapore -19.6	Denmark 34.2	Denmark 22.0	Australia 29.7	Austria 19.8	Denmark 23.5	Singapore -27.1	New Zealand 33.9	Australia 18.1	Australia -10.3	Australia 16.7	Japan 24.8	Canada 7.8	Netherlands 7.2	Netherlands 25.0
	Finland 22.0	Switzerland 22.2	USA 25.9	UK -4.5	UK -11.8	Canada -21.5	Norway 33.2	Australia 21.5	Singapore 27.9	Germany 19.3	Spain 21.9	Denmark -27.4	Spain 27.7	Switzerland 15.3	Netherlands -11.5	Sweden 16.6	Switzerland 24.3	Switzerland 6.1	USA 6.5	Germany 22.6
	Ireland 20.5	Netherlands 21.9	Germany 23.9	Austria -5.0	Denmark -12.6	Belgium -23.1	Ireland 29.4	Spain 20.2	Netherlands 27.3	France 18.0	Netherlands 18.6	Netherlands -28.3	UK 27.6	Norway 14.4	Spain -11.6	France 16.0	France 24.0	Finland 5.5	Switzerland 6.3	Japan 22.1
RETURNS	Belgium 18.1	UK 16.5	Australia 21.4	Ireland -5.8	Hong Kong -16.5	UK -23.4	France 26.1	Hong Kong 16.5	Sweden 23.4	Italy 16.2	France 11.3	UK -28.5	Austria 27.5	Finland 13.8	Canada -12.1	Netherlands 15.3	Denmark 22.9	Australia 2.6	France 5.7	Hong Kong 22.0
	Sweden 17.4	Switzerland 12.7	New Zealand 16.5	USA -6.0	Canada -18.3	Spain -23.4	Hong Kong 24.2	Singapore 14.0	Germany 22.9	Netherlands 15.2	New Zealand 7.1	Sweden -30.6	Netherlands 26.7	Austria 13.3	Japan -13.7	Switzerland 15.1	Sweden 22.2	Netherlands 2.5	Hong Kong 5.2	Singapore 21.0
	Canada 17.3	Denmark 7.8	UK 16.1	Finland -7.4	Switzerland -19.3	Denmark -24.1	Italy 24.0	Canada 13.9	France 22.9	Australia 14.8	UK 6.5	Italy -30.7	Denmark 21.6	UK 12.2	Sweden -15.4	Norway 13.4	UK 18.4	Japan 1.9	Germany 3.8	Sweden 20.0
	France 16.4	Australia 4.9	Denmark 15.7	Hong Kong -8.0	Netherlands -20.0	Hong Kong -25.7	Singapore 23.7	UK 11.5	Belgium 22.0	UK 14.6	Italy 4.3	Australia -31.7	France 17.4	Germany 11.8	Denmark -15.4	USA 10.3	Italy 18.2	Spain 1.3	Sweden 0.5	UK 19.2
	Norway 10.5	Japan 3.9	Netherlands 10.3	Germany -8.9	France -20.3	Netherlands -28.4	Japan 22.2	France 10.5	Hong Kong 21.2	Hong Kong 14.3	USA 3.7	Hong Kong -32.4	Italy 12.7	New Zealand 11.7	Hong Kong -15.4	UK 10.2	Austria 11.3	UK 0.5	New Zealand -0.8	Spain 18.1
	Austria 5.6	Australia -0.8	Spain 8.2	Spain -9.2	Germany -20.3	France -28.7	Germany 21.7	Germany 8.3	UK 20.1	Finland 14.0	Switzerland 3.5	New Zealand -36.0	USA 12.4	Netherlands 4.9	France -16.3	UK 9.5	New Zealand 9.2	Sweden -1.8	UK -2.2	Finland 13.7
	Australia -6.9	Hong Kong -4.0	Italy 3.0	Belgium -10.3	Singapore -21.4	USA -30.5	Switzerland 20.6	Japan 8.0	USA 17.6	Switzerland 11.8	Austria 0.5	Finland -37.9	Switzerland 11.6	Belgium 2.7	Singapore -17.3	Italy 7.5	Hong Kong 9.0	Italy -3.9	Australia -4.7	Switzerland 13.5
	New Zealand -10.7	Canada -7.2	Switzerland -4.0	Sweden -15.1	Italy -24.7	Ireland -33.3	UK 18.8	Switzerland 7.2	Spain 16.8	Canada 3.3	Sweden -1.1	Norway -50.5	Germany 11.4	France -1.1	Germany -17.5	Canada 4.3	Norway 7.4	France -4.3	Norway -10.1	Ireland 10.8
	Hong Kong -20.2	Singapore -13.8	Austria -6.2	Singapore -22.0	Sweden -25.3	Finland -37.0	USA 15.5	Netherlands 4.7	Italy 14.0	New Zealand 2.2	Belgium -4.4	Belgium -53.6	Ireland -0.0	Italy -12.3	Italy -22.6	Japan 3.4	Canada 3.7	Germany -4.8	Spain -10.8	Belgium 10.3
	Japan -20.6	New Zealand -23.5	Ireland -9.8	Japan -22.5	Japan -27.5	Sweden -37.2	Netherlands 15.2	USA 2.7	New Zealand 13.8	USA 0.6	Japan -5.8	Austria -56.3	Finland -1.0	Ireland -15.5	Finland -31.4	Ireland 1.1	Australia 2.2	Norway -17.2	Singapore -12.9	Italy 6.8
LOW	Singapore -27.2	Norway -30.8	Belgium -11.5	New Zealand -28.3	Finland -36.5	Germany -39.6	Finland 7.4	Finland -1.0	Ireland 9.3	Japan -6.8	Ireland -21.4	Ireland -61.1	Japan -5.4	Spain -19.5	Austria -36.0	Spain -1.5	Singapore -0.2	Austria -25.4	Canada -19.8	Denmark 0.5

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Past performance is not a guarantee of future results.

This trend was also observable in emerging markets. As **Exhibit 2** illustrates, 13 different emerging market countries (out of 20) had the best-performing market in a given year, and no country had the best-performing market in consecutive years.

This data shows that it is difficult to know which markets will outperform from year to year. By holding a globally diversified portfolio, investors are instead well positioned to capture returns wherever they occur.

**Exhibit 2. Equity Returns of Emerging Markets  
Annual Return (%)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
HIGH	Turkey 126.8	Korea 138.5	Turkey 263.8	Czech Rep. 9.6	Russia 60.0	Czech Rep. 30.3	Thailand 119.9	Colombia 117.2	Egypt 192.5	China 60.4	Peru 91.5	Colombia 3.7	Brazil 103.5	Thailand 61.2	Indonesia 7.3	Turkey 57.6	Taiwan 7.7	Egypt 37.4	Hungary 44.2	Brazil 98.9
	Russia 120.6	Philippines 12.2	Russia 258.3	Poland 3.5	Korea 52.6	Indonesia 29.1	Turkey 103.1	Egypt 110.9	Colombia 132.1	Indonesia 53.4	Brazil 77.0	Chile -10.5	Indonesia 102.7	Peru 58.2	Malaysia 0.9	Philippines 41.1	Egypt 6.2	Indonesia 35.1	Russia 11.1	Russia 86.0
	Hungary 103.0	Thailand 10.3	Malaysia 121.3	Brazil -4.4	Colombia 49.6	Hungary 18.1	Brazil 93.4	Hungary 79.5	Russia 94.3	Peru 42.6	Turkey 71.9	South Africa -14.0	Russia 82.4	Chile 49.4	Philippines 0.8	Egypt 40.6	Malaysia 5.7	Philippines 34.3	India -0.7	Peru 85.6
	Mexico 60.1	Czech Rep. -0.6	Indonesia 99.7	Chile -8.4	Peru 23.1	Peru 18.0	Peru 74.7	Czech Rep. 74.6	Korea 76.7	Philippines 40.0	India 70.2	Peru -17.1	India 80.6	Colombia 47.9	Thailand -1.7	Poland 34.8	Korea 2.2	India 31.6	Philippines -0.8	Hungary 61.5
	Colombia 47.4	Poland -7.7	Korea 98.6	Malaysia -9.3	Mexico 21.7	South Africa 15.7	Egypt 72.5	Poland 50.6	Brazil 75.6	Russia 36.8	China 63.4	Malaysia -18.6	Turkey 76.7	Malaysia 41.3	Czech Rep. -4.3	Colombia 29.9	China 2.0	Turkey 26.5	Korea -0.9	Thailand 51.5
	Egypt 36.5	Hungary -9.2	Egypt 94.5	South Africa -10.7	Taiwan 13.4	Thailand 15.3	China 68.7	Indonesia 41.9	Turkey 75.5	India 32.5	India 55.8	South Africa -20.7	Chile 66.2	Philippines 39.8	Colombia -4.3	Thailand 29.0	Poland 1.7	Thailand 24.1	China -2.3	Colombia 50.9
	Brazil 32.4	Taiwan -21.5	India 93.4	Mexico -14.2	Thailand 8.0	Colombia 13.3	Chile 65.8	Mexico 38.3	Mexico 66.8	Brazil 27.9	Czech Rep. 53.3	Mexico -21.0	Colombia 64.1	Indonesia 38.9	Korea -11.1	Mexico 23.4	Russia -0.5	Peru 17.4	Taiwan -5.8	Taiwan 42.6
	Peru 25.3	India -22.1	Mexico 85.9	India -15.6	Malaysia 7.3	Russia 4.6	India 60.4	South Africa 35.1	Czech Rep. 63.5	Poland 24.5	Indonesia 52.4	Taiwan -25.1	Taiwan 60.5	South Africa 38.4	Mexico -11.5	India 20.4	Mexico -1.6	Taiwan 16.9	Mexico -9.3	South Africa 41.2
	India 15.7	Egypt -27.8	Brazil 72.6	Peru -17.8	Czech Rep. 0.6	Korea -1.8	Indonesia 60.3	Turkey 32.4	India 53.9	Mexico 24.1	Thailand 44.2	Thailand -28.4	Hungary 58.1	Mexico 31.6	South Africa -13.7	China 17.7	Philippines -3.8	China 15.0	Czech Rep. -11.7	Indonesia 40.2
	Chile 9.8	South Africa -28.4	South Africa 62.3	Hungary -21.0	Chile -0.3	India -2.0	Russia 58.2	Brazil 27.2	Peru 51.0	Malaysia 20.3	Malaysia 43.6	China -31.9	Thailand 57.9	Korea 31.1	China -17.6	Hungary 17.4	India -5.6	South Africa 12.3	Chile -12.0	Chile 39.3
	Taiwan -2.5	Chile -29.3	Taiwan 57.6	Russia -24.5	Indonesia -6.1	Egypt -8.2	Colombia 50.1	Chile 20.3	South Africa 43.5	Czech Rep. 18.1	Philippines 39.3	Philippines -33.4	Korea 53.2	Taiwan 26.6	Russia -18.7	Korea 16.1	South Africa -7.5	Czech Rep. 3.6	Indonesia -14.4	Korea 30.3
	South Africa -4.5	Malaysia -31.6	Thailand 51.9	China -25.1	Hungary -6.8	Poland -8.5	Czech Rep. 49.5	Philippines 18.0	Poland 39.7	Hungary 17.3	Korea 30.4	Egypt -34.0	Peru 53.2	Turkey 25.1	Chile -19.4	Peru 15.0	Hungary -7.6	Mexico -3.6	Malaysia -15.4	China 20.6
	Poland -19.3	Indonesia -32.3	Chile 43.5	Colombia -34.0	Brazil -14.8	Malaysia -10.2	South Africa 31.2	Korea 14.6	Philippines 38.6	Chile 13.4	Poland 20.7	Poland -37.0	Philippines 49.6	India 24.8	Taiwan -19.6	South Africa 13.8	Czech Rep. -9.8	Malaysia -5.1	Thailand -18.9	Poland 20.1
	Czech Rep. -19.6	Mexico -34.3	Poland 35.8	Egypt -39.3	South Africa -15.0	Mexico -21.6	Philippines 28.4	India 11.1	Chile 36.0	Taiwan 6.1	Russia 22.7	Korea -37.8	China 44.8	Russia 23.2	Peru -20.8	Taiwan 12.5	Thailand -15.9	Korea -5.1	Egypt -19.1	India 17.6
	China -22.3	Brazil -40.3	Peru 22.7	Taiwan -40.5	Philippines -17.2	China -22.3	Taiwan 28.2	Malaysia 7.4	China 33.9	South Africa 5.7	Chile 21.6	Brazil -39.2	South Africa 40.5	Poland 19.5	Brazil -21.0	Russia 9.4	Brazil -17.4	Chile -6.7	Poland -20.6	Czech Rep. 16.4
	Philippines -61.1	Peru -40.9	China 17.0	Philippines -40.7	India -17.3	Chile -27.5	Korea 22.3	Taiwan 2.4	Hungary 32.5	Egypt 2.7	South Africa 16.2	Indonesia -39.4	Mexico 39.5	Egypt 16.0	Poland -29.0	Malaysia 9.2	Colombia -22.6	Poland -8.2	South Africa -20.8	Malaysia 14.6
	Korea -65.3	Colombia -42.4	Hungary 15.3	Turkey -41.4	China -22.7	Taiwan -31.7	Poland 21.8	Russia -1.5	Indonesia 29.5	Colombia -0.2	Hungary 14.8	Hungary -46.7	Malaysia 35.4	Brazil 10.2	Hungary -33.2	Chile 3.6	Chile -22.9	Brazil -8.4	Turkey -27.6	Philippines 12.0
	Malaysia -66.7	China -43.0	Czech Rep. 8.8	Korea -45.6	Poland -25.5	Philippines -35.8	Mexico 19.4	Peru -3.8	Thailand 22.1	Korea -0.7	Colombia 13.1	Turkey -47.5	Poland 26.9	China 8.1	Taiwan -34.7	Indonesia 0.6	Indonesia -24.5	Colombia -14.8	Peru -27.7	Turkey 9.6
	Thailand -72.4	Turkey -53.0	Philippines 6.7	Thailand -52.8	Turkey -30.9	Brazil -37.3	Hungary 19.0	China -5.0	Taiwan 19.9	Thailand -2.1	Mexico 10.3	India -51.0	Egypt 24.4	Czech Rep. 1.4	India -36.7	Czech Rep. -1.1	Turkey -27.9	Hungary -22.9	Brazil -37.8	Mexico 8.6
LOW	Indonesia -73.0	Russia -83.2	Colombia -11.6	Indonesia -58.9	Egypt -39.7	Turkey -41.9	Malaysia 13.9	Thailand -7.6	Malaysia 14.4	Turkey -18.4	Taiwan 7.3	Russia -63.8	Czech Rep. 13.8	Hungary -6.7	Egypt -46.5	Brazil -4.1	Peru -31.1	Russia -42.5	Colombia -38.4	Egypt 5.7

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Clearly, attempting to pick only winning markets in any given period is a challenging proposition. By pursuing a globally diversified approach to investing, one doesn't have to attempt to pick winners to achieve a rewarding investment experience. By expanding the investment opportunity set beyond their domestic stock market, investors can help increase the reliability of outcomes. Thus, investors can be confident that a globally diversified portfolio will hold the best (and worst) performing countries each year.

**Do not act on this information alone! Always seek independent financial advice before taking any action.**

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