Expanding the Efficient Range

Expanding a set of domestic portfolios to include securities from specific countries and regions can possibly improve the risk/return trade-off of investment opportunities. How would an efficient frontier be affected by such an expansion?

Graph 12-7 shows two efficient frontiers—one constructed entirely of domestic portfolios and the other constructed of global portfolios for the period 1970 to 1986. The comparison of the two efficient frontiers in this image makes a strong case for global diversification. An investor could have achieved higher returns at given levels of risk by expanding the set of domestic portfolios to include international stocks.

Graph 12-7

Efficient Frontier

U.S. Large Company Stocks, Long-Term Government Bonds, and International Stocks from 1970 to 1986