SECURITIES AND EXCHANGE COMMISSION

International Investing

get the facts

How You Can Learn More About Foreign Companies and Markets

PRESENTED BY:

United States
Securities and
Exchange Commission

Division of
Corporation Finance

mutual funds

U.S. traded foreign sto

American Depositary

direct investments

There are different ways you can invest internationally: through mutual funds, American Depositary Receipts, U.S.-traded foreign stocks, or direct investments in foreign markets. This brochure explains the basic facts about international investing and how you can learn more about foreign companies and markets. Although this brochure covers foreign stocks, much of it also applies to foreign bonds.

Question

Why a Brochure on International Investing?

Answer

More Americans have been investing abroad than ever before.

- At the end of 1997, foreign stocks represented almost 10% of all the stocks owned by Americans.
- Beginning in 1985, the market value of all foreign stocks began to surpass the value of all U.S. stocks.
- The number of foreign companies that have registered with the U.S. Securities and Exchange Commission has grown from 434 companies in 1990 to over 1,100 companies in 1998.

As investors have learned recently, the market value of investments can change suddenly. This is true in the U. S. securities markets, but the changes may be even more dramatic in markets outside the United States. The world's economies are becoming more interrelated, and dramatic changes in stock value in one market can spread quickly to other markets.

Keep in mind that even if you only invest in stocks of U.S. companies you already may have some international exposure in your investment portfolio. Many of the factors that affect foreign companies also affect the foreign business operations of U.S. companies. The fear that economic problems around the globe will hurt the operations of U.S. companies can cause dramatic changes in U.S. stock prices.

Sudden changes in market value are only one important consideration in international investing. Changes in foreign currency exchange rates will affect all international investments, and there are other special risks you should consider before deciding whether to invest. The degree of risk may vary, depending on the type of investment and the market. For example, international mutual funds may be less risky than direct investments in foreign markets, and investing in developed economies may avoid some of the risks of investing in emerging markets.

Question

Why have Americans been investing in foreign markets in increasing numbers?

Answer

Two of the chief reasons why people invest internationally are

- Diversification -- spreading your investment risk among foreign companies and markets that are different than the U.S. economy, and

- Growth -- taking advantage of the potential for growth in some foreign economies, particularly in emerging markets.

Of course, you have to balance these considerations against the possibility of higher costs, sudden changes in value, and the special risks of international investing.

You can see from the table below that international investment returns sometimes move in a different direction than U.S. market returns. The table shows changes in:

a) the MSCI EAFE® Index, a well-known index of stocks in more developed foreign markets,

b) the MSCI Emerging Markets Force (EMF℠) Index, and

c) the Standard & Poor's 500, an index of large U.S. companies.

Even when international and U.S. investments move in the same direction the degree of change may be very different. When you compare the returns from emerging markets you see even wider swings in value.

Annual Returns of the MSCI EAFE® Index, the MSCI EMF℠ Index and the S&P 500

(in U.S. dollars)

Year	MSCI EAFE®	MSCI EMF℠	S&P 500
1998	20.33%	-23.21%	28.58%
1997	2.06	-13.45	33.36
1996	6.36	5.99	22.96
1995	11.55	-9.20	37.58
1994	8.06	-1.07	1.32
1993	32.94	68.76	10.08
1992	-11.85	4.56	7.62
1991	12.50	31.69	30.47
1990	-23.20	-31.45	-3.10
1989	10.80	53.52	31.69
1988	28.59	79.08	16.61
Average Annual Return	4.35%	2.17%	17.05%

Sources: Morgan Stanley Capital International and Standard and Poor's.

Question

What are the special risks in international investing?

Answer

Although you take risks when you invest in any stock, international investing has some special risks:

- Changes in currency exchange rates. When the exchange rate between the foreign currency of an international investment and the U.S. dollar changes, it can increase or reduce your investment return. How does this work? Foreign companies trade and pay dividends in the currency of their local market. When you receive dividends or sell your international investment, you will need to convert the cash you receive into U.S. dollars. During a period when the foreign currency is strong compared to the U.S. dollar, this strength *increases* your returns because your foreign earnings translate into more dollars. If the foreign currency weakens

What is an index?

An index is a group of stocks representing a particular segment of a market, or in some cases the entire market. For example, the Standard & Poor's 500 index represents a specific segment of the U.S. capital markets. Foreign stock markets also may be represented by an index, such as the Nikkei index of large Japanese companies or the CAC 40 index of large French companies. The components of an index can change over time, as new stocks are added and old ones are dropped.

Broader indices, such as the MSCI EAFE®,are made up of stocks from several markets. For example, as of June 30, 1998, the MSCI EAFE® included a total of 21 developed markets in Europe, Australasia (Australia, New Zealand, Malaysia* and Singapore) and the Far East (Japan and Hong Kong). The MSCI EMF℠ Index included 26 emerging markets: Argentina, Brazil, Chile, China, Columbia, Czech Republic, Greece, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia,* Mexico, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Sri Lanka, Taiwan, Thailand, Turkey and Venezuela. Broader market indices, particularly for emerging markets, may change as countries are added or dropped from the index. In 1988, for example, the MSCI EMF℠ Index included only 15 countries.

* During the periods shown, MSCI included Malaysia in both the developed markets index and the emerging markets index for historical reasons dating back to the period when the Malaysia and Singapore stock markets were linked.

compared to the U.S. dollar, this weakness *reduces* your returns because your earnings translate into fewer dollars.

The table below shows how your international investment returns can change when you convert them from local currency to U.S. dollars.

Annual Returns of the MSCI EAFE® Index in Local Currency and U.S. Dollars

	MSCI EAFE® Index	
Year	Local Currency	U.S. Dollars
1998	12.60%	20.33%
1997	13.82	2.06
1996	11.63	6.36
1995	9.83	11.55
1994	-1.78	8.06
1993	29.56	32.94
1992	-5.83	-11.85
1991	9.06	12.50
1990	-29.60	-23.20
1989	21.74	10.80
1988	34.00	28.59

Source: Morgan Stanley Capital International.

As you can see from the table, converting from local currency to U.S. dollars reduced the 13.82% gain of the MSCI EAFE® in 1997 to a gain of only 2.06%. In 1994, on the other hand, a 1.78% loss, measured in local currency, became a gain in U.S. dollars of over 8%.

In addition to exchange rates, you should be aware that some countries may impose foreign currency controls that restrict or delay you from moving currency out of a country.

- Dramatic changes in market value. Foreign markets, like all markets, can experience dramatic changes in market value. *One way to reduce the impact of these price changes is to invest for the long term and try to ride out sharp upswings and downturns in the market.* Individual investors frequently lose money when they try to "time" the market in the United States and are even less likely to succeed in a foreign market. When you "time" the market you have to make two astute decisions -- deciding when to get out before prices fall and when to get back in before prices rise again.

- Political, economic and social events. It is difficult for investors to understand all the political, economic, and social factors that influence foreign markets. These factors provide diversification, but they also contribute to the risk of international investing.

- Lack of liquidity. Foreign markets may have lower trading volumes and fewer listed companies. They may only be open a few hours a day. Some countries restrict the amount or type of stocks that foreign investors may purchase. You may have to pay premium prices to buy a foreign security and have difficulty finding a buyer when you want to sell.

- Less information. Many foreign companies do not provide investors with the same type of information as U.S. public companies. It may be difficult to locate up-to-date information, and the information the company publishes may not be in English.

- Reliance on foreign legal remedies. If you have a problem with your investment, you may not be able to sue the company in the United States. Even if you sue successfully in a U.S. court, you may not be able to collect on a U.S. judgment against a foreign company. You may have to rely on whatever legal remedies are available in the company's home country.

- Different market operations. Foreign markets often operate differently from the major U.S. trading markets. For example, there may be different periods for clearance and settlement of securities transactions. Some foreign markets may not report stock trades as quickly as U.S. markets. Rules providing for the safekeeping of shares held by custodian banks or depositories may not be as well developed in some foreign markets, with the risk that your shares may not be protected if the custodian has credit problems or fails.

Question

What are the costs of international investments?

Answer

International investing can be more expensive than investing in U.S. companies. In smaller markets, you may have to pay a premium to purchase shares of popular companies. In some countries there may be unexpected taxes, such as withholding taxes on dividends. Transaction costs such as fees, broker's commissions, and taxes often are higher than in U.S. markets. Mutual funds that invest abroad often have higher fees and expenses than funds that invest in U.S. stocks, in part because of the extra expense of trading in foreign markets. In 1998, for example, world or non-U.S. equity mutual funds had a median expense ratio of 1.78%, compared to 1.31% for general U.S. equity funds.*

Question

What are the different ways to invest internationally?

Answer

■ *Mutual Funds.* One way to invest internationally is through mutual funds. There are different kinds of funds that invest in foreign stocks.

- Global funds invest primarily in foreign companies, but may also invest in U.S. companies.

- International funds generally limit their investments to companies outside the United States.

- Regional or country funds invest principally in companies located in a particular geographic region (such as Europe or Latin America) or in a single country. Some funds invest only in emerging markets, while others concentrate on more developed markets.

- International index funds try to track the results of a particular foreign market index. Index funds differ from actively managed funds, whose managers pick stocks based on research about the companies.

International investing through mutual funds can reduce some of the risks mentioned earlier. Mutual funds provide more diversification than most investors could achieve on their own. The fund manager also should be familiar with

* Source: Lipper - Directors Analytical Data. Third Edition 1998. World equity funds included global funds, which also may invest in U.S. securities.

international investing and have the resources to research foreign companies. The fund will handle currency conversions and pay any foreign taxes, and is likely to understand the different operations of foreign markets. Like other international investments, mutual funds that invest internationally probably will have higher costs than funds that invest only in U.S. stocks.

If you want to learn more about investing in mutual funds, information is available at no charge in our brochure *Invest Wisely -- An Introduction to Mutual Funds.* You can get a copy from our Web site (*www.sec.gov*) or by calling our toll free number, 1-800-SEC-0330.

- *American Depositary Receipts.* The stocks of most foreign companies that trade in the U.S. markets are traded as American Depositary Receipts (ADRs) issued by U.S. depositary banks. Each ADR represents one or more shares of a foreign stock or a fraction of a share. If you own an ADR you have the right to obtain the foreign stock it represents, but U.S. investors usually find it more convenient to own the ADR. The price of an ADR corresponds to the price of the foreign stock in its home market, adjusted for the ratio of ADRs to foreign company shares.

Owning ADRs has some advantages compared to owning foreign shares directly:

- When you buy and sell ADRs you are trading in the U.S. market. Your trade will clear and settle in U.S. dollars.

- The depositary bank will convert any dividends or other cash payments into U.S. dollars before sending them to you.

- The depositary bank may arrange to vote your shares for you as you instruct.

On the other hand, there are some disadvantages:

- It may take a long time for you to receive information from the company because it must pass through an extra pair of hands. You may receive information about shareholder meetings only a few days before the meeting, well past the time when you could vote your shares.

- Depositary banks charge fees for their services and will deduct these fees from the dividends and other distributions on your shares. The depositary bank also will incur expenses, such as for converting foreign currency into U.S. dollars, and usually will pass those expenses on to you.

■ *U.S.-Traded Foreign Stocks.* Although most foreign stocks trade in the U.S. markets as ADRs, some foreign stocks trade here in the same form as in their local market. For example, Canadian stocks trade in the same form in the United States as they do in the Canadian markets, rather than as ADRs.

Available Information on ADRs and U.S.-Traded Foreign Stocks

You can purchase ADRs and other foreign stocks that trade in the United States through your broker. There are different trading markets in the United States, and the information available about an ADR or foreign stock will depend on where it trades.

TRADING MARKET	AVAILABLE INFORMATION
New York Stock Exchange **American Stock Exchange** **The NASDAQ Stock Market** **Regional stock exchanges** **The OTC Bulletin Board**	**Foreign companies file annual reports with the SEC, as well as other information available in their home countries. Annual reports contain financial statements audited by independent accountants using U. S. audit standards. The financial statements either will be prepared using U.S. accounting principles or will show what the key results would have been under U.S. accounting principles. This makes it easier to compare a company's financial position to similar U.S. companies. The shares of hundreds of foreign companies trade in these markets, usually as ADRs.**
Over-the-counter (or OTC) market	**These companies generally have not registered with the SEC, and they publish information based solely on foreign requirements, including different accounting and auditing policies. The OTC market is much less liquid than other U.S. securities markets, so it may be difficult to execute trades at favorable prices. Most foreign companies trading in the OTC market have not registered with the SEC. These companies may not let U.S. shareholders participate in offerings of new shares, such as "rights" offers to existing shareholders, because that would require SEC registration.**

- *Stocks Trading on Foreign Markets.* If you want to buy or sell stock in a company that only trades on a foreign stock market, your broker may be able to process your order for you. These foreign companies do not file reports with the SEC, however, so you will need to do additional research to get the information you need to make an investment decision. Always make sure any broker you deal with is registered with the SEC. It's against the law for unregistered foreign brokers to call you and solicit your investment.

Question

What should I do if I want to invest?

Answer

International investments are like any other investment. You should learn as much as you can about a company before you invest. Try to learn about the political, economic, and social conditions in the company's home country, so you will understand better the factors that affect the company's financial results and stock price. If you invest internationally through mutual funds, make sure you know the countries where the fund invests and understand the kinds of investments it makes.

Some sources of information:

- SEC reports. More than 1,100 foreign companies file reports with the SEC. The SEC doesn't require foreign companies to file electronically, so their reports usually are not available through the SEC's Web site. You can get paper copies from our Public Reference Branch by calling (202) 942-8090 or by writing them at Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, DC 20549. We charge a copying fee for this service.

- <u>Mutual fund firms</u>. You can get the prospectus for a particular mutual fund directly from the mutual fund firm. Many firms also have Web sites that provide helpful information about international investing.

- <u>The company</u>. Foreign companies often prepare annual reports, and some companies also publish an English language version of their annual report. Ask your broker for copies of the company's reports or check to see if they are available from the SEC. Some foreign companies post their annual reports and other financial information on their Web sites.

- <u>Broker-dealers</u>. Your broker may have research reports on particular foreign companies, individual countries, or geographic regions. Ask whether updated reports are available on a regular basis. Your broker also may be able to get copies of SEC reports and other information for you.

- <u>Publications</u>. Many financial publications and international business newspapers provide extensive news coverage of foreign companies and markets.

- <u>Electronic information</u>. Information about foreign companies may be available on the Internet. *You should be wary, however, of "hot tips," overblown statements, and information posted on the Internet from unfamiliar sources.* You can find information about how to protect yourself from investment fraud over the Internet by looking to the "Investor Assistance and Complaints" section of our website (*www.sec.gov*)

Tracking down information on international investments requires some extra effort, but it will make you a more informed investor. **One of the most important things to remember is to read and understand the information before you invest.**

If you have more questions or if you have a problem with your international investment, our Web site is *www.sec.gov* and our e-mail address is *help@sec.gov.* You can get more educational brochures by calling toll-free 1-800-SEC-0330.

You also can contact us at this office:

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U.S. Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549
1-202-942-7040

International Stock Scams

Whether it's foreign currency trading, "prime European bank" securities or fictitious coconut plantations in Costa Rica, you should be skeptical about exotic-sounding international investment "opportunities" offering returns that sound too good to be true. They usually are. In the past, con artists have used the names of well-known European banks or the International Chamber of Commerce -- without their knowledge or permission -- to convince unsophisticated investors to part with their money.

Some promoters based in the United States try to make their investment schemes sound more enticing by giving them an international flavor. Other promoters actually operate from outside the United States and use the Internet to reach potential investors around the globe. Remember that when you invest abroad and something goes wrong, it's more difficult to find out what happened and locate your money. As with any investment opportunity that promises quick profits or a high rate of return, you should stop, ask questions, and investigate before you invest.

Notes and important phone numbers