

INVESTOR'S EDGE

# Diversify your portfolio with international investments

*Europe is the best single market to focus on now.*

*"The wide world is all about you: you can fence yourself in, but you cannot forever fence it out." — J.R.R. Tolkien*



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Guest columnist

Two months into 2025, and markets are off to a solid start. As I write this, both the Dow Jones Industrial Average and the S&P 500 Index are up about 2% year to date — continuing 2024's strong momentum.

Underneath most investors' radar, however, is the quiet outperformance of international equities. In fact, foreign stocks are up on average more than 7% at the time of this writing — triple that of their U.S. counterparts.

U.S. stocks have dominated international stocks over the last 10 years, outpacing returns by a whopping 55%. And this outperformance has been well deserved. After all, American businesses have, on average, stronger bal-

ance sheets, higher profit margins, and the most innovative companies in the world. I am still bullish on U.S. stocks and believe they will likely maintain these advantages for the foreseeable future.

I also think, however, now is a good time for investors to increase international exposure within their portfolios. U.S. stocks are selling at record highs and have enjoyed two consecutive years of 20%+ returns. In fact, the S&P 500 index is trading at about 22 times forward earnings compared to about 13 for the MSCI All Country World Index ex USA — one of the largest valuation disparities between these two asset classes in history.

In fact, according to Hartford funds, since 1975, the outperformance cycle for U.S. versus international stocks has lasted an average of about eight years. We are currently 14 years total into the current cycle of U.S. outperformance, based on five-year monthly rolling returns. At some point, I've got to believe that it will reverse itself.

Furthermore, capital flows into U.S. markets are near a record high — about \$0.65 of every dollar invested is going into U.S. stocks. Just 10 years ago it was \$0.50 for every dollar. That is a significant increase in a short time frame. Again, this leads me to believe there will be some "mean reversion" with future capital flows favoring international equities over the next few years.

So, what should readers do?

Keep it simple, my friends.

Broad-based ETF's I believe are the best avenue for exposure to foreign stock markets. My favorite is the Vanguard International High Dividend ETF (ticker symbol VYMI). It is chock full of blue chip international companies such as Nestle, Novartis, Toyota, etc. and yields an impressive 4.5% — well above the S&P 500 Index yield of 1.2%.

My other go to is the Vanguard Total

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International Stock ETF (ticker symbol VXUS). This fund captures the entire international stock market across Europe, Asia, Canada, and South America. Compared to VYMI, it has a higher weighting in technology stocks, less exposure to financials, and has a higher growth tilt. It still yields an attractive 3%, and I recommend it.

If you want to narrow the geography to potentially capture more upside, I think Europe right now is the single best international market to focus on. Europe is expected to deliver earnings growth that is projected to match or even beat the earnings of publicly traded companies in the United States. Many central banks in Europe are lowering interest rates, governments are increasing their spending, the valuations are more attractive, and the dividends higher.

My pick for pure-play European exposure is the SPDR European Stoxx 50 ETF (ticker symbol FEZ). This fund tracks the performance of the largest 50 European blue-chip companies and pays a nice div-

idend of 2.5%.

For those who like individual stocks, there are a lot of well-known brand names that are excellent companies. These include chipmaker ASML, carmaker Toyota, luxury goods retailer LVMH (think Louis Vuitton), and beer maker, Heineken. And of course, my December 2024 recommendation, Ferrari, whose shares are up 14% since then. These are all excellent buy and hold stocks in my view.

I believe we remain in a secular bull market, and U.S. companies will likely continue to lead the way over the long term. But I do believe it's important to remain diversified, especially in an ever-changing world. Buying the aforementioned index funds is a simple, low-cost way to access international markets.

It's a big world out there, go get it!

*Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at [jburns@jwburns.com](mailto:jburns@jwburns.com)*

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