

International Investing

A diversified portfolio is critical in efficiently creating a portfolio with robust return and minimal risk. Diversification, especially with investments in different asset classes and sectors, helps to ensure your portfolio isn't banking on the success of just a few good stock picks.

When you invest in assets that don't move based on the same economic factors (non-correlated), your money should be able to withstand economic resistance on multiple fronts. One way to diversify a portfolio within the equity (stocks) asset class is to ensure a portion of those investments are driven by international factors. Although the global economy is becoming increasingly interdependent, the rates of return from companies with different geographical locations can still be very different.

How to Gain Exposure

As Exchange Traded Funds (ETFs) have become more commonplace, the steps that investors must take to gain access to international markets has become easier. ETFs normally have low investment thresholds and minimal fees, making them attractive for those with less investable assets. Certain barriers still exist, and the exposure to certain markets that can be gained through both ETFs and mutual funds can be limited in some cases. Fees should be a consideration when investing in ETFs, but it is likely that those fees would be less than the transaction costs associated with building a custom basket of international investments.

An indirect way of gaining exposure to international markets is by investing in U.S. companies with foreign exposure. For instance, the insurance company Aflac recently generated as much as 75 percent of revenues and profits from its operations in Japan. To gain more direct access to these markets, investors can purchase

American Depository Receipts (ADRs). ADRs are stocks of foreign companies that are listed in U.S.

markets. These companies provide exposure to international factors, but do not have all of the same risk factors as other companies that do not offer their stock in the United States. Additionally, it is possible to trade on foreign exchanges (in certain countries). However, there are a number of barriers that can make this difficult or even impossible, such as language differences, trading procedures, time zones and more. For these reasons, most investors will fare better using a professional money manager with international expertise, or investing indirectly through vehicles such as ETFs and mutual funds.



Emerging and Developed Markets

Many investors tend to think of emerging markets when confronted with international investing. While these markets are an important part of a diversified portfolio, it is important to remember foreign developed markets such as Europe and Japan. Developed markets tend to perform more like the United States, but add diversification through reduced correlation. Developed markets are also similar to the United States in that there is easy access to available information, developed accounting standards and investor protection. The lack of these three factors is something that can add to the risk of investing in emerging markets. These, and other additional risks, are part of the reason that investors require a higher rate of return for investing in emerging markets.

Risks

The objective of including international investments in a portfolio is to increase return, decrease risk or both.

Depending on the geographical market, there may be additional risks that the investor must withstand besides simple investment risk, such as the following:

- **Currency risk.** If an investment in a foreign market is made in the foreign market's currency, then currency risk exists. This is the likelihood that the investment will lose value because the exchange rate is negatively affected.
- **Increased correlation of international markets.** As global markets have become more intertwined, their movements have become increasingly more similar. While this is an important trend to follow, the relatively low correlations still provide a useful diversification benefit.
- **Political risk.** There are many developed markets outside the United States, especially in Europe, that have very low additional foreign risk. However, in economies that are just starting to grow, there can be substantial political risk. Many emerging markets have suffered from political, economic or monetary problems that negatively affect the value of their investments.

Things to Remember

- International investing reduces risk because there is not perfect correlation between markets in different countries.
- Emerging markets can be an important part of a global investment portfolio, but it is important to remember the role that other developed markets play.
- As more foreign markets continue to move from emerging to developed status, more opportunities will become available for international investing.



More on diversification:

Even though diversification can reduce portfolio risk by using unrelated assets, it cannot eliminate it. All investments are affected by their market. Dangers to the overall market are referred to as “systematic risk.” If there is an economic crash, diversification disappears – every asset becomes tied to the collapse and they all drop. All investors need to accept that systematic risk can never be completely avoided.

the August market

at a glance



U.S. Large Cap
(S&P 500)

2,170.95

0.12%



U.S. Mid/Small
(Russell 2000 Index)

1,239.91

1.64%



Foreign Large
(NYSE International 100)

4,849.29

0.82%



Bond Market
(Barclays US Aggregate)

2,038.18

0.18%

August 2016 market data

in action

- The Bureau of Economic Analysis reports that personal consumer expenditures increased by 0.3 percent in July, hitting analyst consensus and indicating growing strength among U.S. consumers.
- The European Commission rules that Apple Inc. owes \$14.5B in back taxes for its business operations in Ireland. The claim was quickly rejected by both Ireland and Apple, which brokered a favorable tax relationship when Apple selected the country as the location for its European headquarters.
- The Japanese government approves another stimulus package: \$73B in new and increased government spending. Many analysts were unimpressed by the program; Japan has spent hundreds of billions of dollars in monetary and fiscal stimulus in recent years in failed efforts to end decades of slow economic growth.
- A number of healthcare insurers—including major players Aetna Inc. and United HealthCare Services, Inc.—announce plans to exit many unprofitable Affordable Care Act (“Obamacare”) marketplaces. The departures are expected to sharply decrease competition in many markets, potentially leading to greater health insurance costs.
- Wal-Mart Stores Inc. purchases online retailer Jet.com Inc. for \$3.3B in an attempt to combine and enhance the companies’ individual efforts to compete with Amazon.com.
- Department store Macy’s tops analyst expectations for Q2 but announces plans to close more than 100 store locations as it focuses on operations in only its most successful branches.
- The U.S. Department of Labor reports that nonfarm productivity fell at a 0.6 percent annualized rate in Q2 2016. This marks the third consecutive quarter of decreasing hourly output per worker—the longest stretch of quarterly declines since 1979.
- Technology giant Cisco Systems Inc. reveals a plan to reduce its global workforce by almost 7 percent, cutting approximately 5,500 positions from all over the world.

Estate planning checklist

Estate planning can be a daunting process, but by checking things off one at a time, you can ensure that important financial and medical decisions are carried out exactly as you wish. Use this checklist to give yourself and your family peace of mind knowing that you've crafted a thorough estate plan.



Yes No N/A

Have I met with my financial advisor and any legal professionals necessary to determine my estate planning needs?

Have I spoken to my family, friends and any beneficiaries about their role in my estate plan?

Do I own life insurance?

Is the policy up to date?

Have I created a last will and testament?

Does my last will and testament:

Clearly identify me as the testator?

Name an executor?

Name beneficiaries and specify the property each is to receive?

Name legal guardians for my dependents?

Include my signature as well as that of a notary?

Does my executor have access to all the documents he/she will need to carry out my will?

Have I created a living will?

Does my living will:

Designate medical durable power of attorney?

Designate legal durable power of attorney?

Include advance directives, such as organ donation specifications?

Include my signature and that of a notary?

Have I created a letter of instruction?

Does my letter of instruction:

Outline my funeral wishes?

List my personal information (Social Security number, driver's license number, important contacts, etc.)?

Include the location of valuable items such as spare keys or safe-deposit boxes and confidential information, such as security codes or passwords?

Include a complete list of my financial accounts?

Continued: **Estate planning checklist**

Yes No N/A

- Include copies and/or locations of valuable documents such as deeds, letter of instruction, birth/marriage/divorce certificates, will, living will, etc.?
- Include a list of any debts (credit card, loan payments, etc.)?
- Have I calculated my net worth and considered whether estate taxes will play a role in my planning?
- If so, have I come up with a strategy to minimize these taxes?
- Have I created a trust or trusts to hold any property I want to pass on?
- Have I considered my philanthropic wishes and established a plan to give money to charity if I so choose?
- Have I set up an account or plan to help my family cover funeral expenses?
- If applicable, have I created a business succession plan?
- Do I have a schedule set up to regularly check in with my financial advisor and legal professionals to re-evaluate my estate plan?

September

is a great month to . . .

September is National Preparedness Month. One of the key essentials to being prepared is a first aid kit. This basic tool is something every household should have. Does your family have one? Is it fully stocked?

Learn more about first aid kits and emergency preparedness at

[American Red Cross](#)

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