

## OUTSIDE THE FLAGS

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# The Polyphony of Markets

Have you ever heard choristers sing melodies independently of each other? 'Polyphonic' music (Handel's 'Messiah' is an example) can be a challenging listen, but its depth and variation offers subtle rewards. Global markets are a bit like that.

Like listening to a single melody, focusing on the ups and downs of an individual country market can trigger impatience. But broaden your landscape and you discover a much richer texture pattern of sounds (and returns).

Diversifying your portfolio across many different countries is the investment equivalent of polyphony. There is not one single melody but many. As one market swoons, another soars. It's hard to discern a pattern.

The benefit for the end investor, as with the listener, is not the contribution of any individual country, or singer, but the effect of how all the parts fit together. The variation also helps keep us in our seats.

The chart below shows the annualised percentage returns (in nominal US dollars) of 21 developed markets over each decade going back to the start of the 20th century. The boxes with black text on a white background represent World returns.

You can see that in some countries whole decades went by with no realised equity premium, as in Germany in the 1930s, Japan in the 1940s, the 1990s and the 2000s and, in the last half decade, in many of the European Union nations.

But just because returns were not positive in one country does not mean they were like that everywhere. In the 2000s, for instance, many commodity producing nations like South Africa, Norway and Australia delivered strong returns.





*“Outside the Flags” began as a weekly web column on Dimensional Fund Advisors’ website in 2006. The articles are designed to help advisors communicate with their clients about the principles of good investment—working with markets, understanding risk and return, broadly diversifying and focusing on elements within the investor’s control—including portfolio structure, fees, taxes, and discipline. Jim’s flags metaphor has been taken up and recognised by Australia’s corporate regulator in its own investor education program.*

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