Hi everybody. Welcome to The Patti Brennan Show. Whether you have $20 or $20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives.

You know, that introduction was exactly the same as it always has been over the last few years. But if you're watching this, you're going to notice something very different. We've got a much more relaxed, casual type of atmosphere. I'm going to have my notes on my lap because I think that's reality. In fact, reality is I've even got my sneakers on.

So again, we're going to be tackling some important questions that we're being asked all the time. If I've heard this question once, I've heard it a million times, and that is: why do we have these international investments? Why bother diversifying? If the United States is the best market in the world, will our dominance ever end? Why bother with this thing called asset allocation?

It's a great question. First, let's tackle the question of why the U.S. is so dominant. Let's face it, our GDP—which is basically a fancy way of saying we have a way of creating new ideas, growing them, and scaling them—is significant. There's something about our soil that allows that to happen. Our GDP makes up 24% of the rest of the world's, and yet we only have 4% of the population. That's kind of a big deal.

We are also very productive. Even just 10 years ago, the U.S. stock market represented 50% of the global index. Now, we're at 66%. The question we ask ourselves is: will there be a point where international markets just become completely irrelevant? I don't think we're quite there yet. However, it's important to take a step back and ask what's going on, because it doesn't seem like a one- or two-year blip.

For example, in 2024, the S&P 500 returned 24%, while the international indices returned just 0.6%—not even 1%. That's a big difference. Was it a one-year phenomenon? No. The same kind of difference happened in 2023. Even more importantly, this trend has been pervasive and consistent over the last five to ten years. Case in point: the S&P 500 returned 83% over the last five years and 184% over the last ten years. The international indices' five-year return? Are you ready for this? Minus 2.1% per year. Over ten years, the total return was 25%, and in emerging markets, it was just 11%.

This has been a pervasive, dominant theme for ten years. We keep saying, eventually, international markets will go back to what they did in the '80s and outperform the U.S. And we’ll be really glad. It’s always better to be early than late, right? Well, let’s be real about this, because you know me—I like to be real.

First of all, why is this happening? It’s really interesting when you get a group of experts together, especially those who manage international investments or are from overseas. They’ll say, “Well, the U.S. has a big advantage. You’ve got the reserve currency of the world.” Sure. But then we have to ask ourselves: why is the dollar the reserve currency of the world? Is it because it’s the most dependable currency? Is it because we’ve managed the economy so that inflation—yes, it went nuts—but it didn’t stay nuts? It’s on its way back down to the 2% target.

If you had a choice of buying a bond, which represents debt, from France or England or the United States, who do you think is going to pay you back? The United States is going to pay you back because we keep our promises. That’s one reason.

We’ve talked about how the U.S. has this unique economic soil that allows good ideas to be born, to grow, and to scale. Think about every sector—there isn’t just one big company. There are ten to choose from. That’s not the case with other international markets, where you might have just one dominant company. They don’t have the diversity we have.

Looking at the ten-year return, not only did the S&P 500 outperform, but every single sector in the U.S. outperformed a broad market index overseas. That’s a big deal. It isn’t just technology—it’s every sector. Let’s look at some numbers:

- The ten-year return for international markets: 25%.
- Industrials in the U.S.: 77%.
- Consumer staples: 29% vs. 25% internationally.
- Financials: 77%.

Every single sector we have has outperformed over five and ten years compared to the broader international industry. So, it’s not just technology—though many, including myself, would say technology in the U.S. is outstanding and allows us to be more productive.

Another reason for the U.S.'s dominance is the wealth effect. Our capital markets are known for their liquidity—they're deep and reliable. When you want to sell a stock, you can sell it in nanoseconds. That's not as reliable in other nations.

Confidence is everything. When you look at our capital markets, they are the most liquid, transparent, and reliable in the world. That builds confidence, and people want to do business with those they trust.

Why is the U.S. the reserve currency of the world? Well, first of all, we buy a lot of stuff. We have a very robust consumer-based economy. In order for overseas industries to do business with us, they have to use dollars. So, they buy our dollars. How? By buying our bonds. Yes, our national debt is high, but they keep buying it because they want to do business with us.

Now, let's talk about regulations. We all know they can be a real hindrance to companies. That's one of the things Trump wants to address—removing regulatory burdens. I'll share a personal story: we went through an SEC audit, and it was painful. But when it was all said and done, the auditors told me, "Thank you for your cooperation." And I responded, "Thank you, because I understand why you had to do this." At the end of the day, regulations build trust in our system, even if we don't always like them.

One last item that Brad, our Chief Investment Officer, brought up is our educational system. Now, he can say this because he has a fourth grader, and he jokes that fourth graders are kind of dumb. But look at our secondary education—students from overseas want to come to college here because our universities are so good. Many of them stay, so we attract the best and the brightest.

Now, everything isn't perfect. The U.S. has a high debt relative to the amount of goods and services we produce. That can be scary—like someone with credit card debt spending more than they earn. The U.S. does the same by issuing bonds. If revenue isn't increasing and spending isn't decreasing, at some point, something's got to give.

When should we worry? We should worry when the same people buying our bonds say, "You know what? 5% interest isn't enough. You guys have a lot of debt, and we're beginning to worry you won’t pay us back.” That’s when we should be concerned. Not happening yet—hopefully never.

The key takeaway? Diversification beyond U.S. borders is important. If the tide turns, you don’t want all your money in one place.

Do I think the U.S. is going to hell in a handbasket? No. You still want to be overweight in U.S. markets, but don’t ignore the rest of the world.

Thank you so much for tuning in. I’m Patty Brennan. I hope you have a fantastic day. Take care.
