

# INVESTING OUTSIDE THE U.S.A.

International Investing Opportunities for Individual Investors

Presented by Sharon McAllister



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# PORTFOLIO BASICS

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## Asset Classes

## Asset Class

- Three main asset classes
  - Equities (stocks)
  - Fixed-income (bonds)
  - Cash equivalents (money market)

# TONIGHT'S AGENDA

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## Topics

## Topics

- Why International?
  - Benefits
  - Risks
- How to Invest Internationally
  - US Multi-Nationals
  - NY Listed Foreign Shares
  - American Depositary Receipts (ADRs)
  - ETFs
  - Mutual Funds
  - Ordinaries (Direct investment on a foreign exchange)

# THERE'S NO PLACE LIKE HOME...

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Or is There?

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# WHY INTERNATIONAL?

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A World of Opportunities











## Home Country Bias

A common and natural tendency to be most attracted to investments in domestic markets.

## Best Performing Market by Year

The US market is not always the best performing market.

Best-performing market by year (1996–2005)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Spain	Switzerland	Finland	Finland	Switzerland	New Zealand	New Zealand	Greece	Austria	Canada
									
40.75%	50.60%	137.89%	138.67%	9.55%	15.22%	22.96%	38.66%	59.03%	25.09%

Source: FactSet Research Systems, net total returns in C\$. Based on countries in the MSCI World Index.

## Benefits

Four reasons individuals can benefit from investing in international equities.

- Potentially higher rates of economic growth
- Larger opportunity set
- Risk reduction
- Currency diversification

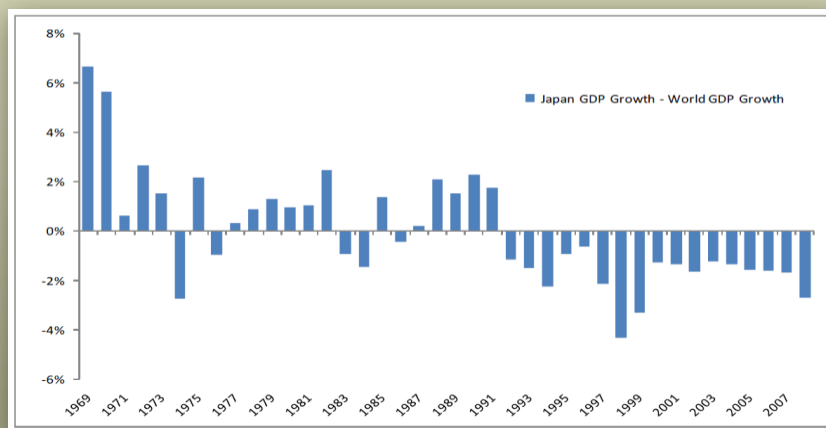
## Gross Domestic Product, GDP

- Measures a nation's productivity
- Used to gauge a country's economic health
- Includes:
  - Private consumption, aka: consumer spending
  - Government spending
  - Corporate spending
  - Net exports (exports minus imports)

## Real GDP

- Also known as:
  - Inflation-corrected GDP
  - Constant dollar GDP
- Accounts for inflation

## Differential of Japan and World GDP Growth



Source: World Bank

## Diversification Helps Manage Risk

- As simple as “do not put all your eggs in one basket”
- Ways to diversify
  - Sector
  - Industry
  - Company size
  - International exposure

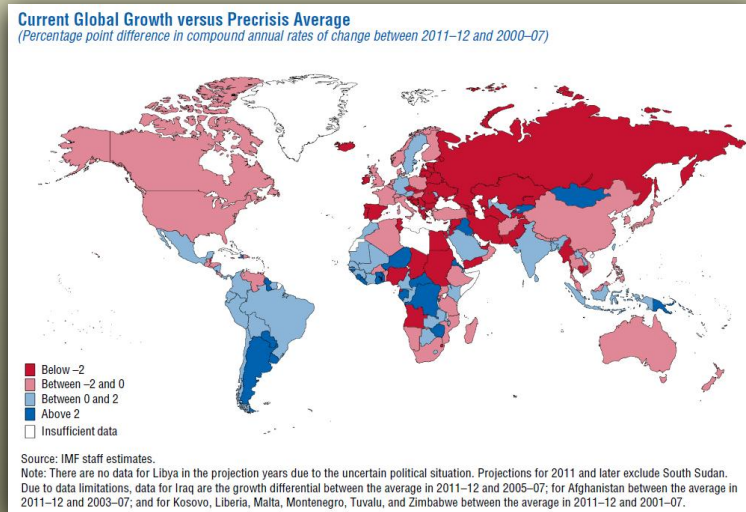
## Reasons Growth May be Higher

International markets present growth opportunities that may not be available in the US

- Differences in rising household income
- Younger populations
- Availability of natural resources
- Export strength



## Country and Regional Perspectives

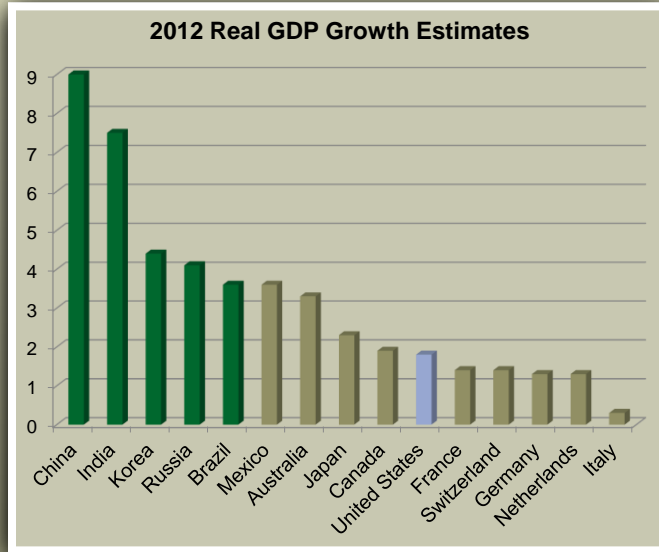


Source: IMF World Economic Outlook, September, 2011

## Global Economy

- Growing numbers of people are entering the world's middle class
- Increased demand for goods and services from the many millions who are now joining the middle class
- Continued world-wide trend towards urbanization

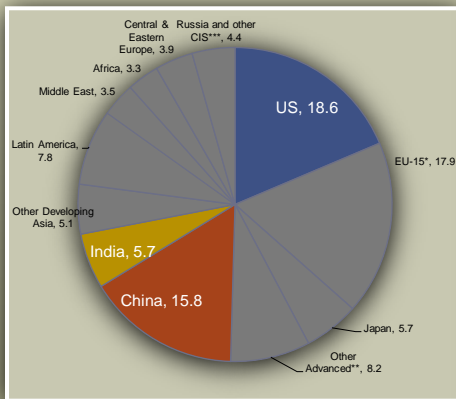
Potentially Higher Economic Growth Rates



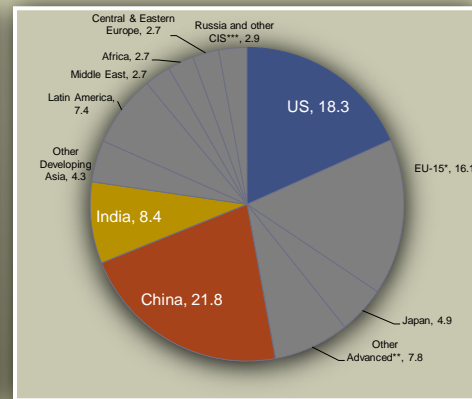
Data Source: IMF World Economic Outlook, September, 2011

## Distribution of World GDP

Distribution of World Output 2011

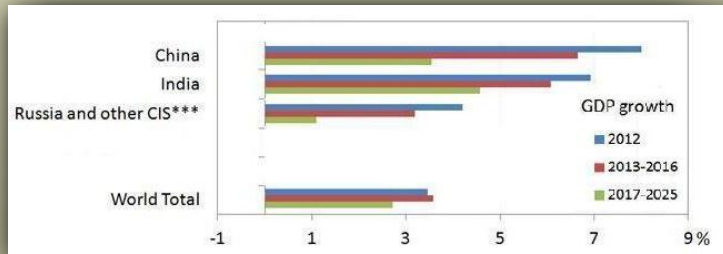


Projected Distribution of World Output 2025



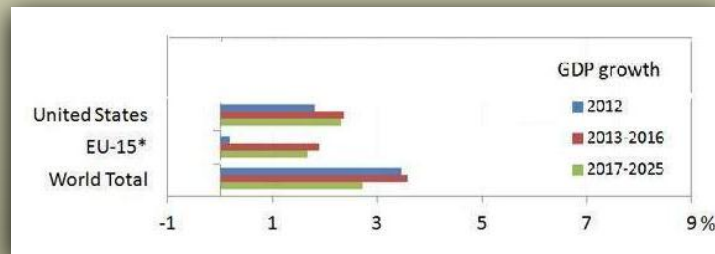
\*EU-15 refers to states that joined the European Union before 2004.  
 \*\*Other advanced economies include Canada, Switzerland, Norway, Israel, Iceland, Cyprus, Korea, Australia, Taiwan Province of China, Hong Kong, Singapore, New Zealand and Malta.  
 \*\*\*CIS is Commonwealth of Independent States which includes all former republics of the Soviet Union, excluding the Baltic states.  
 Source: The Conference Board Global Economic Outlook, January 2012  
 † due to a calculation error in our November 2011 release for the estimates for some of the major emerging economy regions, the 2012 and 2013 are adjusted in January 2012

## Global Outlook for Growth of Gross Domestic Product, 2012-2025



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## Consider This

- US federal debt is presently 96% of GDP
- When government debt exceeds 90%, that's when you begin to see the falloff in economic growth
- Peripheral European nations are higher than that

Source: Liz Ann Sonders, Schwab Market Snapshot, November, 2011

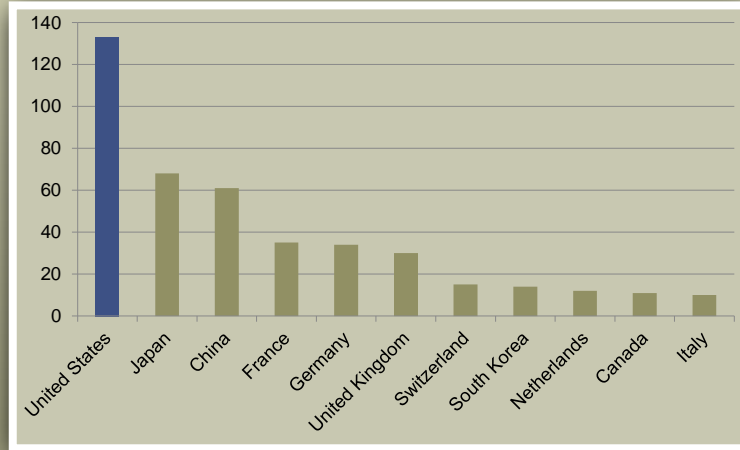
## Fortune Magazine's Global 500

List of the largest corporations by revenue.



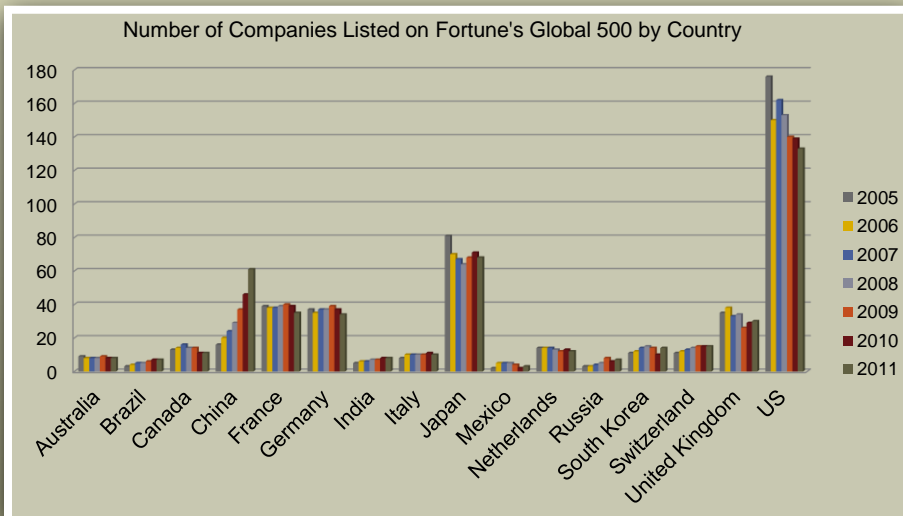
Source: (July 25, 2011)  
<http://money.cnn.com/magazines/fortune/global500/2011/maps/index.html>

## The Top 11 Countries With the Most Companies Listed on Fortune's Global 500



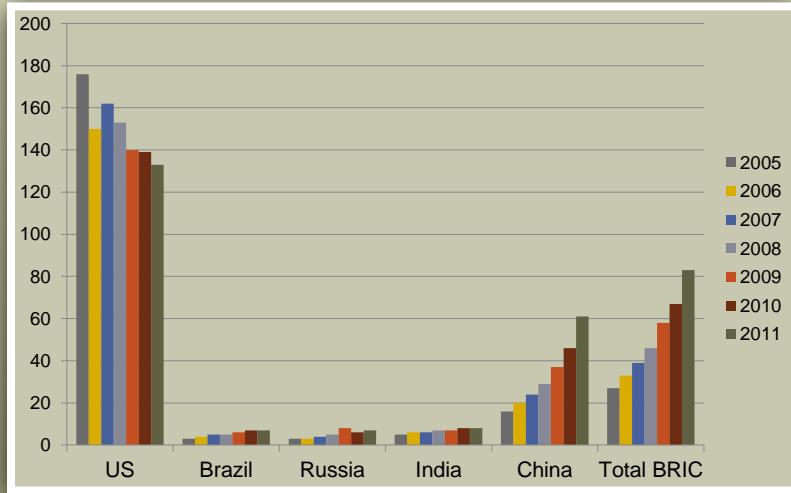
Data Source: <http://money.cnn.com/magazines/fortune/global500> (July 25, 2011)

## Fortune's Global 500 by Country: 2005-2011



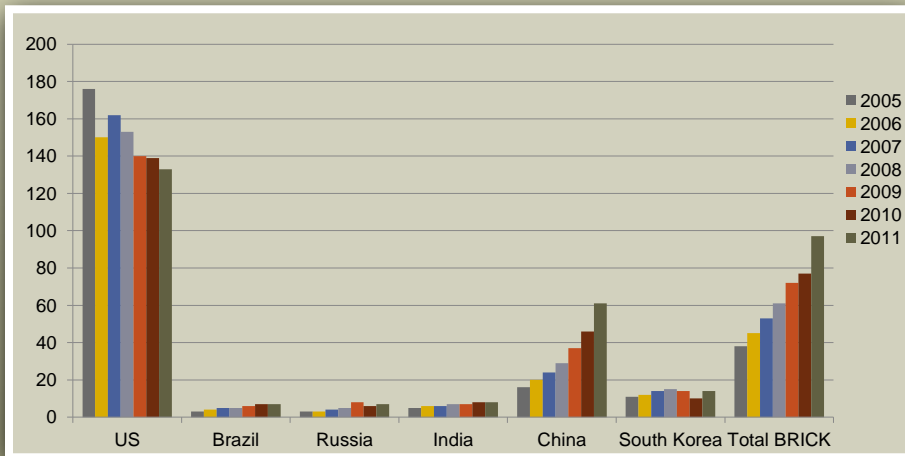
Data Source: <http://money.cnn.com/magazines/fortune/global500>

## Number of Companies on Fortune's Global 500 U.S.A. and BRIC Countries: 2005-2011



Data Source: <http://money.cnn.com/magazines/fortune/global500>

## Number of Companies on Fortune's Global 500 U.S.A. and BRICK Countries: 2005-2011



Data Source: <http://money.cnn.com/magazines/fortune/global500>

### World Market Capitalization Changes for the World's Largest Countries

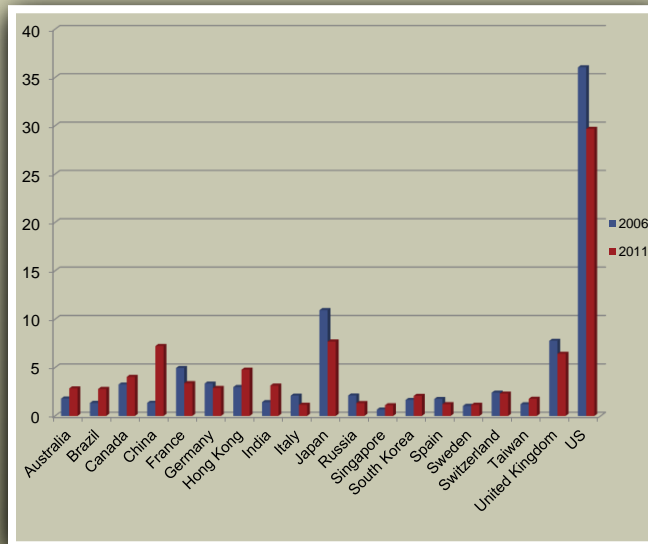
To make the list, the country's stock market has to make up at least 1% of total world market cap

% of World Equity Market Cap					
Country	5 Years Ago	Start of 2011	Current	5-Year Change	2011 Change
US	36.05	29.68	29.14	-6.91	-0.54
China	1.36	7.23	7.87	6.52	0.64
Japan	10.93	7.69	7.73	-3.20	0.04
UK	7.76	6.42	6.43	-1.33	0.02
Hong Kong	2.98	4.78	4.88	1.90	0.10
Canada	3.25	4.04	4.20	0.96	0.16
France	4.95	3.38	3.33	-1.62	-0.05
Germany	3.35	2.89	2.80	-0.55	-0.09
India	1.43	3.13	2.77	1.35	-0.36
Brazil	1.34	2.78	2.72	1.37	-0.06
Australia	1.80	2.85	2.70	0.90	-0.16
Switzerland	2.41	2.31	2.44	0.03	0.13
South Korea	1.65	2.07	2.14	0.49	0.06
Russia	2.11	1.33	1.88	-0.23	0.55
Taiwan	1.21	1.77	1.62	0.42	-0.14
Spain	1.75	1.22	1.26	-0.49	0.05
Singapore	0.66	1.11	1.10	0.44	-0.01
Italy	2.10	1.15	1.07	-1.03	-0.08
Sweden	1.04	1.15	1.00	-0.04	-0.14

Source: Bespoke Investment Group, August 2011

### Size of the US Market Versus the World

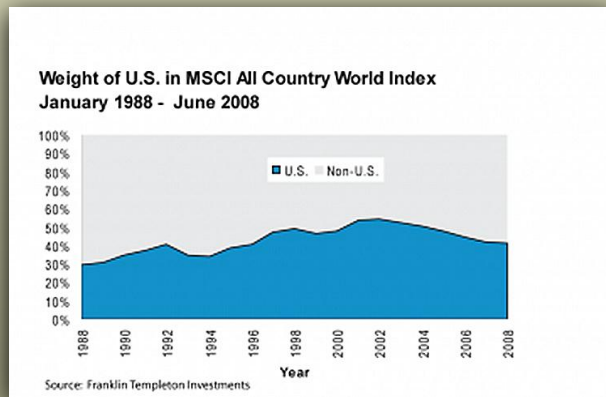
Percent of World Market Capitalization 2006 – 2011



Data source: Bespoke Investment Group, August 2011

## Market Capitalization by Country

- Fluctuates
- Influenced by market returns and changes in the value of the US dollar



## Profit Potential a Positive Aspect

- Avoiding foreign markets drastically reduce your available investment opportunities
- Many international securities and markets may provide rates of return that are superior to their US counterparts

It may be time for investors to focus more on the profit potential of international investment.



## Fortune Magazine Global 500 Companies:

### 25 Most Profitable

An important subset

These Global High Performers have been expanding their earnings at 23% annually and returned an average 16% to shareholders over the past five years



Source: (July 25, 2011)

<http://money.cnn.com/magazines/fortune/global500/2011/maps/profits25.html>

## Forbes' Global 2000

The Forbes Global 2000 is an annual ranking of the top 2000 public companies in the world by Forbes magazine.

The ranking is based on a mix of four metrics:

- Sales
- Profit
- Assets
- Market value

The list has been published since 2003.

### 2011 list

Listed below are the top 20 companies featured on the 2011 list.

Rank	Company	Headquarters	Industry	Revenue (billion \$)	Profits (billion \$)	Assets (billion \$)	Market Value (billion \$)
01	JP Morgan Chase	USA	Banking	115.5	17.4	2,117.6	182.2
02	HSBC	UK	Banking	103.3	13.3	2,467.9	186.5
03	General Electric	USA	Conglomerate	156.2	11.6	751.2	216.2
04	ExxonMobil	USA	Oil and gas	341.6	30.5	302.5	407.2
05	Royal Dutch Shell	Netherlands	Oil and gas	369.1	20.1	317.2	212.9
06	Petro China	China	Oil and gas	222.3	21.2	251.3	320.8
07	ICBC	China	Banking	69.2	18.8	1,723.5	239.5
08	Berkshire Hathaway	USA	Conglomerate	136.2	13	372.2	211
08	Petrobras	Brazil	Oil and gas	121.3	21.2	313.2	238.8
10	Citigroup	USA	Banking	111.5	10.6	1,913.9	132.8
11	BNP Paribas	France	Banking	130.4	10.5	2,680.7	88
11	Wells Fargo	USA	Banking	93.2	12.4	1,258.1	170.6
13	Banco Santander	Spain	Banking	109.7	12.8	1,570.6	94.7
14	AT&T	USA	Telecommunications	124.3	19.9	268.5	168.2
15	Gazprom	Russia	Oil and gas	98.7	25.7	275.9	172.9
16	Chevron	USA	Oil and gas	189.6	19	184.8	200.6
17	China Construction Bank	China	Banking	58.2	15.6	1,408	224.8
18	Wal-Mart	USA	Retailing	421.8	16.4	180.7	187.3
19	Total	France	Oil and gas	188.1	14.2	192.9	138
20	Allianz	Germany	Insurance	142.9	6.7	838.4	62.7

Source: [http://en.wikipedia.org/wiki/Forbes\\_Global\\_2000](http://en.wikipedia.org/wiki/Forbes_Global_2000)

## Forbes Global 2000

Here are the top 10 companies from the 2006 list.

2006 list

Rank	Company	Headquarters	Industry	Revenue (billion \$)	Profits (billion \$)	Assets (billion \$)	Market Value (billion \$)
1	Citigroup	USA	Banking	120.32	24.64	1,494.04	230.93
2	General Electric	USA	Conglomerate	149.70	16.35	673.30	348.45
3	Bank of America	USA	Banking	85.39	16.47	1,291.80	184.17
4	American International Group	USA	Insurance	106.98	11.90	843.49	172.24
5	HSBC Group	UK	Banking	76.38	12.36	1,274.22	193.32
6	ExxonMobil	USA	Oil & Gas	328.21	36.13	208.34	362.53
7	Royal Dutch/Shell	Netherlands	Oil & Gas	306.73	25.31	216.95	203.52
8	BP	UK	Oil & Gas	249.47	22.63	206.91	225.93
9	JPMorgan Chase	USA	Banking	79.90	8.48	1,198.94	144.13
10	UBS	Switzerland	Diversified Financials	78.25	10.65	1,519.40	105.69

Source: [http://en.wikipedia.org/wiki/Forbes\\_Global\\_2000](http://en.wikipedia.org/wiki/Forbes_Global_2000)

## Risks

Top concerns that may go bump in the night

- Currency risk
- Political dangers and social instability
- Different regulatory environments
- Different accounting and financial standards
- Brokerage commissions

## Risks, Continued...

Top concerns that may go bump in the night

- Less publicly available information
- Greater market volatility
- Less trading volume
- Different market and economic factors

## Currency Risk

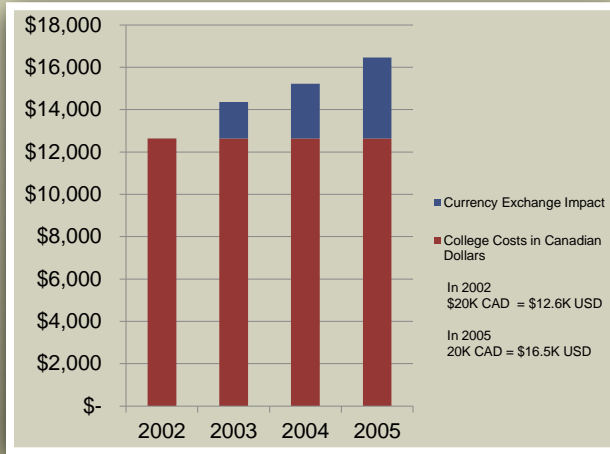
- Blue shaded area represents timeframe that my husband and I paid college tuition in US dollars to a Canadian University for our son's tuition.
- Gold shaded area represents timeframe that our son paid off his US dollar student loan while earning Canadian dollars.



Relative Performance of the US vs. Canadian Dollar

### Currency Impact

Currency exchange rate fluctuations between the US and Canadian dollar impacted college costs by 16%.



Currency impact on college costs

### Lucky or Good?

Our son paid back US dollar student loans with Canadian dollars after he graduated.

His "futures contract" reduced his portion of college costs by roughly 25%.



Relative Performance of the US vs. Canadian Dollar

# Do Foreign Returns Beat US Returns?

## Index Comparison

- Foreign is represented by MSCI EAFE (developed markets of Europe, Australasia and Far East) Index
- US is represented by the S&P 500® index

Foreign (MSCI EAFE) compared to US (S&P500)

	MSCI EAFE in US \$	US Stocks S&P 500	Did Foreign Beat US?
2000	-14%	-9%	No
2001	-21%	-12%	No
2002	-16%	-22%	Yes
2003	39%	29%	Yes
2004	21%	11%	Yes
2005	14%	5%	Yes
2006	27%	16%	Yes
2007	12%	5%	Yes
2008	-43%	-37%	No
2009	28%	26%	Yes

Source: MSCI and Standard & Poor's. International returns use the MSCI EAFE (developed markets of Europe, Australasia and Far East) Index in US dollars and in local terms, and the US is represented by the S&P 500® index.

# Can Currency Fluctuations Impact Returns?

## US Dollar Trends Tend to Impact Foreign Returns

- Dollar trend down = weak dollar  
A weak dollar trend is usually considered an advantage when investing in securities overseas.
- Dollar trend up = strong dollar  
A strong dollar trend is usually considered a disadvantage when investing in securities overseas.

Foreign (MSCI EAFE) compared to US (S&P500)

	MSCI EAFE in Foreign Currency	Currency Impact	MSCI EAFE in US \$	Dollar Trend	US Stocks S&P 500	Did Foreign Beat US?
2000	-7%	-7%	-14%	Up	-9%	No
2001	-16%	-5%	-21%	Up	-12%	No
2002	-26%	10%	-16%	Down	-22%	Yes
2003	21%	18%	39%	Down	29%	Yes
2004	13%	8%	21%	Down	11%	Yes
2005	30%	-16%	14%	Up	5%	Yes
2006	17%	10%	27%	Down	16%	Yes
2007	4%	8%	12%	Down	5%	Yes
2008	-40%	-3%	-43%	Up	-37%	No
2009	21%	7%	28%	Down	26%	Yes

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## Currency Can Be a Significant Factor

In 2007 a large portion of the 12% return for US investors with international investments was due to an 8% boost from currency.

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## A Weak Dollar Increases Foreign Market Returns

Foreign market returns were boosted by 7% to 18% when the dollar trend was down.

MSCI EAFE compared to S&P500

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## A Strong Dollar Reduces Foreign Market Returns

Foreign market returns were reduced by 3% to 16% when the dollar trend was up.

MSCI EAFE compared to S&P500

	MSCI EAFE in Foreign Currency	Currency Impact	MSCI EAFE in US \$	Dollar Trend	US Stocks S&P 500	Did Foreign Beat US?
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## Currency Fluctuations Tend to Impact Returns

- A weakening US dollar is generally positive for investor's non-US allocation
- A strengthening dollar is generally negative for returns from international investments
- Currency movements can be significant and long lasting

## Liquidity Risks

Liquidity refers to how easy and quickly you can sell (or buy) an asset.

## Liquidity Risk and the Bid/Ask Spread

- Bid – Buyer's price
- Ask – Seller's price

<b>91.54 + 0.65(0.72%)</b>		Feb 3, 4:01PM EST   After Hours		<b>91.54</b>	0.00 (0.0%)
Prev Close:	90.89	Day's Range:	91.32 - 92.10		
Open:	91.54	52wk Range:	75.80 - 94.89		
Bid:	71.07 × 100	Volume:	2,402,495		
Ask:	94.50 × 200	Avg Vol (3m):	2,453,540		
1y Target Est:	94.69	Market Cap:	44.26B		
Beta:	0.34	P/E (ttm):	18.53		
Next Earnings Date:	N/A	EPS (ttm):	4.94		
		Div & Yield:	2.32 (2.50%)		

- Wider bid-ask spreads and lower volume typically point to less liquidity
- Narrower spreads and high volume typically point to higher liquidity



## Three Forms of Market Liquidity

- Bid-ask spread
- Market depth
- Market resiliency

## Political Risk

- If a country were to implement currency controls or otherwise block foreign capital from entering the stock market, the value of your investment could suddenly drop.
- A foreign country may nationalize a business that operates within its borders.

## Why International?

- Diversification
- Growth
- Reduce Overall Portfolio Risk

## Home Country Bias

Questions to help you evaluate the impact home country bias might have on your portfolio:

- How large is the US equity market vs. the world?
- Will home country bias introduce or reduce portfolio risk, and what does this mean for portfolio returns?
- Are other concerns brought on by foreign currency and taxes?
- Should you consider the home country market or the global market as the starting point?

## QUESTIONS

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## HOW TO INVEST INTERNATIONALLY

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- Large US Multinationals
- NY Listed Foreign Shares
- ADRs (American Depositary Receipts)
- ETFs
- Mutual Funds
- Ordinaries (Direct investment on a foreign exchange)

## US Multi-Nationals

Multi-national companies reflect global investment opportunities



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## Benefits and Risks

- Many of the factors that affect foreign companies also affect the foreign business operations of US companies
- The fear that economic problems around the globe will hurt the operations of US companies can cause dramatic changes in US stock prices
- Many of these companies hedge exposure to foreign currency movements to reduce currency risk



## Currency Fluctuations Can Lead to Big Swings in Operating Income

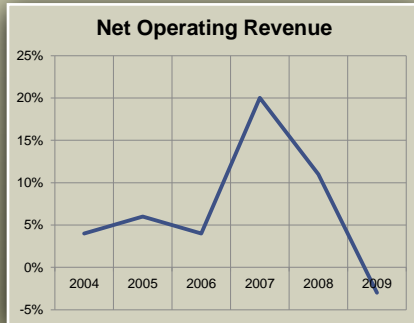
- Gillette said that the drop in the value of several currencies, particularly the Euro, would reduce the dollar value of sales by 6% in the third quarter, compared with a year ago. (September 19, 2000)
- The news sent its stock down \$2.19, or 7.3%, to \$27.63.

## Financial Statements

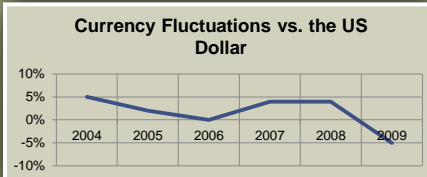
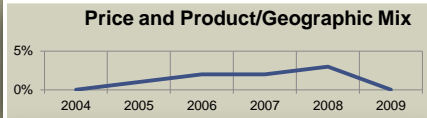
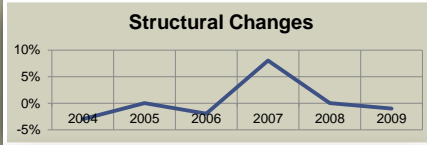
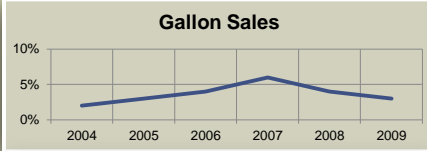
- When preparing financial statements US multi-nationals use currency exchange rates for the reporting period to convert their global sales figures into US dollars
- A weak dollar boosts revenue
  - Tailwinds
  - Positive currency impact
  - Positive FX
- A strong dollar lowers revenue
  - Headwinds
  - Negative currency impact
  - Negative FX

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## Impact of Key Factors on Net Operating Revenue Shown as a Percentage Change from Prior Year



Data source: Coca-Cola 10-k Reports 2004-2009



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## Many Multi-Nationals Hedge Currencies

- The decline in the value of any other currency against the dollar, cuts into performance when sales and profits from abroad are translated into dollars
- Hedging in currency markets can limit these impacts



## NY Listed Foreign Shares

Like US multi-national companies, NYSE-listed foreign shares reflect global investment opportunities

## A Terrific Resource: NYSE.COM

The screenshot shows the NYSE Euronext website's Listings Directory page. The page is titled "Listings Directory" and includes a navigation menu on the left with options like "About Us", "Listings", "Overview", "NYSE", "NYSE Arca", "NYSE Euronext", "NYSE Alternext", "NYSE Amex", "IPO Showcase", "Listing Services", "Listed Company", "Earnings", "Indices", "Closed-End Funds", "Exchange Traded Products", "Structured Products", "Funds", "Warrants & Certificates", "Bonds", "Equities", "Futures/Options", "Technologies", and "Investor Relations". The main content area features a search bar, a "GET QUOTE" button, and a "SEARCH" button. Below the search bar, there are links for "SYMBOL LOOKUP" and "ADVANCED SEARCH". The "Listings Directory" section includes a "Browse by name" dropdown menu with letters A through Z and "Other". A "Browse by region" section includes a world map and a list of regions: "RGR / PACIFIC", "CANADA", "CARIBBEAN / BERMUDA / PUERTO RICO", "EUROPE", "LATIN AMERICA", "MIDDLE EAST / AFRICA", and "UNITED STATES". The "ALL NYSE" link is highlighted with a red box. The footer includes the text "© 2012 NYSE Euronext. All Rights Reserved. | Terms and Conditions of Use | Careers | Site Map | Privacy Policy | RSS".

[http://www.nyse.com/about/listed/lc\\_all\\_overview.html](http://www.nyse.com/about/listed/lc_all_overview.html)

# Use Value Line's Screening Tool

## American Depositary Receipts, ADRs

- An ADR represents the underlying securities of a non-US company and trades in the US financial markets
- Many non-US companies trade as equity investments on US stock exchanges through the use of ADRs
- Four banks provide depositary bank services:
  - BNY Mellon
  - JP Morgan
  - Citi
  - Deutsche Bank
- ADRs give investors the convenience of international diversification without actually leaving American exchanges

## ADRs as an Investment

- Each ADR represents a specific number of underlying ordinary shares in the non-US company, on deposit with a custodian in the applicable home market
- Quotations in US dollars
- Dividend payments in US dollars
- Trade on the US market exchanges just like US equities

## Types of Depositary Receipt Programs

### Level I

#### Pink Sheets and Over-the-Counter Bulletin Board

- Unlisted program in the US
- 5-letter symbols ending in Y
- 5-letter symbols ending in F
- Quoted in the Pink Sheets and/or on the Over-the-Counter Bulletin Board, OTCBB

### Level II and III Exchange-Traded

- Listed program on a recognized US exchange
- NYSE, Amex, or NASDAQ

## Use the SEC's EDGAR Company Search

Home | Latest Filings | Previous Pages

U.S. Securities and Exchange Commission

**Company Search** [Search Home](#)

SEC Home » Search the Next-Generation EDGAR System » Current Page

Note: EDGAR Search Changes (see below)

From this page you can search for company information. Company filings are available starting in 1994. See also [full text search](#).

Enter your search information.

Company name:

Starts with  Contains

or CIK or Ticker Symbol:  Tickers for 10,000 largest publicly traded companies

or File Number:

State:

Country:

and/or SIC:

and Ownership Forms 3, 4, and 5.  Include  Exclude  Only

Helpful Information

- If your search is "John Smith" and you didn't get the results you expected, please try "Smith John."
- The SEC does not require companies that are raising less than \$1 million under Rule 104 of Regulation D to be "registered" with the SEC, but these companies are required to file a Form D with the SEC. The Form D serves as a brief notice that provides information about the company and the offering.

<http://www.sec.gov/edgar/searchedgar/companysearch.html>

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## ADR Management Fees

- Banks that custody ADRs, ADR agents, may charge custody fees
- Fees compensate the agents for inventorying the foreign stocks and managing all registration, compliance, and recordkeeping services
- The amount and timing of custody fees varies

## Understand ADR Management Fees, Before you Invest

- Fees typically average 1.5 to 5 cents per share per year
- Additional fees incurred for dividend-paying ADRs
- Contact the international desk at your brokerage
- Your broker and the ADR administrator are resources for you. Use them!

# Ordinaries, Foreign Securities

Many brokerage firms offer investors the ability to buy investments from different countries directly from the brokerage's international trading desk.

# Commissions and Transaction Fees

## Fidelity

**FOREIGN STOCKS**  
Fidelity offers you two different ways to trade foreign stocks. You can utilize either Fidelity's "International Trading" functionality or its "Foreign Ordinary Share Trading" service.  
International Trading allows customers to trade stocks from 12 countries and exchange between eight currencies. These trades are placed using a root symbol, followed by a colon (:) and then the two-letter country code for the market the customer wants to trade in. Foreign Ordinary Share Trading allows customers to trade shares in foreign corporations in the over-the-counter (OTC) market using a five-character symbol ending in "F". Depending on the service, different commissions and fees apply as more fully described below.

**International Trading**

**Canada**  
Online \$19 CAD per trade;  
Rep-Assisted \$75 CAD per trade

**France, Germany, Belgium, Italy, Netherlands, Portugal**  
Online \$19 EUR per trade;  
Rep-Assisted \$75 EUR per trade

**Hong Kong**  
Online HK\$50 HKD per trade;  
Rep-Assisted HK\$600 HKD per trade  
Note: Additional fees charged in Hong Kong include:  
Transaction Fee 0.004% of principal on buys and sells  
Trading Fee 0.005% of principal on buys and sells  
Stamp Duty 0.10% of principal on buys and sells

**Japan**  
Online ¥3,000 JPY per trade;  
Rep-Assisted ¥10,000 JPY per trade

**United Kingdom**  
Online £4 GBP per trade;  
Rep-Assisted £30 GBP per trade

**United Kingdom**  
Note: Additional fees charged for trades in the United Kingdom include:  
FPA Levy £1 GBP per buy and sell when principal amount is >£10,000 GBP  
Stamp Duty 0.50% of principal on buys only

**Australia**  
Online \$32 AUD per trade;  
Rep-Assisted \$75 AUD per trade

**Norway**  
Online kr 145 NOK per trade;  
Rep-Assisted kr 400 NOK per trade

**New Zealand**  
Online \$31 NZD per trade;  
Rep-Assisted \$90 NZD per trade

**Brazil**  
Online \$360 BRL per trade;  
Rep-Assisted \$360 BRL per trade

**Singapore**  
Online \$55 SGD per trade;  
Rep-Assisted \$90 SGD per trade

**Sweden**  
Online kr 180 SEK per trade;  
Rep-Assisted kr 400 SEK per trade

**Switzerland**  
Online CHF25 CHF per trade;  
Rep-Assisted CHF65 CHF per trade  
When stocks are listed in a currency other than the local market currency, commissions are charged in the currency that the stock is listed in.  
Note: There may be additional fees charged for trading in certain countries, and the list of countries and fees is subject to change without notice. These additional fees, if any, will display in the Offer Fees section on the Trade Confirmation page.

**Sweden**  
Online kr 180 SEK per trade;  
Rep-Assisted kr 400 SEK per trade

**Switzerland**  
Online CHF25 CHF per trade;  
Rep-Assisted CHF65 CHF per trade  
When stocks are listed in a currency other than the local market currency, commissions are charged in the currency that the stock is listed in.  
Note: There may be additional fees charged for trading in certain countries, and the list of countries and fees is subject to change without notice. These additional fees, if any, will display in the Offer Fees section on the Trade Confirmation page.

**Foreign Currency Exchange**  
A currency exchange fee (in the form of a markup or markdown on the rate of exchange) will be charged based on the size of the currency conversion. See fee schedule below:  
-\$100K 1.0% of principal  
\$100K-\$249K 0.75% of principal  
\$250K-\$499K 0.50% of principal  
\$500K-\$999K 0.25% of principal  
\$1M+ 0-0.20% of principal

**Foreign Ordinary Share Trading**  
For every country other than Canada, these shares will be traded in the over-the-counter (OTC) market through a U.S. market maker, unless otherwise directed. When trading in Canadian stocks, orders are generally routed to brokers in Canada. However, dually listed Canadian stocks may be routed to a Canadian broker or U.S. market center for execution. In all cases, the domestic stock commission schedule applies.  
For every country other than Canada, additional foreign exchange fees of up to 0.20% of principal are embedded in the execution price of non-Canadian foreign ordinary shares that are executed directly on the foreign exchange (available only through a representative).  
If your order is routed to a Canadian broker, certain additional fees may apply, including:  
• Limit orders—a local broker fee is incorporated into the limit price by the Canadian broker.  
• Market orders—a local broker fee is incorporated into the execution price.  
• Foreign exchange fees of up to 0.06% of principal are embedded in the execution price.  
Any foreign ordinary stock that is not Depository Trust Company eligible is subject to another \$50 fee.

**OTHER FEES AND COMPENSATION**

**Foreign Currency Wires** up to 3% of principal; charged when converting USD to wire funds in a foreign currency.

**Foreign Dividends/Reorganizations** 1% of principal; charged when a dividend is paid or a reorganization event occurs on a foreign asset held in an account in USD.

## Schwab

**Foreign Stock Transactions\***

Trades placed on the U.S. over-the-counter market	
Online	\$8.95 plus a \$50 foreign transaction fee <sup>4</sup>
Automated Phone	Online commission plus \$5, plus a \$50 foreign transaction fee <sup>4</sup>
Broker-Assisted	The greater of \$100 or 0.5% of principal, with no maximum
Trades placed directly on a foreign exchange	
Online	Not available
Automated Phone	Not available
Broker-Assisted	The greater of \$100 or 0.5% of principal, with no maximum

\* Trades of foreign ordinary shares placed directly on a foreign exchange, or on the U.S. over-the-counter market, but excluding trades of Canadian stocks, American Depository Receipts, or stocks of foreign-incorporated companies that are listed on U.S. or Canadian exchanges or whose trades clear and settle in the U.S. or Canada.

<sup>4</sup> Transactions in foreign ordinary shares incur additional custody, clearing, and settlement expenses. A foreign transaction fee is added to trades placed on the U.S. over-the-counter market through the online or automated phone channels. The commission and foreign transaction fee will be combined and will appear as one line item, labeled "Commission," on your trade confirmation.

## Exchange-Traded Funds, ETFs

- An exchange traded fund is a group of securities which trade as a 'basket of goods' throughout the trading day
- Some ETFs specialize in foreign equities
- Buying these broader instruments can be much easier than trying to construct a portfolio on your own

## Mutual Funds

- A mutual fund is a group of securities which trade as a 'basket of goods'
- Price is set at the end of the trading day and is based upon net asset value, NAV
- Some mutual funds specialize in foreign equities

## ETFs and Mutual Funds

- Provide more diversification than most investors could achieve on their own / professional management
- Handle currency conversions and pay any foreign taxes
- Probably will have higher costs than ETFs and mutual funds that invest only in US stocks
- Use Morningstar.com to analyze choices
- Read the prospectus to learn about the ETF or fund and its associated fees

## Sometimes it Doesn't Pay to Go Abroad

- Many consumer products firms are global firms
- Consider these global consumer staples ETF choices:
  - Consumer Staples Select Sector SPDR Fund (XLP)
  - iShares S&P Global Consumer Staples Sector Index Fund (KXI)
- Given that the international fund's expense ratio is more than twice as much, it makes sense to keep your money invested domestically

Fees and Expenses XLP	
Net Expense Ratio: Prospectus	0.18%
Net Expense Ratio: Category Average	0.48%
Gross Expense Ratio: Prospectus 01/31/2012	0.18%
Expense Waiver*	Yes
Expense Waiver/Reimbursement	0.00%
Expense Waiver/Expiration Date	—

\*Expense Waiver Note: Rafferty has contractually agreed to waive all of a portion of its management fee and/or reimburse the Fund of Other Expenses through March 1, 2011, to the extent that the Fund's Net Annual Operating Expenses exceed 0.95% (excluding, as applicable, among other expenses, taxes, leverage interest, Acquired Fund Fees and Expenses, dividends or interest on short positions, other interest expenses, brokerage commissions, expenses incurred in connection with and merger or reorganization and extraordinary expenses such as litigation).

Fees and Expenses KXI	
Net Expense Ratio: Prospectus	0.48%
Net Expense Ratio: Category Average	0.48%
Gross Expense Ratio: Prospectus 12/06/2011	0.48%
Expense Waiver*	No
Expense Waiver/Reimbursement	—
Expense Waiver/Expiration Date	—

\*Expense Waiver Note: Rafferty has contractually agreed to waive all of a portion of its management fee and/or reimburse the Fund of Other Expenses through March 1, 2011, to the extent that the Fund's Net Annual Operating Expenses exceed 0.95% (excluding, as applicable, among other expenses, taxes, leverage interest, Acquired Fund Fees and Expenses, dividends or interest on short positions, other interest expenses, brokerage commissions, expenses incurred in connection with and merger or reorganization and extraordinary expenses such as litigation).



# TAXES

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## Considerations

## Foreign Dividends and Taxes

- Investing in foreign securities can be tricky when it comes to taxes
- Consult a tax professional to be sure you fully understand the tax implications

## Foreign Tax Credit Available for US Investors

“Generally, if the foreign tax rate is higher than the US rate, there will be no US tax on the foreign income.”

Source: IRS Publication 514, Foreign Tax Credit for Individuals

IRS Publication 17 includes a list of qualified countries respect to foreign dividends. See Table 8.1

## SUMMARY

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## Broad-Based International Investing

- Reduces the impact investors experience from the downturn of a specific economy
- Helps to increase returns on portfolios concentrated in domestic markets that are no longer growing at a rapid rate
- Research your investment choices closely so you can make an informed decision

## “BEST-OF-REGION” PORTFOLIOS MAY NOT RESULT IN A “BEST-OF- WORLD” PORTFOLIO

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Proceed with Caution and Maintain a World View

## Guidelines

- Seek equities that are exposed to the best growth opportunities
- Minimize exposure to companies exposed to weakening parts of the world economy
- Minimize commission expenses and management fees
- Factor in tax consequences
- Diversify

## Don't Forget to Diversify

If you need to diversify and aren't sure how to do it, an ETF in an asset class where you have "too little" can be a good, low-cost way to go.

## QUESTIONS

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**Thank you for taking your  
time to think with me!**

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