Reason in action

Amundi Investment Solutions

Trust must be earned

Don't let your habits hold you back, start making choices that help your financial future

In collaboration with the Amundi Investment Institute.

Home bias: how favouring the familiar can impact diversification*

'One can't discover new lands without agreeing to lose sight of the shore'

André Gide, French writer and Nobel Prize winner for literature

What is home bias?

Home bias occurs when investors favour domestic assets, such as shares or bonds issued by companies in their own country

Common drivers include:

- **Perceived informational advantage** about local companies and markets
- **Aversion to perceived additional risks** — most notably currency risk

A similar bias, known as **"local bias",** occurs when **investors favour companies that are geographically close** to where they live.

Some examples of home bias

- Despite decades of financial globalisation, investors remain heavily exposed to equities in their domestic markets. For example, foreign equities account for only 22% of US investors' portfolios and 39% of British investors' portfolios[1].
- In France, investors allocate nearly 75% of their equity portfolios to domestic stocks, even though French market capitalisation represents only 4.2% of the global market[2].

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The cost of home bias

The cost of staying local

Avoiding international markets can make your portfolio more volatile and miss growth opportunities:

- In a well-diversified* portfolio of domestic equities, volatility could potentially be reduced by 70%[3] compared to holding a single stock...
- ...but adding international equities to your portfolio may further improve diversification*, and could reduce volatility by up to 90%[4].

Missing out on potential global growth opportunities

Investors may risk missing the potential gains available in international markets.

Time to act: how to invest internationally?

Becoming aware of home bias is an essential step in optimising the diversification* of your portfolio and limiting the risks associated with excessive concentration of securities on the domestic market.

Key questions to ask yourself:

- *Is my portfolio overly concentrated on domestic equities, relative to global market weights?*

  Broaden your exposure: investment funds and ETFs (Exchange Traded Funds) provide simple access to different regions or sectors, but you can also invest directly in international stocks to capture global growth potential.

- *Am I avoiding foreign markets because of information gaps, currency fears, or convenience?*

  Rely on the expertise of the investment managers. Their role is to identify opportunities and manage risks, allowing you to access foreign markets without any extra effort.

SOURCES ET RÉFÉRENCES

1. Figure calculated based on 2010 data. Cooper, Ian, Piet Sercu, and Rosanne Vanpée. "The equity home bias puzzle: A survey." Foundations and Trends" in Finance.

2. Figure calculated based on data for the period 2001–2003. Fidora, Michael, Marcel Fratzscher, and Christian Thimann. "Home bias in global bond and equity markets: the role of real exchange rate volatility." Journal of International Money and Finance.

3. Bekaert, Geert, and Robert J. Hodrick. International Financial Management. Vol. 2. Pearson, 2012.

IMPORTANT INFORMATION

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