More Americans invest in foreign holdings

Weak dollar sparked rise in trend; diversification, profit keep it hot

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When it comes to investing, more Americans are discovering that there's a great big world out there.

Enthusiasm for foreign investing has spiked in recent years, fueled by a weak U.S. dollar and more robust economic expansion abroad.

"A lot of economies in the world have more growth than the U.S.," said Oscar Oland, 76, a retiree in the West Valley who has nearly half his stock holdings in international mutual funds. "I don't see that turning around for a while."

Even with the U.S. stock market near record highs, many investors with foreign holdings have fared better.

The typical international-stock mutual fund has returned 29 percent over the past 12 months, reports researcher Lipper Inc. That compares with a 12 percent average return for domestic stock funds. The foreign results also are impressive over longer spans.

The weak dollar has been the catalyst for much of that sizzle. Investors who own shares in foreign stocks or funds gain extra ground when the greenback weakens, as that makes non-U.S. assets more valuable when translated into dollars.

A major global-stock benchmark called the EAFE index from Morgan Stanley Capital International gained 15 percent in local-currency terms over the 12 months through Sept. 30. But Americans with a stake in those same EAFE stocks saw their holdings rise 25 percent.

Granted, the reverse is also true - a rising greenback would cut into performance, yet few economists expect a significant rally in the dollar anytime soon. The cavernous U.S. trade deficit and low interest rates here are among the factors that have undermined the dollar. Plus, the federal government seems to favor a soft currency since it has sparked an export boom.

Other factors

Dollar weakness isn't the only or even the main rationale for investing internationally, however, since currency swings are unpredictable. More fundamental arguments in favor relate to diversification and profit opportunities.

Global economic growth is running about double that in the U.S. right now, with gains particularly notable in developing countries and nations with socialist roots such as Russia, India and China.

"As other nations develop, they'll naturally have faster growth than in the U.S.," said Leah Hoffman Langerman, president of Hoffman & Hock, a Phoenix financial-advisory firm.

She suggests clients hold 30 to 40 percent of their stock portfolios in companies outside the United States.

In addition, exposure to foreign economies and markets provides an extra layer of diversification, a key ingredient of successful investing that helps to smooth out returns.

With foreign economies and currencies looking more promising these days, some investors have boosted their non-U.S. exposure. Up until a couple of years ago, Stoker Ostler Wealth Advisors in Scottsdale recommended clients hold 15 percent of their equity holdings in non-U.S. markets. Now, it's up to 30 percent.

"Five years from now, we'll probably be at 50 percent U.S. and 50 percent international," said Creg Ostler, a managing partner. "Look at where all the GDP growth is coming from."

Investor's point of view

Tempe investor Mike Meyer, 43, also is at ease with non-U.S. investments. He holds 90 percent of his portfolio in foreign stocks and international funds, with stakes in developed foreign economies and emerging nations.

"I've been comfortable with it for a long time," Meyer said. "I have always thought investing overseas was part of a prudent investment strategy."

Meyer held about 15 percent of his portfolio in foreign assets up until about 2003. Since then, he boosted the percentage as he became more wary of the U.S. economy, the widening trade deficit, the boom/bust housing cycle and other factors such as the Iraq invasion, which he sensed would damage the U.S. image abroad.

"America isn't heading toward a calamity, but growth prospects are better elsewhere," Meyer said. "I think the U.S. will stumble along for a while."

Decades ago, the idea of investing internationally met some resistance as an unpatriotic notion. But that sentiment isn't heard much anymore.

"We're so globalized that I don't see investing overseas as unpatriotic," said Meyer, who works in marketing for a Dutch semiconductor-equipment firm at an office in Phoenix.

It's a valid point. When Japanese automakers employ tens of thousands of Americans while U.S. toy companies outsource nearly all their manufacturing to China, it can be a real challenge to label corporations as foreign or domestic.

"Is it hard to convince clients to invest abroad? Not really, because they realize international economic growth justifies it," Langerman said. "And many also think the dollar will continue to get weaker."

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