

ABSTRACT

This research is an investigation to study which is diversification of international portfolio or diversification of domestic portfolio have a better performance. As said Solnik (1974) diversification of international portfolio will reduce risk of portfolio. To measure performance of portfolio we use Treynor, Sharpe and Jensen. An optimal international and domestic portfolio to be formed with Single Index Model. Test result that international portfolio have a better performance than domestic portfolio in the context of Treynor and Sharpe measurement. But domestic portfolio have a better performance than international portfolio in the context higher return (jensen measurement) to be noticed that high return is the consequence of high risk.

Keywords : diversification of international portfolio, single index model, home bias

