

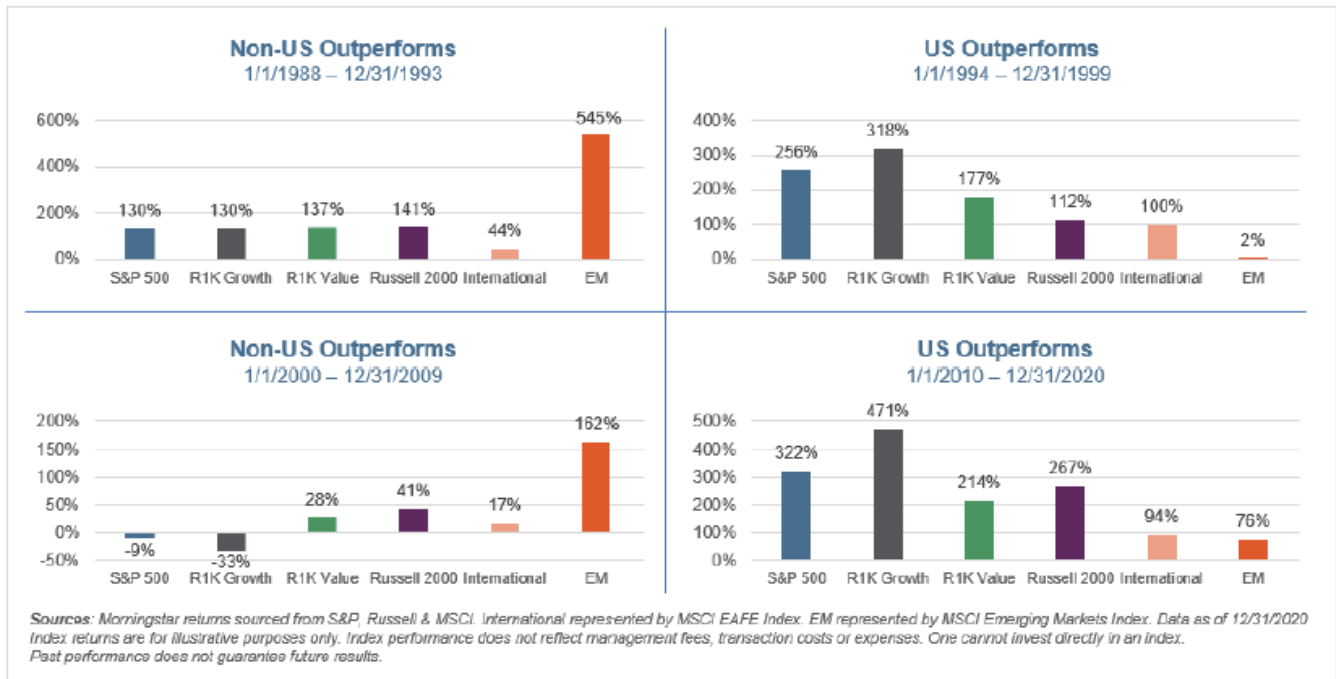


Home Bias?

In sports, playing a game on your own home court or field is considered an advantage. Even in an era when fans in the stands are limited, one of the many storylines of Super Bowl LV will be that Tampa Bay will be the first team to ever play in the Super Bowl on its own field.

As investors, however, having a home bias can be both harmful to one’s portfolio risk and its returns. There’s little denying that the last decade has been dominated by the US markets, with the S&P 500 posting over 250% gains and the Nasdaq 100 posting gains of over 535% over that span. Meanwhile, non-US equities often struggled for traction.

It would be easy for investors to forget what happened the decade prior, when the S&P 500 (from 2000-09) posted a loss while Emerging market equities returned over 160%. Similarly, from 1988-1993 EM Equities bested US stocks by more than 400%.



We have not been completely out of the non-US markets over the last decade, however we have maintained limited direct emerging market exposure. The thesis behind that posture played out favorably, as Europe struggled with Brexit and significant fiscal challenges. Meanwhile the US was rapidly innovating! US companies were growing exponentially on the back of favorable tax policies,

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historically cheap cost of capital, and under the leadership of some of the most innovative leaders in the world. Many were also significant benefactors of the growth in the emerging markets.

We now see an inflection point worth shifting our posture. The US economy has been more impacted by Covid-19 than many Asian economies. The US Dollar has weakened in the past few months, making foreign revenues and goods more attractive. Meanwhile, US equities have shown remarkable resilience. Additionally, the scale of the Emerging Markets consumer is hard to deny. China and India alone have nearly 10x the population of the United States. Over the past 3 decades, each of those populations have become more and more interested in Western consumerism.

In 2020, China's GDP grew +4.9% while the rest of the world posted losses. We are not suggesting a geographic "call", but rather recognizing a geographic phenomenon that will likely play out in non-US based corporations. ***We are not buying a China ETF, nor a Latin American mutual fund. We are allocating capital to managers with the discretion to deploy it across geographies as they deem prudent.*** The strategies we use to access great non-US companies are the same as are used in assessing the US markets. ***We are simply recalibrating our lens!***

While we have long argued in favor of owning US businesses that derive significant revenue overseas (like Starbucks and McDonalds), it is becoming increasingly clear that there are local businesses in China and throughout the Emerging landscape that have even greater growth prospects. Consider a few of the names below and a familiar American company they may resemble:

<u>Company</u>	<u>Located...</u>	<u>Resembles</u>
Tencent	China	Facebook
Alibaba	China	Amazon
Samsung	Korea	Apple
SAS	UK	Oracle
Mercado Libre	Argentina	Amazon
CEMEX	Mexico	Home Depot

One argument against the FAANG names has been the size of the opportunity and the share those companies already control. As a point of reference, Alibaba's "Singles Day" boasted ~\$75 Billion in one day sales in 2020, compared to Amazon's "Prime Day" of just over \$10 Billion. Consider the size of the Southeast Asian and Latin American opportunities and how technology has sped up the. No longer does infrastructure require landlines, but instead cell towers and wi-fi.

We believe in great domestic companies, but also believe that some of the greatest prospects for substantial growth over then next decade lie outside of the US. We are positioning for those in a more meaningful way as we forward.

We welcome your thoughts and questions. If you enjoyed reading this, please pass it along to a friend.

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