



STRATEGIC  
GLOBAL  
ADVISORS, LLC

# What Every Investor Needs to Know About Investing Internationally

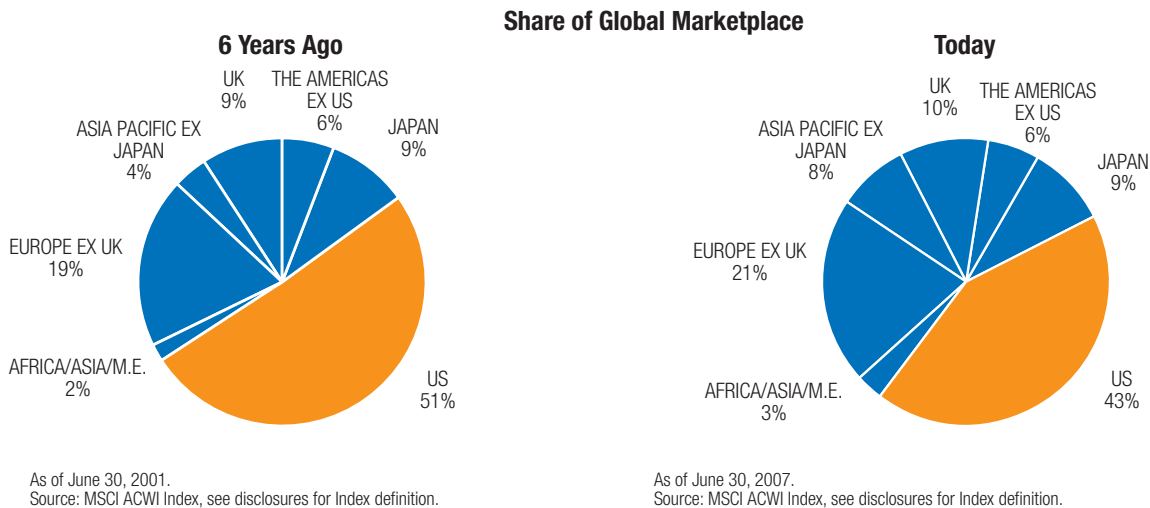


In this report, you will discover what every investor needs to know about international investing and the common myths that keep investors from investing abroad. Investors who are serious about diversification will diversify not only across stocks and industries but also across countries. Investors may find more, and often better, investment opportunities when they broaden their investments worldwide rather than when they limit themselves to only one country.



## Are You Ignoring Over Half of the World's Investment Opportunities?

The United States' share of the global marketplace, in terms of total market capitalization, is 43%. If U.S. investors wanted to benchmark the globe, their portfolios would have approximately a 57% exposure to foreign markets. The U.S. market share is shrinking as China, India and other emerging markets continue to grow.



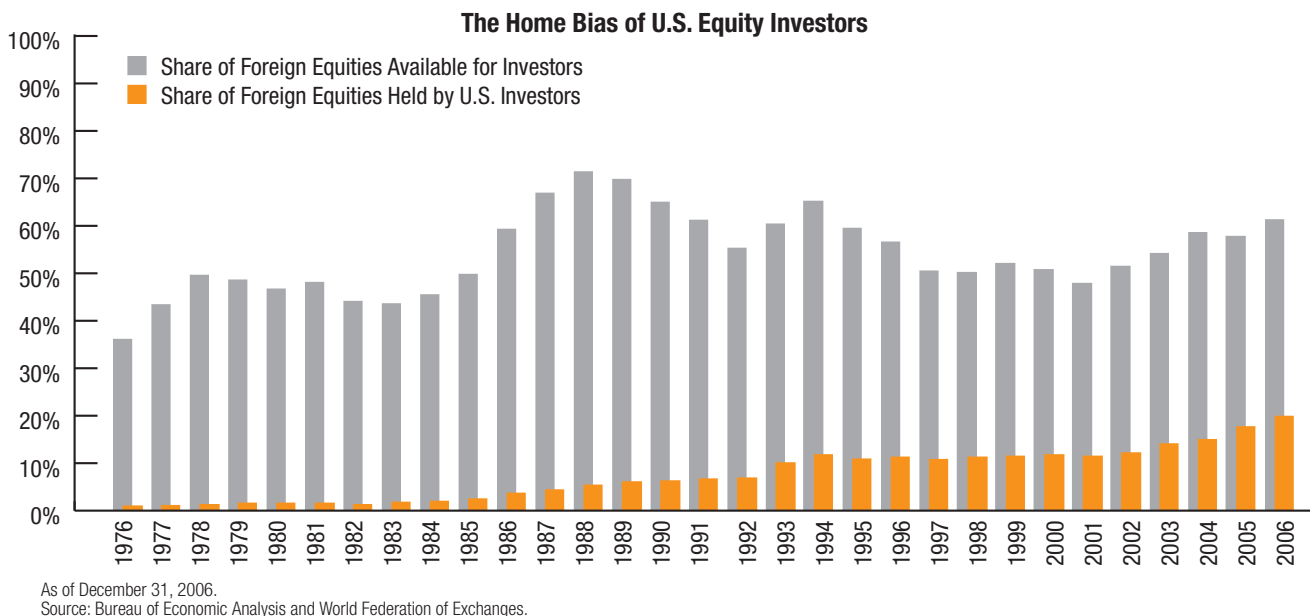
## Do You Suffer From "Home Bias"?

If you answer yes to any of the following questions, you may have a case of investor "home bias."

- Do you prefer to hold stocks that are located geographically close to you?
- Do you prefer to invest in companies that use your native tongue in company reports and whose CEO shares your cultural background?<sup>1</sup>
- Do you tend to buy telecom stocks that are located in your state, rather than a different state?

The tendency to invest locally occurs when investors know more about local industries and companies. "Home bias" can limit investors by preventing them from participating in worldwide investment opportunities.

As shown below, U.S. equity investors have historically invested with a strong home bias. This trend is slowly shifting as U.S. investors gradually increase their holdings of equities outside of the U.S.



## The Best Performing Stock Markets in the World Have Been Outside of the U.S.

Over the 10-year period, from 1997 to 2006, the U.S. equity market, as shown below, has been outperformed by foreign stock markets—and often by a substantial margin. The U.S. stock market has not been among the world’s top ten performing markets for over 5 years.

**Top Performing Markets' Total Rates of Return For Calendar Years (In U.S. Dollars)**

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
SWITZERLAND 44.8%	KOREA 141.1%	KOREA 92.4%	SWITZERLAND 6.4%	KOREA 48.7%	KOREA 8.6%	SWEDEN 66.1%	SWEDEN 37.3%	KOREA 58.0%	SPAIN 50.2%
ITALY 36.4%	ITALY 53.2%	SWEDEN 80.6%	CANADA 5.6%	TAIWAN 10.5%	AUSTRALIA -0.3%	GERMANY 64.8%	ITALY 33.9%	CANADA 28.9%	SWEDEN 4.6%
USA 34.1%	SPAIN 50.6%	JAPAN 61.8%	ITALY -0.8%	AUSTRALIA 2.7%	ITALY -6.3%	SPAIN 59.2%	AUSTRALIA 32.0%	JAPAN 25.6%	GERMANY 36.8%
SPAIN 26.2%	FRANCE 42.1%	HONG KONG 59.5%	NETHERLANDS 3.6%	SPAIN -11.0%	SWITZERLAND -10.0%	CANADA 55.4%	SPAIN 29.9%	AUSTRALIA 17.5%	FRANCE 35.4%
GERMANY 25.0%	USA 30.7%	CANADA 54.4%	FRANCE -4.1%	USA -12.0%	JAPAN -10.1%	AUSTRALIA 51.4%	HONG KONG 25.0%	SWITZERLAND 17.1%	ITALY 34.4%
NETHERLANDS 24.5%	GERMANY 29.9%	TAIWAN 52.7%	AUSTRALIA -9.1%	UK -14.0%	CANADA -11.0%	TAIWAN 42.5%	KOREA 22.9%	NETHERLANDS 14.9%	AUSTRALIA 32.5%
UK 22.6%	SWITZERLAND 24.1%	FRANCE 29.7%	UK -11.5%	HONG KONG -18.6%	SPAIN -14.9%	FRANCE 41.0%	CANADA 22.8%	SWEDEN 11.3%	NETHERLANDS 32.4%
SWEDEN 13.5%	NETHERLANDS 23.9%	USA 22.4%	USA -12.5%	CANADA -20.1%	UK -15.2%	ITALY 39.0%	UK 19.6%	FRANCE 10.6%	UK 30.7%
CANADA 13.3%	UK 17.8%	GERMANY 20.5%	HONG KONG -14.7%	SWITZERLAND 21.1%	HONG KONG -17.8%	HONG KONG 38.1%	FRANCE 19.2%	GERMANY 10.5%	HONG KONG 30.4%
FRANCE 12.4%	SWEDEN 14.5%	AUSTRALIA 18.7%	GERMANY -15.3%	NETHERLANDS -21.6%	NETHERLANDS -20.3%	JAPAN 36.2%	GERMANY 16.7%	HONG KONG 8.4%	SWITZERLAND 28.2%
TAIWAN -6.3%	AUSTRALIA 7.1%	UK 12.5%	SPAIN -15.5%	GERMANY -22.0%	FRANCE -20.8%	KOREA 35.9%	JAPAN 16.0%	UK 7.4%	TAIWAN 20.9%
AUSTRALIA -9.5%	JAPAN 5.2%	NETHERLANDS 7.4%	SWEDEN -21.0%	FRANCE -22.1%	USA -22.7%	SWITZERLAND 35.0%	SWITZERLAND 15.6%	TAIWAN 7.3%	CANADA 18.4%
HONG KONG -23.3%	HONG KONG -2.9%	SPAIN 5.3%	JAPAN -28.1%	ITALY -26.1%	TAIWAN -24.5%	UK 32.1%	NETHERLANDS 13.3%	USA 5.7%	KOREA 13.2%
JAPAN -23.5%	CANADA -5.7%	ITALY 0.2%	TAIWAN -44.9%	SWEDEN -26.8%	SWEDEN -30.1%	NETHERLANDS 29.3%	USA 10.7%	SPAIN 4.9%	USA 15.3%
KOREA -66.7%	TAIWAN -20.6%	SWITZERLAND -6.6%	KOREA -49.6%	JAPAN -29.3%	GERMANY -32.9%	USA 29.1%	TAIWAN 9.8%	ITALY 3.1%	JAPAN 6.3%

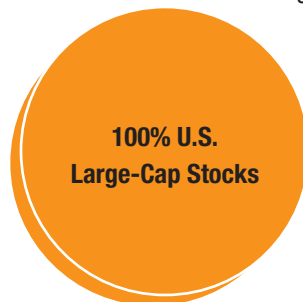
Source: MSCI ACWI Index.  
See disclosures for Index definition. Past performance is not indicative of future results, which may vary.  
For comparison purposes, the table features the 15 countries representing approximately 90% of the MSCI All Cap World Index.

## Investing Abroad Could Potentially Enhance Returns and Lower Risk

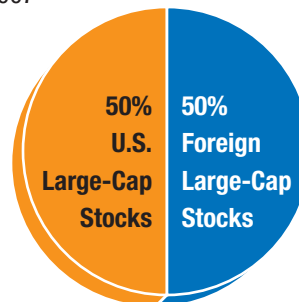
Compare the differences in return and risk between the following portfolios. By reducing exposure to U.S. large-cap stocks by 50% and substituting half of the portfolio with foreign large-cap stocks, the annualized return would have risen by more than 2% and the risk level as measured by standard deviation would have fallen to 13.51% from 14.02%.<sup>3</sup>

### Return and Risk for U.S. and Foreign Large-Cap Stocks

January 2000 - June 2007



Annualized Return 1.96% Standard Deviation 14.02%

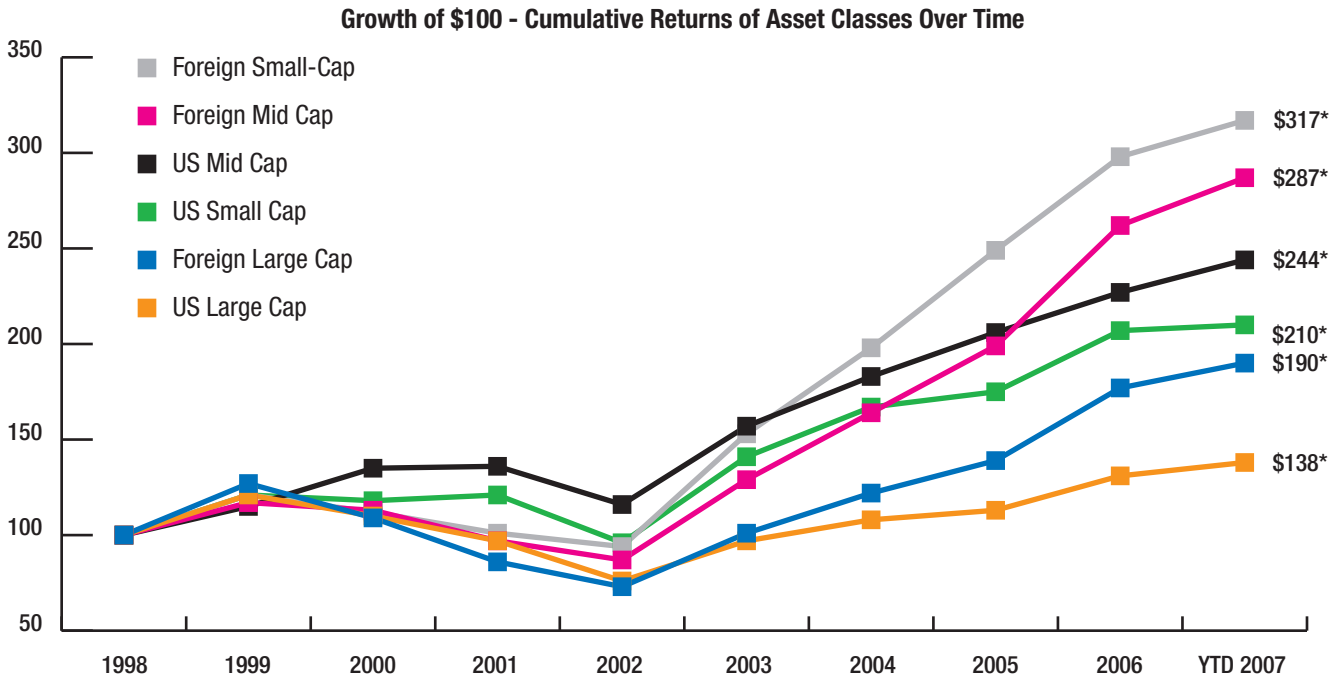


Annualized Return 4.02% Standard Deviation 13.51%

As of June 30, 2007.  
Source: FactSet, S&P 500 Index and MSCI EAFE Index. See disclosures for Index descriptions.  
Past performance is not indicative of future results.

## Investing In a Small World Can Offer Big Opportunities

Since 1998, international small and mid-cap indices have been among the top performing asset classes. While investors can not be certain which asset class will be next year's top performer, they can diversify across domestic and international asset classes in an effort to enhance returns and lower long-term risk.



Source: FactSet

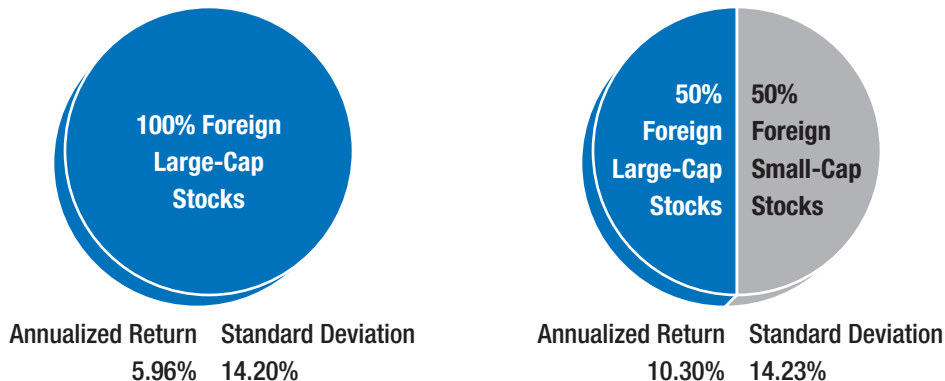
\*The growth of \$100 reflects cumulative returns from January 1, 1998 to June 30, 2007. Past performance is not indicative of future results.

The asset classes were represented by the following indices: *Foreign Large-Cap Stocks*, MSCI EAFE Index; *U.S. Large-Cap Stocks*, S&P 500; *Foreign Mid-Cap Stocks*, FTSE All World Mid-Cap Ex-U.S. Index; *U.S. Mid-Cap Stocks*, S&P Mid-Cap 400 Index; *Foreign Small-Cap Stocks*, MSCI Small-Cap World Ex-U.S. Index; *U.S. Small-Cap Stocks*, Russell 2000 Index. See disclosures for Index descriptions.

## Diversifying with Large and Small-Cap Foreign Stocks

A portfolio consisting of 100% foreign large-cap foreign stocks would have produced a return of 5.96% and a standard deviation of 14.20% from January 2000 to June 2007. By replacing half of the portfolio with foreign small-cap stocks, the return would have climbed to 10.30% and the risk level would have remained about the same.<sup>4</sup>

### Return and Risk for Foreign Large and Small-Cap Stocks



As of June 30, 2007.

Source: FactSet, MSCI EAFE Index and MSCI All Country World Small Cap Ex-USA Index. See disclosures for Index descriptions. Past performance is not indicative of future results.

## 5 Common Myths That Keep Investors From Capitalizing on Overseas Opportunities

### **1. “I don’t need to invest overseas — I hold global U.S. companies that are the world’s leaders.”**

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According to the MSCI All Country World Index, there are a number of major industries that are dominated by overseas companies: autos, marine, construction & engineering, metal and mining, among others. Investors who do not own foreign stocks may miss out on participating in some of the leading industries of the world economy.

In 24 out of 55 recognized global industries, the highest ranking company, in terms of market capitalization, was an overseas company.<sup>5</sup>

Many household names that are often believed to be domestic companies are really foreign owned. Companies such as Dreyers, Aquafresh, Coffeemate, Friskies, Lexus and Gerbers, for example, are either headquartered overseas or owned by a foreign company. By broadening one’s portfolio to include foreign holdings, investors can access many more of the world’s leading companies.

### **2. “I’m already diversified in dozens of U.S. industries and companies.”**

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As economic theory predicts, many foreign countries demonstrate a competitive advantage. Europe, for example, is a leader in the publishing industry and in cell phone design and services, while Japan leads in autos and video gaming.<sup>5</sup> In our opinion, foreign markets can also offer more growth opportunities in certain industries that have matured in the U.S. The telecom industry, for instance, is at a very mature stage in the U.S., but it is experiencing significant growth in many emerging markets today.

### **3. “The best way to invest internationally is with ADRs.”**

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Investing in American Depositary Receipts (“ADRs”) is a viable alternative to gaining global exposure, but these securities have inherent limitations since the available universe of ADRs is very limited. Out of more than 10,000 foreign securities, there are only about 650 ADRs investors can choose from.<sup>6,7</sup> The limitation of investing with ADRs is particularly true if investors prefer to own individual securities and trade only on U.S. exchanges with dollars.

Investors might also be surprised to learn that ADRs have a bias towards higher-risk emerging markets. Since emerging markets need to attract capital from U.S. investors, they are more inclined to offer ADRs than developed markets. As a result, there is a disproportionate amount of ADR offerings from emerging countries such as Mexico, China, Brazil, Russia and India. In contrast, Japan, a developed market, has little need to seek funds from the U.S. and has few ADR offerings.

Investing in ADRs may also limit a portfolio’s ability to achieve sufficient diversification across asset classes, namely small to mid-cap foreign stocks. Less than 15% of the already limited total market capitalization of ADRs are small and mid-cap sized companies.<sup>6,7</sup> By investing directly in foreign ordinary securities, investors can access a broader number of small to mid-cap companies, which would otherwise be unavailable through ADRs.

Due to the various limitations of ADRs, institutional investment managers and mutual fund companies typically prefer to buy overseas public companies directly on the foreign exchanges. While doing so requires converting dollars into foreign currencies and having relationships with foreign custodians, the extra effort can be well worth the rewards of international investing.

### **4. “But isn’t there currency risk?”**

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Most recently, currency downside risk has been in holding only the U.S. dollar. While no one can know if the declining dollar will continue or reverse, investors can hedge their risk by holding a balance between domestic and foreign securities. Investors that diversify a portion of their wealth in currencies other than the U.S. dollar can actually benefit from risk reduction.

## 5. "But with foreign markets having already made record returns, isn't it too late?"

Consider these three points. First, while many stock markets around the world have made huge gains, they have not yet reached their historical all-time highs. Many foreign stock markets are still below their peaks. Japan, which represents close to 20% of the foreign markets, is still more than 50% below its 1989 high.<sup>6</sup> France and the United Kingdom are both more than 10% off their peaks of 2000 and 1999, respectively.<sup>6</sup>

### Many Foreign Stock Markets Are Still Below Their Peaks

#### Stock Market Performance

Country	Market	Historical Market High	Market Close June 30, 2007	Difference from Historical High (%)
Japan	Nikkei 225	38,915.87 12/29/89	18,138.36	-53.39
U.S.	NASDAQ	4,914.79 3/3/00	2,603.23	-44.57
Taiwan	TAIEX	12,495.30 2/12/90	8,883.21	-26.31
France	CAC 40	6,922.33 9/4/00	6,054.93	-8.61
United Kingdom	FTSE 100	6,930.20 12/30/99	6,607.90	-4.65

As of June 30, 2007

Source: FactSet, see disclosures for Index descriptions.

Past performance is not indicative of future results

Second, as shown in the table below, the recent appreciation in overseas stocks has been largely due to movements of currencies rather than securities. More than half of the dollar returns for Canada, France and the United Kingdom came from currency. By excluding the currency effect, we can see foreign markets have experienced normal growth. It would not be unreasonable to expect a continuation of those levels of returns, in our opinion.

### The Currency Effect of Foreign Stocks

Country	Market	Year to Date Market Returns in		Currency Effect (%)	Projected GDP 2008 (%)
		U.S. Currency (%)	Foreign Currency (%)		
United States	S&P 500	5.6	5.6	0	2.6
Japan	Nikkei 225	-1.5	-1.1	27	2.3
United Kingdom	FTSE 100	7.1	2.8	61	2.3
Spain	Madrid SE	11.3	6.2	45	2.7
France	CAC 40	8.7	3.7	57	2.2
Germany	DAX	20.8	15.3	26	2.4
Mexico	IPC	14.9	15.9	-7	3.5
Canada	S&P TSX	18.3	6.6	64	2.7

As of June 30, 2007.

Source: The Economist YTD Returns for Period Ending June 2007. See disclosures for Index descriptions.

The projected gross domestic production (GDP) growth of foreign economies is healthy and bodes well for foreign markets. As more countries participate to a greater degree in the global market, we believe there are likely to be many more opportunities in industries with changing global leadership. We believe overseas stock markets are poised for expansion even without factoring in a currency effect.

Third, the record returns that have occurred in emerging markets, such as Brazil, Mexico and China, started from a very low base and reflect a relatively short performance history. In the table below, on a per capita basis, these countries need to experience substantial growth to catch up to where the United States is today.

### Emerging Markets Growth Potential Based on Market Capitalization

Country	Population*	Market Capitalization* (\$)	Market Cap Per Capita (\$)	Difference From U.S. (%)
Brazil	190	326,286	1,717	2,637
Mexico	109	173,780	1,599	2,833
China	1,322	245,098	185	24,427
United States	301	13,637,612	45,287	NA

As of June 29, 2007. Source: U.S. Census Bureau, International Data Base and MSCI ACWI Index

\*Displayed in Millions

## About Strategic Global Advisors

We are an investment management firm that manages international large cap and small-mid cap equity portfolios for institutions and individuals. Through our disciplined investment process that integrates quantitative and fundamental methods, we construct portfolios that focus on stock selection, rather than country and sector market timing.

Our seasoned investment team has an average of 15 years of investment experience in quantitative methods, fundamental research and global investing. Strategic Global Advisors is headquartered in Newport Beach, California.

## Benefits for Investors

- Potential to enhance overall asset allocation by investing in overlooked foreign stocks that have passed multiple levels of fundamental and risk analysis.
- Greater investment opportunities than those provided by more traditional equity approaches.
- Opportunity to invest worldwide in growing foreign companies that are global industry leaders.
- Potential for capital appreciation through consistent performance along with significant downside protection.

### Footnotes:

1. Home Bias concept and questions as defined by The Handbook of the Economics of Finance, 2003 Elsevier Science B.V. by authors Nicholas Barberis (University of Chicago) and Richard Thaler (University of Chicago).
2. Standard Deviation-
3. The return and risk for the hypothetical asset allocations reflect annualized returns for the periods January 2000 to June 2007. The indices used to calculate performance were the MSCI EAFE Index and S&P 500 Index. Both indices are unmanaged, include reinvestment of dividends and capital gains and do not reflect any fees or expenses. See Index descriptions below.
4. The return and risk for the hypothetical asset allocations reflect annualized returns for the periods January 2000 to June 2007. The indices used to calculate performance were the MSCI EAFE Index and MSCI All Country World Small Cap Ex-US Index. Both indices are unmanaged, include reinvestment of dividends and capital gains and do not reflect any fees or expenses.
5. Source: MSCI ACWI (All Country World Index), see Index description below.
6. Source: FactSet Research System
7. Source: MSCI All Country World Ex-US (Ex-Cash) Index, see Index description below.

### Index Descriptions:

- The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada.
- The MSCI ACWI (All Country World Index) Ex-US (Ex-Cash) Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. As of June 2006 the MSCI ACWI Ex-US consisted of the following 47 developed and emerging market country indices, excluding the United States and cash.
- The MSCI Small Cap Indices, including the MSCI All Country World Small Cap Ex-US Index, target 40% of the eligible Small Cap universe within each industry group, within each country. MSCI defines the Small Cap universe as all listed securities that have a market capitalization in the range of USD200-1,500 million.
- The MSCI ACWI (All Country World Index) Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. As of June 2006 the MSCI ACWI consisted of 48 developed and emerging market country indices.
- The S&P 500 Index is widely regarded as the best single gauge of the U.S. equities market, this world-renowned index includes 500 leading companies in leading industries of the U.S. economy.
- The S&P MidCap 400 is now the most widely used index for mid-sized companies of the U.S. economy.
- The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. As of the latest reconstitution, the average market capitalization was approximately \$898.3 million; the median market capitalization was approximately \$705.4 million. The largest company in the index had an approximate market capitalization of \$2.5 billion and a smallest of \$261.8 million.
- The Nikkei-225 Stock Average is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange.
- The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market.Taiwan
- The TAIEX Index is capitalization-weighted index of all listed common shares traded on the Taiwan Stock Exchange.
- The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. As of December 1, 2003 the index has become a free float weighted index.
- The FTSE 100 Index is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange. The equities use an investibility weighting in the index calculation.
- The FTSE All World Mid-Cap Index is a capitalization-weighted index of mid capitalization companies traded on the London Stock Exchange, excluding the U.S. The equities use an investibility weighting in the index calculation. The index is derived from the FTSE Global Equity Index Series (GEIS), which covers 98% of the world's investable market capitalization.
- The Madrid SE, the Madrid Stock Exchange General Index is a capitalization-weighted index that measures the performance of a selected number of Continuous Market stocks.
- The DAX Index, the German Stock Index is a total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange. The equities use free float shares in the index calculation.
- The Mexican Bolsa Index, or the IPC (Indice de Precios y Cotizaciones), is a capitalization-weighted index of the leading stocks traded on the Mexican Stock Exchange.
- The S&P/TSX Composite Index, the S&P/Toronto Stock Exchange Composite Index is a capitalization-weighted index designed to measure market activity of stocks listed on the TSX.

This report is provided for informational purposes only. The data and opinions presented in this report have been obtained from sources believed by Strategic Global Advisors to be reliable, but we do not represent that it is accurate or complete. This material is not intended to be a formal research report and should not be construed as an offer to sell any security.  
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