Playing away

By Perpetual Private Insights
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The just-retired Arsenal football club manager Arsene Wenger took charge of over 1200 games for the North London club. The end of his legendary career was precipitated by a Jekyll and Hyde success rate in 2018 – a series of comfortable wins at home, but just one away. While Arsenal's travails were extreme, in general, football teams win more often at home than away.

Many investors feel the same way. There is a "hometown bias" to investment portfolios in most countries with investors preferring to buy shares in companies they "know". Indeed, research from the University of Chicago[1] suggests investors prefer companies that are closer to them geographically – even *within* their own country.

Australia is no outlier when it comes to hometown bias. According to the *ASX Australian Investor Study 2017*, 75% of Australian share owners hold **only** domestic shares[2]. On ATO statistics, SMSF investors with portfolios of between $1million and $5 million have less than half a percent of their money playing an away game. [3]

Hometown blues

Perpetual Private's Head of Investment Research, Kyle Lidbury, points out that playing only at your home ground can be a mistake. Overweighting your portfolio to Australian assets significantly limits diversification – and that can mean you are taking more risk than you need to.

In the points below (and the video above) we look at why an allocation to global shares makes sense for many investors.

- Australia is a concentrated market – dominated by banks and miners. Conversely, investing at home means you get little exposure to global leaders in fields such as digital/IT and pharmaceuticals. Everyone's looking for Australia's Facebook. There isn't one.
- While Australian and global shares generate similar levels of return over the long-term, the pattern of returns is different. That makes a spread across both asset classes more effective from a diversification point of view - and can make your portfolio less risky.
- Investing overseas also provides you with **currency** diversification. If at least some of your wealth is held in other currencies like the US dollar, Euro or UK pound, that part of your wealth may be protected from negative currency moves – such as when the Australia dollar was worth less than 65 US cents back in 2009.
- While local shares and their franking credits often provide attractive levels of tax-effective income, global shares still have a role in an income-focused portfolio. They create the vital diversification mentioned above **and** can provide the capital growth that is so important to making sure your overall portfolio is growing, beating inflation and thus generating a sound source of future income.

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[1] https://www.chicagobooth.edu/~/media/dbf37883e3404efda278d34320a54186.pdf

[2] https://www.asx.com.au/documents/resources/2017-asx-investor-study.pdf

[3] https://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/Statistics/Quarterly-reports/Self-managed-super-fund-quarterly-statistical-report---December-2017/