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## **LESSONS ON GLOBAL INVESTING**

Whenever our U.S. domestic stock markets perform at extraordinary levels, as we have experienced in the last ten years, the inevitable argument arises concerning the relevance of global investing. The facts however, suggest that two conclusions can be drawn from this recent ten-year period that underscore the need for global investing.

**GOVERNMENT POLICY MISSTEPS:** Misguided government policies can derail the strongest nations. A look at Japan, 1998 is a good example of how a superstar economy can succumb to poor fiscal and monetary policies.

Japan's economy is second only to the United States in capitalization (value of its corporate stock) and its standard of living. The Japanese 'owned' the 1980's. Remember when a Japanese company bought New York's Rockefeller Center in the mid-eighties?

The crack in the dike started in 1989. Bad loans within the banking sector began piling up, a symptom of an overextended economy. Japan's regulatory agency, the Ministry of Finance, failed to acknowledge these problems. The lack of policy reforms that would have helped the banks effectively deal with those bad loans became a contributing factor to the deep recession which ensued.

Only recently, in 1998, have meaningful policy reforms been enacted. After 10 years of no growth and devaluations, at times as much as -40%, Japan's economy appears to be awakening. How long it will take to jump-start the economy however, is anyone's guess.

We must keep the Japanese example in perspective, not as a negative reminder to stay away from global markets, but as a reminder of how little policy makers understand about the resolution of financial distress. Japan's political leaders may have stumbled this time around, but these same bureaucrats also brought a defeated post-World War II emerging market nation to become the second leading economic power in the world.

**HISTORICAL RETURNS ARE A POOR GUIDE TO INVESTING:** The second lesson to be drawn from the extraordinary returns of our U.S. domestic stock markets (since 1988) is that past performance is a poor guide

to future returns.

**How many times have you heard or read that phrase/warning?**

**If it is true, then why are so many investors jumping on the U.S. stock market band wagon at the same time withdrawing from the international markets? Making asset allocation decisions based on past performance is tantamount to rearview mirror investing that usually produces less than desirable results.**

**Not convinced? Let's use this rearview mirror strategy for this current 10-year period, which started in 1988, using data from the previous ten-year period (1978-1988) as a guide. For the decade ending December 31, 1987, U.S. equities averaged 15.4% per year while developed international equities averaged 22.8% per year. Using a rearview mirror strategy at the beginning of 1988 would have suggested an investor load up on international equities rather than U.S. equities. This strategy would have lead to disappointing results.**

**Chief Investment Officer Robert Ludwig of SEI Investments of Oaks, PA and SEI Investment Strategist Michael Hogan suggest the answer to this dilemma lies within the concept of global diversification.**

**World events here and abroad would indicate that no country is immune from misguided government policies or economic setbacks. The complex international landscape suggests that mistakes will happen again, sometimes through fault and other times without fault.**

**Either way, a globally balanced portfolio will be better suited to offset future downturns than a pure domestic portfolio, no matter how hot our markets may become.**

**For example, the second quarter of 1998 is so far proving to be a giveback period for all domestic equities. This is not a problem considering the returns for fiscal 1998 have been strong (+12% on average).**

**The emerging international markets have not yet recovered from last year's Asian currency crisis, but many funds that buy developed international equities are, on average, up about 17% this year, 5% higher than our outstanding U.S. equity returns.**

**Is this a short term aberration or the beginning of a secular trend? No one knows, but why guess? A globally diversified portfolio will protect and enhance the portfolio risk/return characteristics in either case.**

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