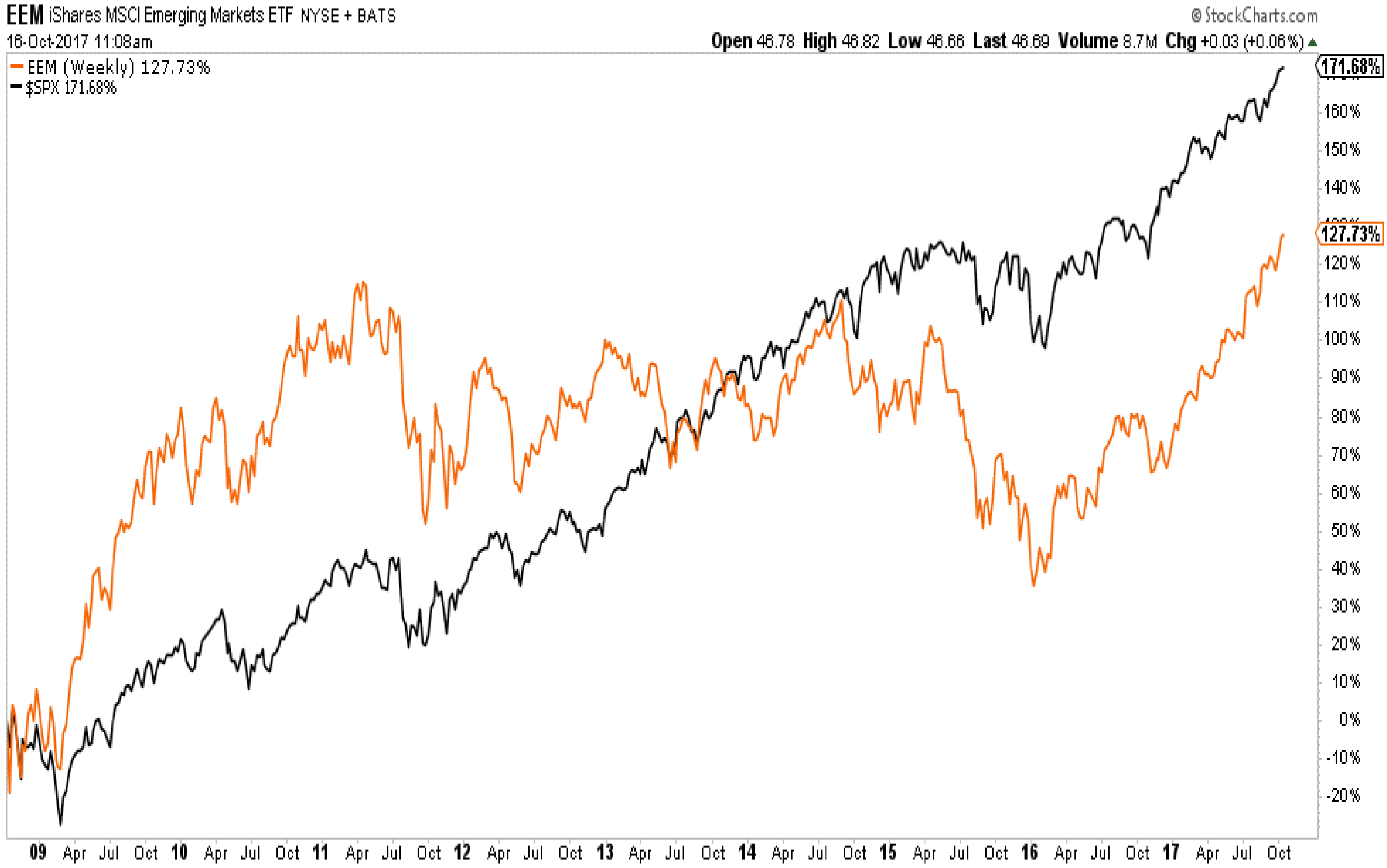
When it comes to the absolute market capitalization of the U.S. stock market, America remains the big kid on the global block. Relatively speaking, compared to the rest of the world, U.S. market cap is losing ground ? down to 36% from 45% in 2003. The number of companies listed on the U.S. stock exchange has been shrinking. For example, the Wilshire 5,000 Total Market Index as an accepted proxy for the U.S. equity market has gone from a peak of 7,562 companies in 1998 to 3,503 as of September 2017. If your portfolio is lacking international exposure, it?s not too late to expand your horizons. But first, consider these points.

Explore why you may avoid international exposure.

To topple portfolio walls, investors should explore the reasons behind their reluctance to consider traveling beyond domestic borders financially. Home-country bias is a common behavioral pitfall. According to the International Monetary Fund?s *Coordinated Portfolio Investment Survey*, U.S. investors maintain a 70% equity exposure to domestic stocks. Investors from other countries are also partial to their own. Michael M. Pompian, CFA, CFP in his book *?Behavioral Finance and Wealth Management,?* outlines how investors suffer from ambiguity aversion where they demand a greater equity premium from markets they don?t fully understand. Education, situational awareness and behavioral modification are keys to moving forward. For example, partnering with a financial professional educated in how international investments can diversify business or unsystematic portfolio risk and enhance returns may help reluctant investors at the least, begin an investment program that includes international investments. Take an account of your current spending habits to gain perspective on just how interconnected the world is. I dare to bet the shoes you?re wearing, car you?re driving and television you?re watching weren?t manufactured in the United States. Due to globalization, the world markets are integrated and serve customers worldwide. Your portfolio may be missing out on these opportunities.

Realize what international investing isn?t.

Investing overseas won?t protect investors from systemic or market risk. Advisers tend to be overconfident in their reliance on diversification to assuage downside risk. When stock markets falter, especially in the U.S., all global equity classes link up and head south. Diversification overseas is not risk management, it?s risk reduction. When a financial professional advises diversification, keep in mind, to you as an investor, diversification is misperceived as risk management where portfolio losses are controlled or minimized.•Think of risk management as a technique to manage portfolio losses through down or bear cycles and the establishment of price-limit targets to surgically reduce portfolio stock allocations. Consider risk dilution as method to spread or combine different investments of various risks to smooth volatility and augment returns. International investments can mitigate business risks and open doors to markets the domestic brethren doesn?t. In addition, unlike conventional theory connotes, an investor doesn?t require to always be fully invested internationally within a portfolio allocation.



For example, coming out of the financial crisis, emerging markets rebounded dramatically (up 73%), compared to U.S. S&P stocks (+25%). China was undertaking a massive stimulus project to spur economic prosperity and hopes for continued growth were high for emerging markets over U.S. and European markets. The fever eventually cooled for emerging markets and was followed by a period of sideways consolidation that made it painful for even the most steadfast of investors to weather. A subsequent drawdown in 2015 and part of 2016 preceded a recovery in emerging market equities which moved in sync with a post-U.S. presidential election-fueled break out. It?s acceptable although not popular, for a money manager to expand or contract allocations to international stocks. A simple analysis of moving average crossovers would have helped investors adjust allocations to overseas markets, developed or emerging. Through bull market cycles, international can enhance domestic investments for long periods and should be considered.

Check under the hood of investments before committing capital.

To gain confidence in your international portfolio selections, it?s best to undertake due diligence and understand what country or index is mainly driving your investment choices underneath the surface. For example, the MSCI Emerging Markets Index which measures equity market performance in global emerging markets and serves as a widely-accepted benchmark, has recently allowed China A shares to be added to its index. Not only has this change enhanced concentration of investments in China markets, it has increased political risk vulnerability to state-owned enterprises. *Vanguard?s FTSE Emerging Markets ETF*, Symbol: VWO, based on a change in 2015, added small-cap stocks and China A-shares to its portfolio. Unlike the MSCI, the FTSE Index excludes Korea as an emerging market, which creates more room for exposure to China, Brazil, India and South Africa. As of October 2017, this investment has over 39% geographic exposure to China. So, as an investor, would you or your adviser consider VWO a truly diversified option? The debate is whether China as the world?s second economy, should now be classified as a developed country. The discussion opens the door for smaller markets like frontiers to be considered as another diversified option for a sleeve of an international portfolio allocation. Frontier markets from a growth potential perspective, are what emerging markets were decades ago and represent countries such as Saudi Arabia, Kuwait, Argentina, Vietnam and Morocco.

Frontier Markets

This listing represents countries in the MSCI Frontier Markets Index as of May 2015. Investors should note that index composition changes as countries grow. For example, in May 2014, MSCI reclassified Qatar and the United Arab Emirates as emerging markets.

Americas	Europe & CIS	Africa	Middle East	Asia
Argentina	Bulgaria	Kenya	Bahrain	Bangladesh
	Croatia	Mauritius	Jordan	Pakistan
	Estonia	Morocco	Kuwait	Sri Lanka
	Kazakhstan	Nigeria	Lebanon	Vietnam
	Lithuania	Tunisia	Oman	
	Romania			
	Serbia			
	Slovenia			
	Ukraine			

Chart by www.forwardinvesting.com. The vehicles that invest in these areas have higher ongoing management expenses than many international choices; underlying portfolio selections are generally illiquid and volatile which portends to investor holding periods that should span years, not days. Portfolios in the exchange-traded and mutual funds I investigated were geographically or industry concentrated. As an example, the iShares MSCI Frontier 100 ETF tracks 100 of the largest companies from countries classified as frontier; yet geographically it is 52.13% based in the Middle East and Africa. Tracking error is high as bid and ask spreads can exceed 1.5% in several of these markets. Obviously, political risk is an important consideration, too. On the plus side, frontier countries are experiencing favorable demographic tailwinds and low correlations when compared to other regions. Most likely however, these markets would not be immune to a U.S. stock market derail no matter how attractive diversification benefits appear to be. If anything, frontiers should be on every investor?s radar for a future commitment of capital especially as their markets increase in size and liquidity.

International may provide more attractive future returns.

The globe is tethered by short leashes. The financial system, the low-inflation conundrum, coordinated actions by central banks, social networks, you name it. Currently, economic growth appears to be in a synchronized phase with improving metrics appearing across borders. To be clear, valuation metrics are lousy indicators of short-term performance or market action. They can provide however, a glimpse into how future returns may fare. If valuations are lofty as they are in the U.S., then investors should expect lower returns or greater drawdowns in the future. StarCapital• does an impressive job calculating long-term returns (10-15 years) for global equity investors and adds price-to-book for each country. Upon examination, developed Europe and emerging markets offer greater return potential over the United States *(as of 9/30/2017).* The strategy to begin a financial journey outside the U.S. should be based on your tolerance for risks (political, currency & principal loss) and the depth of education required to motivate you to cross outside the borders of your comfort zone.