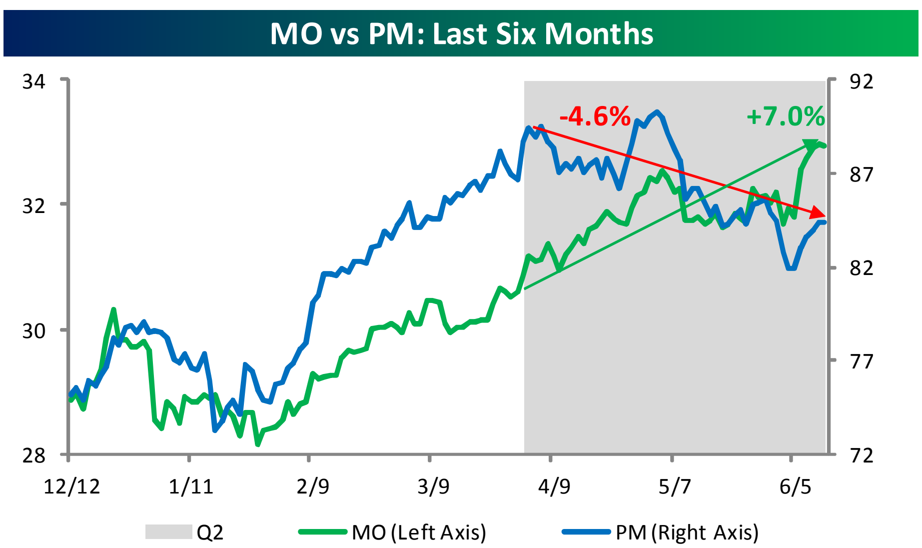
International vs. Domestic Pairs: Column A or Column B?

Last week we updated our *International Revenues Database*, which summarizes the percentage of revenues that Russell 1000 companies generate from international and domestic sources. In a report we sent out to clients, we highlighted the difference in performance between companies that generate all of their revenues in the United States compared to companies that generate more than half of their revenues outside of the United States. The comparison showed that even though stocks may be US based, their performance varies widely based on where they generate their sales. Since the start of the second quarter, companies that get most of their revenues outside of the United States have underperformed companies that generate most of their revenues in the US.

Along the same lines, there are several examples of companies engaged in the same businesses, where the one major difference between them is that one is domestically focused while the other is more exposed to international markets. The table on page two highlights fourteen pairs from different industries, and shows how each stock in the pair has performed since the start of the second quarter when the crisis in Europe came back into focus.

Perhaps the best example of these domestic versus international pairs is Altria (MO) versus Phillip Morris Int'l (PM). Both are essentially cigarette/tobacco companies, where MO generates 100% of its revenues in the United States while PM gets all of its revenues outside of the United States. Late last year and in early 2012 when the dollar was weak, shares of PM outperformed MO. Since the start of the second quarter, however, the two stocks have reversed roles. Since the end of March, MO is up 7%, while PM is down 4.6%. *Continued on page two.*



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Below is the table we mentioned on page one highlighting domestic versus international pairs from fourteen different groups. The stocks on the left side are domestically focused, while the stocks on the right obtain most of their revenues from international sources. As shown, there are numerous examples where investors can gain exposure to a certain industry or group but choose whether or not they want to focus on companies with domestic or international exposure. Looking to buy a brewer? If you want US exposure, one name to focus on is Boston Beer (SAM), which generates 100% of its revenues in the United States. If you are looking for international exposure, the better choice would be Anheuser Busch/InBev (BUD), which obtains only 40% of its revenues in the US. Other notable pairs are Nike (International) versus Under Armour (Domestic) or Wells Fargo (Domestic) versus Citibank (International).

Looking at the performance of each list, the domestically focused stocks have seen an average return of 2.9% since the start of the second quarter, while the international stocks are down an average of nearly 10%. Going forward, our view is that over the longer-term, domestically focused companies will continue to outperform their international peers. However, as we noted in last week's report on international revenues, we continue to see the likelihood of a short-term rally in internationally focused stocks as the performance spread between each basket of stocks has widened out to such extreme levels.

The best way for investors to use this list is that if you think the dollar will continue to rally, stick to the domestically focused stocks on the left side of the list. But if you are of the view that international economies will improve causing the dollar to sell off, you would want to focus on the international stocks on the right side of the list. On the following pages, we provide charts showing the performance of each pair of stocks over the last six months. In each chart, the domestically focused stocks are in green, while the internationally oriented stocks are in blue.

Domestic vs International Revenue Pairs

	Domestic Orientated				Internationally Orientated			
Group	Ticker	Name	Domestic Revenues (%)	%Change Q2	Ticker	Name	Domestic Revenues (%)	%Change Q2
Ag. Products	ADM	Archer-Daniels	53	0.8	BG	Bunge	24	-14.2
Airlines	LUV	Southwest Air.	100	11.0	CPA	Copa Holdings	15	-2.7
Apparel Retail	AEO	American Eagle	100	11.6	GES	Guess?	38	-13.0
Brewers	SAM	Boston Beer	100	1.4	BUD	Anh-Busch InBev	40	-5.9
Cable & Satellite	CMCSA	Comcast	100	0.4	VMED	Virgin Media	0	-7.6
Casinos & Gaming	BYD	Boyd Gaming	100	-8.7	LVS	Las Vegas Sands	18	-20.8
Diversified Fin'l Svcs	WFC	Wells Fargo	100	-10.3	C	Citigroup	40	-27.6
Heavy Machinery	DE	Deere	61	-9.7	CAT	Caterpillar	36	-19.8
Household Products	CHD	Church & Dwight	72	9.0	PG	Procter & Gamble	41	-7.1
Industr. Conglom.	CSL	Carlisle	81	2.3	MMM	3M	34	-4.0
Restaurants	JACK	Jack in the Box	100	6.6	MCD	McDonald's	32	-11.3
Soft Drinks	DPS	Dr Pepper Snapple	89	7.0	KO	Coca-Cola	44	1.2
Cons Durable & Appar.	UA	Under Armour	94	12.1	NKE	NIKE	36	-0.2
Tobacco	MO	Altria Group	100	7.0	PM	Philip Morris Int'l	0	-4.6
			Average	**2.9**			**Average**	**-9.8**

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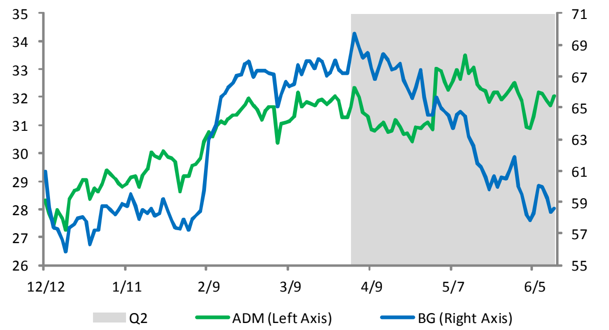
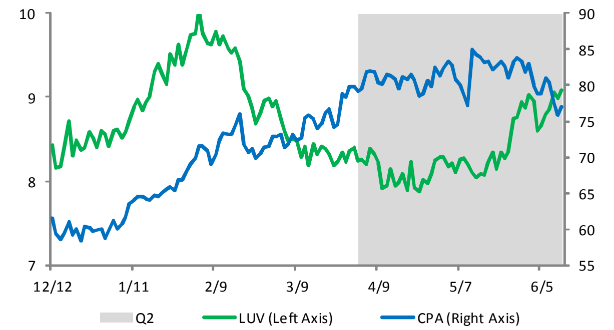
ADM vs BG: Last Six Months

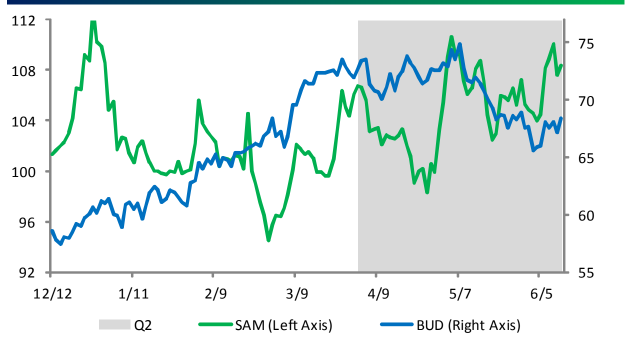


LUV vs CPA: Last Six Months

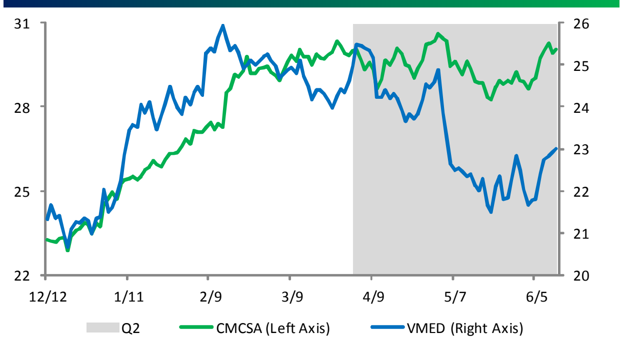


AEO vs GES: Last Six Months

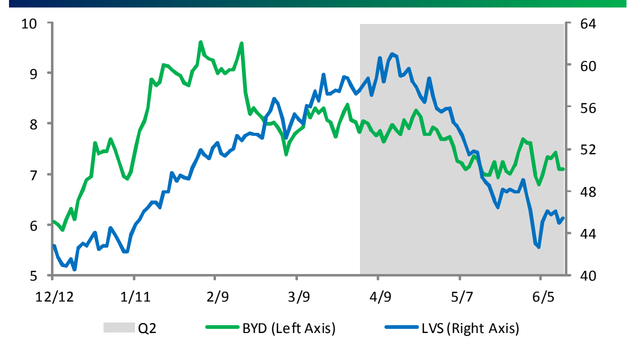
SAM vs BUD: Last Six Months



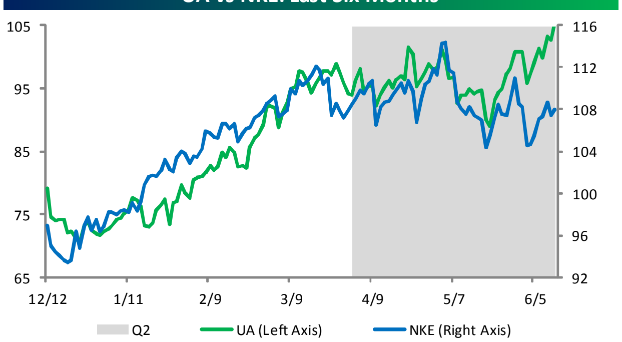
CMCSA vs VMED: Last Six Months



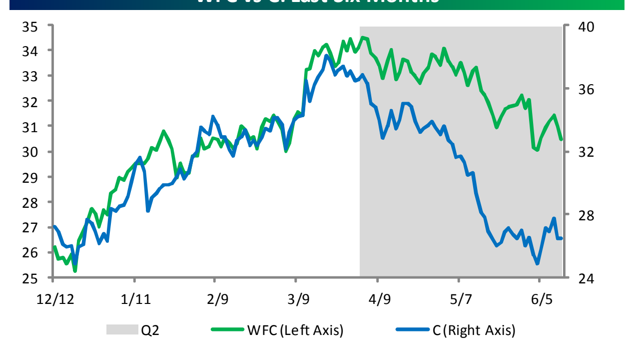
BYD vs LVS: Last Six Months



UA vs NKE: Last Six Months



WFC vs C: Last Six Months



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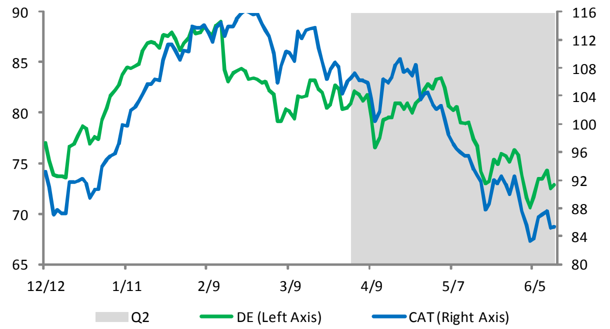
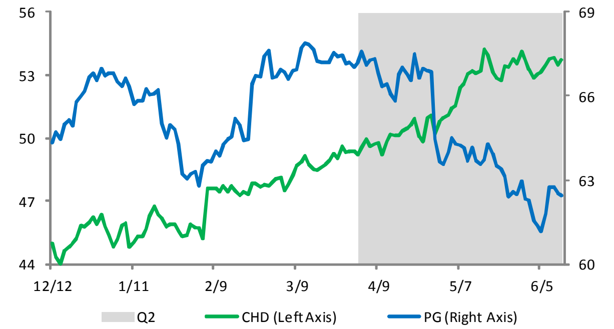
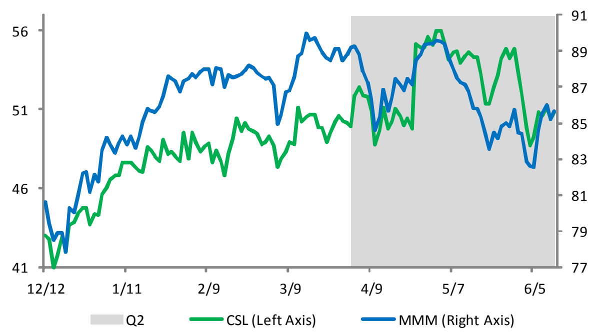
DE vs CAT: Last Six Months



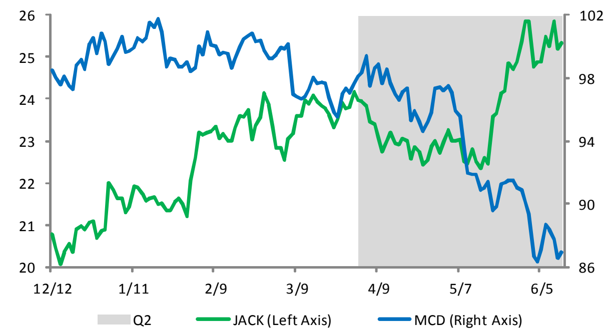
CHD vs PG: Last Six Months



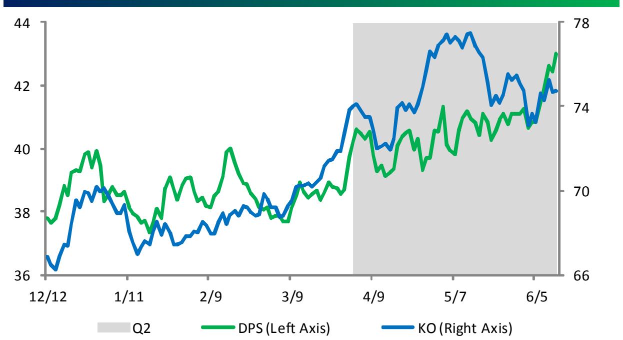
CSL vs MMM: Last Six Months



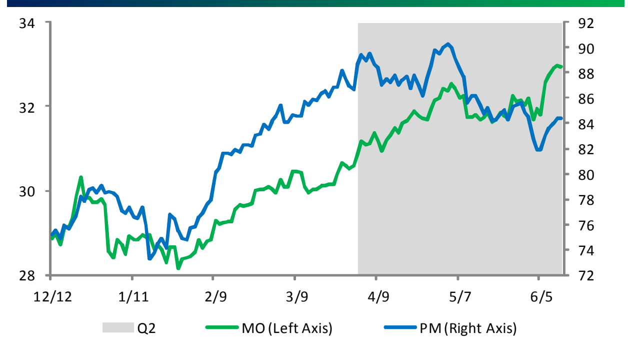
JACK vs MCD: Last Six Months



DPS vs KO: Last Six Months



MO vs PM: Last Six Months



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