



# The Wide World of Investing

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Taking a global perspective when it comes to investing can sometimes feel like heading into unexplored territory. And when world affairs - including global tariff actions, volatile commodity prices and the UK's decision to leave the European Union - shake investor confidence, it may seem like sticking stateside is the best direction to take. However, using these uncertain market conditions may provide an opportunity for adding value and diversification to your investment portfolio.

Applying the basic investment concept of “buy low, sell high,” the best time to buy stocks is often when the market outlook is uncertain and stock prices subsequently echo those concerns. We believe the current circumstances present an opportune time to invest in foreign markets, as some international stocks are reflecting these worries and are more attractively priced.

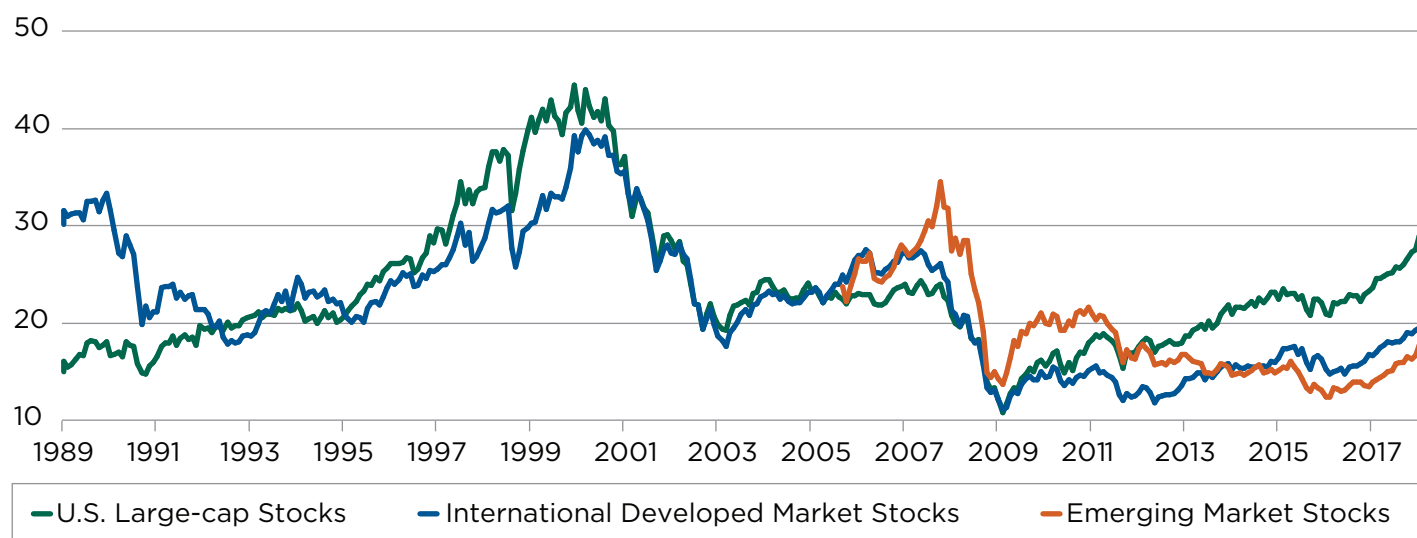
## Compelling Valuations Outside of the U.S.

The U.S. stock market has performed well in the last several years and on the whole seems more fairly valued, comparing the market's current price to its current earnings. For a more complete valuation picture, consider the earnings power of a market's economy over a full business cycle as shown in the chart on page 2 - U.S. stocks are more in line with their historical averages, while international stocks look more attractive. Foreign, developed-market stocks in particular look attractive relative to U.S. stocks - presenting the largest value gap in some time, despite the recently good performance of international stocks. Emerging-market stocks appear even more depressed relative to domestic stocks, but are more volatile and may struggle for longer.

While international stocks have been performing well in the past couple of years, the wide valuation gap that continues to exist, suggests that there is still a valuation opportunity. In addition to valuation, we believe that today's very low interest rates in many foreign markets should accommodate growth, and we recommend establishing a globally diversified portfolio.

## International Stocks More Attractive

### Cyclically Adjusted Price-to-Earnings Ratio (CAPE)



Past performance does not guarantee future results.

Source: Factset and Edward Jones calculations; 3/31/18. Int'l developed-market stocks represented by MSCI EAFE Large Cap Index. U.S. Large-cap stocks represented by the S&P 500 Index. Emerging market stocks represented by the MSCI EM Index.

## Two International Categories

International investments can be broken down into two broad categories: developed and emerging markets.

### Developed markets

Mature countries with higher per capita income and free capital market systems, including the U.K., Germany and Japan.

### Emerging markets

Generally younger economies, such as China, India, Taiwan and Mexico, with lower per capita income, less-regulated capital markets and greater risk of instability. Small allocations (5% or less) to emerging markets is recommended for additional diversification and growth opportunities.

## Why Are Foreign Markets a Value?

There are several factors that can explain the relatively low price of other markets compared to the U.S., including:

- Global tariff changes
- Volatile energy and commodity prices
- Slowing growth in China
- Political and economic instability
- Uncertainty due to Britain's plan to leave the European Union
- Fewer large, high-priced tech stocks in international markets
- Lack of market regulation in some countries

Conditions across Europe include slow economic growth, high unemployment, the immigration crisis and acts of terrorism. The U.K.'s plan to exit the EU creates added uncertainty about its trade relationships and the unexpected fallout that could occur.

China, now the second-largest economy, also impacts the rest of the world as it slows investment spending and transitions from a period of increased focus on building infrastructure to a consumer-led economy. For countries such as Brazil, Russia and Canada, where commodities like copper and oil dominate the economies, that impact is particularly severe – causing volatility in currencies and stocks.

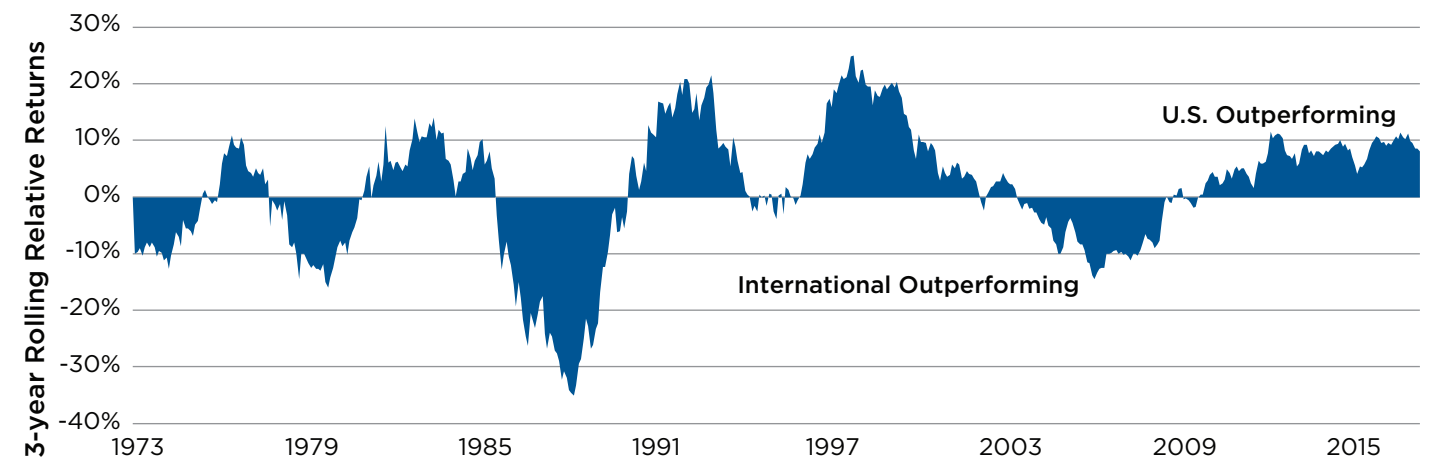
Balancing the risks associated with international investments, there are also opportunities. The continued rise in middle-class consumers throughout many emerging economies is a key driver of growth. Advances and investments in technology are linking businesses and consumers around the world like never before. Low interest rate policies and lower energy prices should be positive catalysts for many developed international markets.

## Invest Ahead of the Next Leader Rotation

History shows that asset classes (different types of investments) take turns leading performance and these periods can persist for several years. Investor sentiment often pushes valuations too high in favorable times and then pulls values down in tough times by swinging too far in the opposite direction. However, this pendulum effect can create opportunities for long-term investors.

Large domestic stocks in the S&P 500 Index have performed better than international- and emerging-market stocks over the past several years. As the trend in the graph shows, we expect this relative performance to reverse course over time. In fact, we have already seen signs of recovery in many developed international markets more recently.

### U.S. vs. International Large-cap Stocks Leadership Rotates



Source: Morningstar Direct; 3/31/2018. U.S. Large-cap stocks represented by the S&P 500 Index. International Large-cap stocks represented by the MSCI EAFE Index. Investment indexes are unmanaged and cannot be invested in directly.

Past performance does not guarantee future results.

## Diversify with International Investments

We expect a return to higher, more normal volatility resulting from political and economic change, which means diversification may be even more important to your portfolio. We recommend about one-third of your stock portfolio be invested internationally, depending on your financial goals. Ask your financial advisor for the amount that is right for you.

### International Investing Key Benefits

#### Attractive Prices

International stock prices are low relative to U.S. prices.

#### Historical Leader Rotation

Good performance often follows periods of underperformance. (See chart above)

#### Diversify Risk and Opportunity

International equities expose your portfolio to growth potential around the world, while spreading out the risks that can be unique to a particular country.

## Investing with a Global Outlook

Investing internationally carries opportunities but also additional risks. Whether they are developed or emerging markets, foreign countries have different demographics, growth outlooks, regulations and potential for economic instability. Furthermore, foreign stocks carry the risks of currency fluctuations and different accounting standards.

Here's what we recommend when developing your international investing strategy:

- Professionally managed mutual funds are the best way to invest internationally, as they provide access to experienced professionals who have navigated these markets through multiple business cycles.
- Exchange-traded funds (ETFs) can also be a good way to get broad exposure to international equity markets.
- Individual international stocks should be used only as a complement to international mutual funds and ETFs.
- For your domestic portfolio, some portion should be in U.S.-based stocks that have a global business presence. These are not considered part of your international portfolio allocation because they tend to perform more like the U.S. stock market.

Work with your Edward Jones financial advisor to help you select the most appropriate international investments and the amount that's right for you.

*Specific risks are inherent in international and emerging markets investing, including those related to currency fluctuations and foreign political and economic events. Investing in equities involves risks. The value of your shares will fluctuate and you may lose principal. Dividends can be increased, decreased or eliminated at any point without notice. Diversification does not guarantee a profit or protect against loss.*

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