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.
The United States’ share of the global marketplace, in terms of total market capitalization, is 42%. If U.S. investors wanted to benchmark the globe, their portfolios would have approximately a 58% exposure to foreign markets. The U.S. market share is shrinking as China, India and other emerging markets continue to grow.

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?
• 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 1999 to 2008, the U.S. equity market, as shown below, has outperformed by foreign stock markets—and often by a substantial margin.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>JAPAN</td>
<td>41.2%</td>
<td>HONG KONG</td>
<td>50.2%</td>
<td>SWITZERLAND</td>
<td>47.3%</td>
<td>52.7%</td>
<td>48.2%</td>
<td>61.8%</td>
<td>92.4%</td>
</tr>
<tr>
<td>SWITZERLAND</td>
<td>40.1%</td>
<td>50.0%</td>
<td>58.6%</td>
<td>56.1%</td>
<td>6.6%</td>
<td>10.5%</td>
<td>8.4%</td>
<td>8.6%</td>
<td>80.6%</td>
</tr>
<tr>
<td>USA</td>
<td>32.0%</td>
<td>29.6%</td>
<td>25.6%</td>
<td>32.0%</td>
<td>59.2%</td>
<td>6.3%</td>
<td>2.7%</td>
<td>-0.8%</td>
<td>61.8%</td>
</tr>
<tr>
<td>FRANCE</td>
<td>17.5%</td>
<td>17.5%</td>
<td>29.0%</td>
<td>55.4%</td>
<td>-10.0%</td>
<td>11.0%</td>
<td>-3.6%</td>
<td>59.9%</td>
<td>12.0%</td>
</tr>
<tr>
<td>NETHERLANDS</td>
<td>29.8%</td>
<td>43.4%</td>
<td>17.1%</td>
<td>25.0%</td>
<td>51.4%</td>
<td>-10.1%</td>
<td>5.4%</td>
<td>4.1%</td>
<td>54.4%</td>
</tr>
<tr>
<td>CANADA</td>
<td>24.7%</td>
<td>32.5%</td>
<td>14.9%</td>
<td>22.9%</td>
<td>42.5%</td>
<td>-12.8%</td>
<td>-14.0%</td>
<td>-9.1%</td>
<td>52.7%</td>
</tr>
<tr>
<td>GERMANY</td>
<td>5.5%</td>
<td>32.4%</td>
<td>11.3%</td>
<td>22.5%</td>
<td>41.0%</td>
<td>-14.0%</td>
<td>-18.6%</td>
<td>-11.5%</td>
<td>29.7%</td>
</tr>
<tr>
<td>TAIWAN</td>
<td>14.0%</td>
<td>30.7%</td>
<td>10.6%</td>
<td>19.6%</td>
<td>39.0%</td>
<td>-15.2%</td>
<td>-20.1%</td>
<td>-12.5%</td>
<td>22.4%</td>
</tr>
<tr>
<td>NETHERLANDS</td>
<td>7.9%</td>
<td>10.0%</td>
<td>5.5%</td>
<td>13.2%</td>
<td>23.2%</td>
<td>21.1%</td>
<td>14.7%</td>
<td>25.0%</td>
<td>20.5%</td>
</tr>
<tr>
<td>UK</td>
<td>8.4%</td>
<td>28.2%</td>
<td>8.4%</td>
<td>16.7%</td>
<td>36.2%</td>
<td>-20.3%</td>
<td>-21.6%</td>
<td>-15.3%</td>
<td>18.7%</td>
</tr>
<tr>
<td>SWEDEN</td>
<td>7.3%</td>
<td>20.9%</td>
<td>7.4%</td>
<td>16.0%</td>
<td>35.9%</td>
<td>-20.8%</td>
<td>-22.0%</td>
<td>-15.5%</td>
<td>12.5%</td>
</tr>
<tr>
<td>ITALY</td>
<td>6.1%</td>
<td>18.4%</td>
<td>7.3%</td>
<td>15.6%</td>
<td>35.0%</td>
<td>-22.7%</td>
<td>-22.1%</td>
<td>-21.0%</td>
<td>7.4%</td>
</tr>
<tr>
<td>AUTRAILIA</td>
<td>6.0%</td>
<td>13.2%</td>
<td>5.7%</td>
<td>13.3%</td>
<td>32.1%</td>
<td>-24.5%</td>
<td>-26.1%</td>
<td>-28.1%</td>
<td>5.3%</td>
</tr>
<tr>
<td>HONG KONG</td>
<td>1.5%</td>
<td>15.3%</td>
<td>4.9%</td>
<td>10.7%</td>
<td>29.3%</td>
<td>-30.1%</td>
<td>-26.8%</td>
<td>-44.9%</td>
<td>0.2%</td>
</tr>
<tr>
<td>KOREA</td>
<td>-1.4%</td>
<td>6.3%</td>
<td>3.1%</td>
<td>9.8%</td>
<td>29.1%</td>
<td>-32.9%</td>
<td>-29.3%</td>
<td>-49.6%</td>
<td>-6.6%</td>
</tr>
</tbody>
</table>

Source: MSCI Country Indices.
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 Country 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 1.4% and the risk level as measured by standard deviation2 would have remained about the same.3

Return and Risk for U.S. and Foreign Large-Cap Stocks
January 2000 - June 2009

100% U.S. Large-Cap Stocks
Annualized Return -3.10%
Standard Deviation 16.13%

50% U.S. Large-Cap Stocks
50% Foreign Large-Cap Stocks
Annualized Return -1.69%
Standard Deviation 16.50%

As of June 30, 2009.
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.

Diversifying with Large and Small-Cap Foreign Stocks

A portfolio consisting of 100% foreign large-cap foreign stocks would have produced a return of -0.46% and a standard deviation of 17.95% from January 2000 to June 2009. By replacing half of the portfolio with foreign small-cap stocks, the return would have climbed to 2.47% and the risk level would have been slightly higher.

Return and Risk for Foreign Large and Small-Cap Stocks

January 2000 - June 2009

As of June 30, 2009.
Source: FactSet, MSCI EAFE Index and MSCI World Small-Cap Ex-US 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.”

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

In 26 out of 55 recognized global industries, the highest ranking company, in terms of market capitalization, was an overseas company. Many household names that are often believed to be domestic companies are really foreign owned. For example, companies such as Dreyers, Aquafresh, Coffeeemate, Friskies, Lexus and Gerbers, 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.”

As economic theory predicts, many foreign countries demonstrate a competitive advantage. Europe, for example, is a leader in the publishing industry and in food products, while Japan leads in autos and video gaming. 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.”

Investing in American Depository 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 is a limited universe of ADRs investors can choose from, currently just over 3,000. 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 and Brazil. 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. Approximately 10% of the already limited total market capitalization of ADRs are small and mid-cap sized companies. 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?”

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 approximately 10% of the foreign markets, is close to 75% below its 1989 high. France and the United Kingdom are both more than 35% off their peaks of 2000 and 1999, respectively.

Second, as shown in the table, currencies continue to play a significant role in the returns in overseas stocks. These currency adjustments represent more than half of the dollar returns for Canada, France and the United Kingdom. In our opinion, by excluding the currency effect, foreign market returns look less inflated and more reasonably priced.

The projected gross domestic production (GDP) growth of foreign economies remains positive overall, with the exception of Spain. Expected growth for Mexico and Canada has remained relatively strong with little or no decline from projections a year ago. 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 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. As shown in the adjoining table, on a per capita basis, these countries need to experience substantial growth to catch up to where the United States is today.

---

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Market</th>
<th>Historical Market High</th>
<th>Market Close June 30, 2009</th>
<th>Difference from Historical High (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Nikkei 225</td>
<td>38,915.87 12/29/1989</td>
<td>9,968.44</td>
<td>-74.41</td>
</tr>
<tr>
<td>U.S.</td>
<td>NASDAQ</td>
<td>4,914.79 3/3/2000</td>
<td>1,835.04</td>
<td>-62.66</td>
</tr>
<tr>
<td>Taiwan</td>
<td>TAIEX</td>
<td>12,495.30 2/12/1990</td>
<td>6,432.16</td>
<td>-48.52</td>
</tr>
<tr>
<td>France</td>
<td>CAC 40</td>
<td>6,922.33 9/4/2000</td>
<td>3,140.44</td>
<td>-54.63</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>FTSE 100</td>
<td>6,930.20 12/30/1999</td>
<td>4,249.20</td>
<td>-38.69</td>
</tr>
</tbody>
</table>

As of June 30, 2009

Source: FactSet, see disclosures for Index descriptions.

Past performance is not indicative of future results

### The Currency Effect of Foreign Stocks

<table>
<thead>
<tr>
<th>Country</th>
<th>Market</th>
<th>6 months 2009 Currency Adjustment to Local Returns</th>
<th>6 months 2008 Currency Adjustment to Local Returns</th>
<th>Projected GDP 2009 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>S&amp;P 500</td>
<td>0.0%</td>
<td>0.0%</td>
<td>1.6</td>
</tr>
<tr>
<td>Japan</td>
<td>Nikkei 225</td>
<td>-7.0%</td>
<td>4.6%</td>
<td>0.8</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>FTSE 100</td>
<td>14.3%</td>
<td>0.1%</td>
<td>0.6</td>
</tr>
<tr>
<td>Spain</td>
<td>Madrid SE</td>
<td>1.8%</td>
<td>6.6%</td>
<td>-0.5</td>
</tr>
<tr>
<td>France</td>
<td>CAC 40</td>
<td>1.6%</td>
<td>6.5%</td>
<td>0.5</td>
</tr>
<tr>
<td>Germany</td>
<td>DAX</td>
<td>1.7%</td>
<td>6.6%</td>
<td>0.5</td>
</tr>
<tr>
<td>Mexico</td>
<td>IPC</td>
<td>6.3%</td>
<td>5.1%</td>
<td>2.8</td>
</tr>
<tr>
<td>Canada</td>
<td>S&amp;P TSX</td>
<td>8.7%</td>
<td>2.9%</td>
<td>1.7</td>
</tr>
</tbody>
</table>

As of June 30, 2009


Past performance is not indicative of future results

### Emerging Markets Growth Potential Based on Market Capitalization

<table>
<thead>
<tr>
<th>Country</th>
<th>Population*</th>
<th>Market Capitalization* ($M)</th>
<th>Market Cap Per Capita ($)</th>
<th>Difference From U.S. (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>198,730,269</td>
<td>$352,083</td>
<td>$1,772</td>
<td>157%</td>
</tr>
<tr>
<td>Mexico</td>
<td>111,211,789</td>
<td>$107,166</td>
<td>$964</td>
<td>289%</td>
</tr>
<tr>
<td>China</td>
<td>1,338,612,968</td>
<td>$317,959</td>
<td>$238</td>
<td>11744%</td>
</tr>
<tr>
<td>United States</td>
<td>307,212,123</td>
<td>$8,569,891</td>
<td>$27,896</td>
<td>NA</td>
</tr>
</tbody>
</table>

As of June 30, 2009

Source: U.S. Census Bureau, International Data Base and MSCI ACWI Index

See disclosures for Index descriptions.

*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 is the measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. Standard deviation is applied to the annual rate of return of an investment to measure the investment’s volatility. Standard deviation is also known as historical volatility and is used by investors as a gauge for the amount of expected volatility.
3. The return and risk for the hypothetical asset allocations reflect annualized returns for the periods January 2000 to June 2009. 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 2009. The indices used to calculate performance were the MSCI EAFE Index and MSCI 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.

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 2009 the MSCI ACWI consisted of 44 country indices comprising 22 developed and 22 emerging market country indices, excluding the United States and cash.
- The MSCI Global Small Cap Indices offer an exhaustive representation of this size segment by targeting companies that are in the Investable Market Index but not in the Standard Index in a particular market. The indices include 48 Developed and Emerging Markets as well as Value and Growth style indices and industry indices based on the Global Industry Classification Standard (GICS®).
- The MSCI Country Indices: To construct a country index, every listed security in the market is identified. Securities are free float adjusted, classified in accordance with the Global Industry Classification Standard (GICS®), and screened by size, liquidity and minimum free float.
- The MSCI ACWI (All Country World Index) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of June 2009 the MSCI ACWI consisted of 45 country indices comprising 22 developed and 22 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 $763 million; the median market capitalization was approximately $318 million. The largest company in the index had an approximate market capitalization of $2.29 billion.
- 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.
- The TAEX Index is capitalization-weighted index of all listed common shares traded on the Taiwan Stock Exchange.
- The CAC-40 Index is a free float-adjusted market capitalization 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 free-float 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 (GES), 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/TSE Small Cap Composite Index, the S&P/Toronto Stock Exchange Small Cap 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.

SGA20090700044

We welcome your inquiries

100 Bayview Circle, Ste 500
Newport Beach, CA 92660
Ph 949.706.2640
Fx 949.737.7703
www.sgadvisors.com