

A New World Order: Investing Internationally

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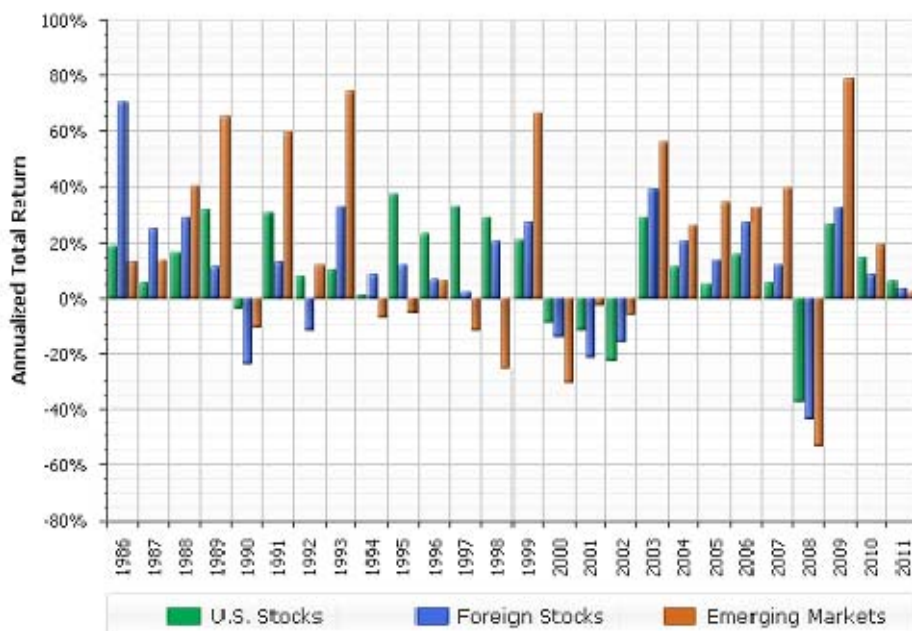
As the United States economy continues to sputter, investors in search of better returns and greater diversification are casting their nets elsewhere around the world.¹ Looking for growth abroad could be a smart move: Foreign markets currently represent nearly 60% of the world's investment opportunities -- and that number is only expected to grow.²

But investing internationally adds a different set of risks that typically do not affect investors in the domestic markets, such as higher taxation, less liquidity, political instability, and currency fluctuations. If you are thinking about expanding your horizons to include international investments, be sure to take the time to learn about various global markets and their unique characteristics.

Separating Emerging Nations From Developed Nations

When categorizing the world markets outside of the United States, countries are typically grouped into one of two types: developed markets and emerging markets. Developed markets include nations with more traditionally stable economies, such as Germany, England, France, and Japan. Emerging markets are typically those nations that are moving toward becoming more established, but still demonstrate higher-than-average volatility, such as the "BRIC" nations: Brazil, Russia, India, and China.

Calendar Year Returns for U.S., Foreign Developed, and Emerging Market Stocks



Source: ChartSource[®], McGraw-Hill Financial Communications. Based on calendar-year returns from 1986 to 2011 (data is current through June 30, 2011). U.S. stocks are represented by the S&P 500 index. Foreign stocks are represented by the MSCI EAFE index. Emerging market stocks are represented by the MSCI Emerging Markets index. Past performance is not a guarantee of future results. It is not possible to invest directly in an index.

Investing in Foreign Equities

One way you can include international exposure in your portfolio is to invest in stocks of U.S. companies that derive a large portion of their annual revenue from overseas markets. Examples of such companies are Coca-Cola, Microsoft, and McDonald's.

You can also buy stocks of foreign companies through American Depositary Receipts (ADRs) -- traded on the New York Stock Exchange -- and through mutual funds that invest in foreign companies. ADRs are negotiable certificates that represent the shares of a publicly traded foreign company. ADRs are issued in the United States, and their underlying shares are held in U.S. banks.

But familiarizing yourself with international markets (including the regulatory, political, and economic environments) is time consuming, and access to company information can be difficult to obtain. One

simpler way to invest internationally is to buy shares of broadly diversified international mutual funds or exchange-traded funds that may buy a mix of foreign and U.S. stocks. These types of funds offer instant diversification through an array of foreign market stocks.³

For more experienced and more aggressive investors wishing to target stocks in particular regions or countries, regional or country funds are also available. These funds are designed to take advantage of specific opportunities in the world's developed and emerging markets, but they do carry an increased risk of volatility.

Currency Value: A Special Risk of International Investing

International investing does present unique risks and considerations. A U.S. investor's foreign-investment return depends on both the local currency's exchange value against the U.S. dollar and the stock price in the local currency. For example, falling currency values and plummeting stock prices in Asian nations in 1998 not only drove down stock prices for international investors in Asia, but also in the United States, because many American companies depend on Asia for customers. For U.S. investors, currency losses could also stem from a rise in the dollar's value against the currency of the foreign country they are investing in. Maintaining a long-term perspective and diversifying international investments can help minimize these risks.

¹Diversification does not ensure a profit or protect against a loss in a declining market.

²Source: Morgan Stanley Capital International.

³Investors should carefully consider the fund's investment objectives, risks, charges, and expenses before investing. To obtain a prospectus or, if available, a summary prospectus containing this and other information, contact the appropriate fund company or view the fund prospectus on the website of the appropriate fund company. Please carefully read the prospectus or summary prospectus before investing. Current performance may be higher or lower than in the past, which cannot guarantee future results.

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