

FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

Issue #300
November 13, 2026

International Investing

For several reasons, I like to invest in countries where capital and the rights of its owners are respected and protected via features such as private property rights and the rule of law. First, I want to take the risk of nationalization/expropriation/confiscation off the table, as that would be a complete loss. Second, I want to avoid the costs of taxes, regulation, corruption and crime. Further, I want to invest in a place where trade, profits and growth are more likely to occur, as my return will be higher than if they are not.

During the last couple of years, I have focused primarily on investing in U.S.-based companies due to its relatively favorable political environment. After the recent disastrous mid-term elections, however (which were dominated by enemies of capital, investors and private property rights), it is time to cast our sights on distant shores to see if we might be able to find a more hospitable home for our capital. In theory, at least, most of the world's investment opportunities lie outside of the U.S., especially when the CAPE ratio of the S&P 500 is much higher than it was just before the great stock market crash of 1929.

Over the years, I have discovered a number of organizations that issue reports (usually annual) about the state of affairs in various countries, which give each country an overall score for that area. These areas that I keep track of (since I believe they affect an

international investor's risk and return) include tax competitiveness, economic freedom (I have two sources for this), the ease of doing business in that country, corruption, the level of trust in society, press freedom, free speech, Internet freedom, law & order, and happiness. In each area, a country can earn a score of 0 to 100 (though happiness is far less important to me, so its score ranges from 0 to 10). Additionally, I include a risk premium relative to the U.S. (which is either positive or negative, none of which currently exceed 10 points).

The current sum of all scores for each country is shown below. Note that some countries aren't covered in the reports for one or two areas, so their effective score of 0 for those reduces their total score. Countries missing one score (up to 100 points) are shown in italics, while countries missing two scores (up to 200 points) are shown in bold.

Country	Country Score
Australia	756
Austria	592
Belgium	557
Brazil	***500***
Canada	675
Chile	669
Colombia	472
Denmark	743
Egypt	371
Finland	643
France	672
Germany	744
Greece	460
India	476
Indonesia	474
Ireland	592
Israel	572
Italy	566
Japan	697
Luxembourg	602
Malaysia	537
Mexico	548
Netherlands	708
New Zealand	623
Norway	736
Pakistan	404
Peru	340

Philippines	**497**
Poland	**585**
Portugal	**527**
Singapore	**564**
South Korea	**689**
Spain	**619**
Sweden	**709**
Switzerland	**653**
Taiwan	**651**
Thailand	**455**
Turkey	**496**
UK	**725**
USA	**707**

Thinking and writing about this gave me the idea to "true up" the countries that are missing scores in one or two areas by just using the average score for that area, and then taking its total score with a grain of salt, which would allow for a more apples-to-apples comparison.

Note that these scores say nothing about the current valuation or investor sentiment of each company's stock market. I already have columns in my Country spreadsheet for valuation/optimism score and country score/optimism score, but I'm going to try to create an overall score that takes all three (valuation, optimism and country score) into account, which will be tricky since each one uses different scales.

The U.S. has a score of 707, which is pretty good. It's also significantly easier to obtain recent information about U.S. companies, and I think it's more likely to adhere to GAAP (generally accepted accounting procedures). Foreign markets tend to be more opaque.

A number of Western European countries (Denmark, Germany, Norway, Netherlands, Sweden, UK) look good on paper, but are in the process of being overrun by millions of hostile, violent, poorly educated migrants from Asia and Africa who have little or no knowledge of their host country or respect for its history, customs, laws and traditions.

Even without the migrant crisis, these countries would soon collapse from a combination of socialist policies, choking regulation, massive social and military spending, heavy government debt (with rising interest rates), terminal demographics, a disastrous energy policy and a likely war with nuclear-armed Russia. Virtually all of them are dead men walking, though there may be small opportunities in select Eastern European countries such as Poland.

I've been investing in Japan (score of 697) in recent years. One problem with Japanese companies is that the vast majority of them have signed on to help the United Nations achieve its goals (at the expense of their own shareholders).

Australia has a surprisingly high score (756), so I'll have to take another look, though it seems similar to Western Europe.

A common problem with a number of these countries is that their stock market is small and/or there are few ADRs (which allows U.S. investors to buy their stocks on a U.S. exchange).

Another consideration: A country can have a fairly high score and still be on the verge of collapse (e.g., France, with a relatively high score of 672).

In conclusion, the global pickings are slim, which explains why I am extremely selective.

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