

Graph 12-5 depicts the growth of \$1,000 invested in U.S. large company stocks, European, and Pacific stocks as well as a global portfolio that represents an equally weighted mix of the aforementioned stocks. Notice that the global portfolio was the top performer, followed in order of performance by the European, Pacific, and U.S. stock indices at the end of the 36-year period. The global portfolio benefited from the long-term growth of the Pacific region, but with considerably less volatility.

The cross-correlation coefficient between two series, covered in Chapter 6, measures the extent to which they are linearly related. The correlation coefficient measures the sensitivity of returns on one asset class or portfolio to the returns of another.

Graph 12-5

**Benefits of Global Diversification**

Year-End 1969 = \$1,000.00

from 1969 to 2005

