

The Complete Guide To

FOREIGN DIVIDEND STOCKS



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Investing Abroad

For some U.S. investors, the idea of investing in foreign stocks can be very intriguing. In the past, there have been several foreign exchanges that have produced enormous returns to investors. Although investing abroad can result in high returns, it also comes with a significant amount of risk and is not for everyone.

As of March 2012, 55% of all equities purchased worldwide were based outside of the U.S. This being said, there is plenty of opportunity abroad for U.S. investors to consider.

How to Invest Abroad

There are several ways to invest in foreign dividend stocks, but not all ways are equally as safe and simple. Investing internationally can be much more difficult than investing in domestic stocks and requires much more research.

Exchange Traded Funds (ETFs)

The safest way to expose your portfolio to foreign dividend stocks is by investing in an ETF. ETFs are composed of a group of securities and can be bought and sold through an exchange. Investors can purchase ETFs that track a specific international market, or even certain sectors within a foreign market. ETFs can also be cheaper for investors since many of the funds are commission free or have very low commission rates. Passive ETFs tend to have lower fees versus the actively managed funds.

Investors can invest in country specific ETFs, which will include securities from several sectors in the selected market, or choose a broader regionally-focused ETF.

Two heavily traded international ETFs that pay dividends are:

- **iShares MSCI Japan Index Fund (EMJ)** (View at: Dividend.com / ETFdb.com) and
- **iShares MSCI Emerging Markets Index Fund (EEM)** (View at: Dividend.com / ETFdb.com).

For a full list of dividend-focused ETFs, some of which offer international exposure, check out our [Dividend ETFs page](#). Additional international ETFs information can be found using ETFdb.com's [ETF Country Exposure Tool](#).

Mutual Funds

Mutual Funds work similar to ETFs, as they allow investors to have access to international markets without directly investing in a specific company. Many investors prefer to invest in

ETFs rather than mutual funds since they can be purchased from an exchange and offer much lower fees.

Like ETFs, passive mutual funds are less costly than actively managed funds. In general, the costs of owning a mutual fund are much higher than owning an ETF.

American Depositary Receipts (ADRs)

American Depositary Receipts, or **ADRs**, are designed for investors who want to invest in an individual foreign stock, but do not want to go through the hassle of investing through a foreign exchange.

By investing in an ADR, you are not technically buying shares of the company. Instead, you are buying an issue of shares from a U.S. bank. ADRs simplify the process of investing in a foreign stock since all stock prices and dividends are in U.S. dollars.

However, investors must be careful when investing in an ADR, as these stocks often have less liquidity than domestic stocks. Investors must also be aware that investing in an ADR does not eliminate the risk of fluctuations in currencies.

Some well-known ADRs are United Kingdom-based [BP Plc. \(BP\)](#), Ireland-based [Accenture Plc. \(ACN\)](#), and Switzerland-based [Novartis \(NVS\)](#).

For a full list of dividend paying ADRs, check out our [Foreign Dividend Stocks](#) page.

Purchasing Stock from Foreign Exchanges

Purchasing a stock directly from foreign exchange can be a difficult and expensive process. To buy a foreign stock, an investor must first wire money to the foreign country and convert the U.S. dollars into the local currency. Investors must also realize that although foreign capital gains and dividend yields may appear attractive, foreign taxes and fees can dig deep into gains. Thus, it is important to research foreign tax rates before investing.

In some cases, your broker will be able to process a purchase of a foreign stock on a foreign exchange for you. At times, brokers have relationships with brokers in other markets and are able to set up a trade. If your broker is able to assist you with making a trade from a foreign exchange, the trade will be much easier.

Over the Counter Exchange (OTC) / Pink Sheets

Another option that investors have when considering a foreign stock is investing in a stock listed on the OTC exchange, or the “off exchange.” Investing in stocks in the OTC exchange is generally not recommended due to limited liquidity and a lack of reliable pricing and dividend information.

Companies listed on the OTC are not subject to regular requirement by the SEC. The SEC warns investors that stocks listed on the OTC are among the most risky investments.

Although most companies listed on this exchange are usually very small and risky, [Nestle](#) may be one of the decent investments on the exchange to consider. Companies like Nestle avoid being listed on a major U.S. exchange to avoid both U.S. and international regulations with financial reporting.

Why Invest Abroad

Approximately only 10% of the average U.S. investor's portfolio is made up of foreign stocks, so investing abroad is not essential for all investors. However, for investors who would like to consider more investment opportunities or to diversify even more than usual, it is not a bad idea to seek international investments. The two biggest reasons why U.S. investors seek international investments are *diversification* and *growth*.

Diversification

Investing abroad can be a great way to diversify your portfolio. When U.S. markets are down, investing in foreign stocks is a great way to balance out risk. Investors can diversify their portfolio by investing in foreign stocks using any of the options above.

High Growth Potential

Although foreign stocks can be risky, investors are drawn to foreign markets for their high growth potential and sometimes attractive dividend yields. Although there is the potential to receive significant price gains in foreign stocks, investors must always use caution when researching and investing internationally.

There are several other reasons why investors decide to invest abroad other than diversification and growth. Below are additional factors that foreign stock investors may consider:

- **Positive Economic Trends**

If a specific country is doing exceptionally well economically, investors may be inclined to invest in that market since it may have plenty of upside. Many investors have taken advantage of growth in the BRIC countries (Brazil, Russia, India, China) as they were emerging markets.

More recently, as BRIC countries have become more developed, a new set of potential money-making emerging markets have formed. Many investors believe that MINT (Mexico, Indonesia, Nigeria, Turkey) may be the new set of emerging markets to look out for.

- **Favorable Currency Fluctuations**

Currency fluctuations can be a giant risk when investing abroad, but can also work in favor with the investor. It is important for an investor to pay close attention to exchange rates while making investments abroad.

- **Familiarity with Market**

Foreign markets can be confusing to many investors. However, if an investor is familiar with a specific market, they may feel more comfortable investing in it. For example, if an investor in the U.S. has family in Japan and is very familiar with the country, investing in a Japanese stock or ETF may be a good choice for them.

Know the Risks before Investing

Currency Exchange Rate Risk

Since foreign stocks pay capital gains and dividends in local currency, the risk (or benefit) of currency fluctuation always exists. When selling your foreign stock or receiving your dividends, you must remember that the gains you receive will be in the foreign currency and must be converted into U.S. dollars. An exchange rate that seems favorable at the time of the investment may not be so appealing once it is time to collect your money.

Significant Market Value Changes

Similar to the U.S. markets, foreign markets can see significant changes in market value. This can be very risky for investors who try to “time” the market and less risky for long term investors.

Political and Economic Events

Certain events that may occur within a region are uncontrollable for an investor. For a shareholder of a foreign stock, political or economic events have more risk than they would in a domestic stock. In many cases, investors do not have a complete understanding on international events, making it difficult to make decisions on their investor.

Less Information on Stocks

Unlike U.S. companies, which are required to report specific information to investors in a timely manner, foreign companies do not always have information that is easy to access. In many cases, information provided by these companies is not up to date or not available in English.

Limited Liquidity

Foreign markets are often much smaller than U.S. markets and trade at much lower volumes. When an investor decides to sell a foreign stock, it may be difficult to find a buyer.

Different Accounting Rules

Many countries required public companies to use International Accounting Standards (IAS) when releasing financial data, but some countries do not have this requirement.

China has been highly criticized for its accounting and auditing standards and has been accused for fraud in many cases.

Dividends on Foreign Stocks

Reliability

In most cases, when investing in foreign stocks, it is difficult to determine exactly how much a specific stock will pay in dividends. Whether you can invest in an ADR or an ETF, dividend payouts typically fluctuate and are not always reliable. In contrast, most U.S.-based companies stick to a strict payout schedule.

Dividends on both ADRs and ETFs can be inconsistent and unpredictable. Although this is not always true, it is important for investors to question the legitimacy of high yield foreign stocks.

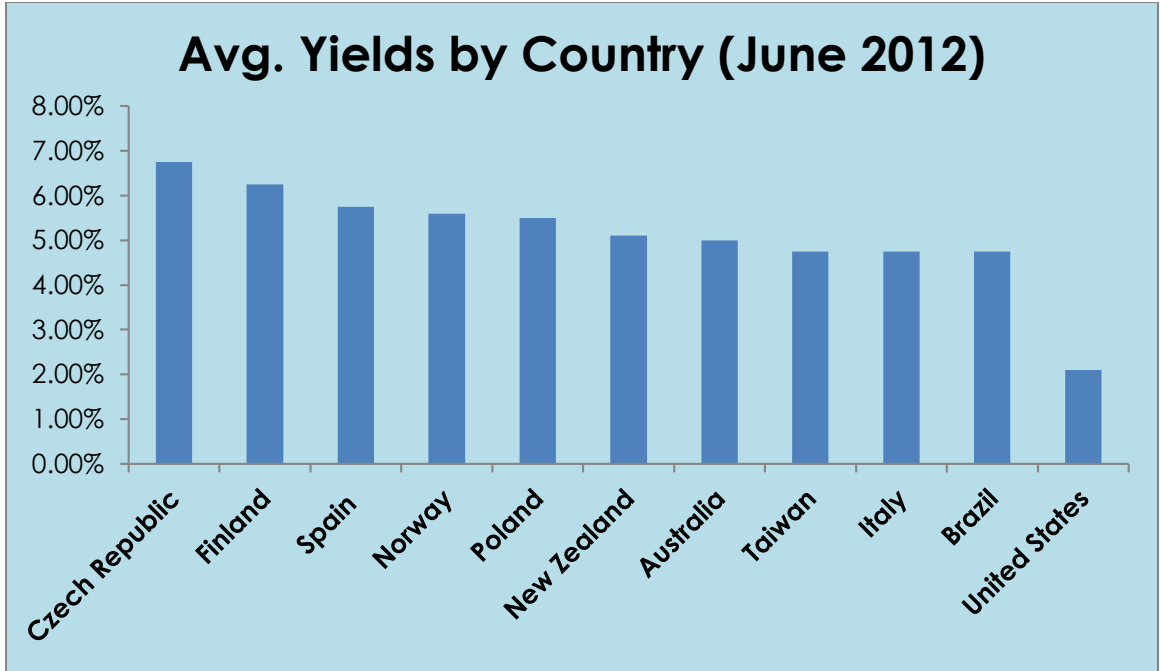
Beware of Super High Yields

Investors that invest in foreign dividend stocks must remember that high yields are not always a positive thing. High yields can be caused by a falling stock price, and payouts can be cut or suspended at any time. It is also important to take the specific country's tax rate into consideration. A high yield stock may not be worth it in a highly-taxed region - for example, Australia taxes dividends at a 30% rate.

Dividend Yields

When comparing the average dividend yield by country to the U.S., there are many countries that have significantly high yields. While the U.S. has an average yield just over 2%, there are 15 countries that on average yield over 4%.

As of June 2012, The Czech Republic topped the list of highest average yield of 6.75%. Below are the top 10 countries by average dividend yield as of June 2012 compared to the United States.



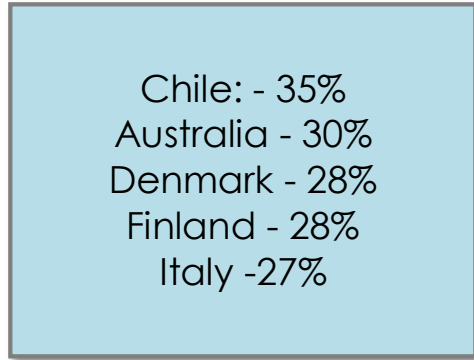
Countries

While the U.S. continues to average an 11% annual return on domestic stocks with dividends reinvested, several other countries are attracting investors with their high yields. Japan tops the list for highest return, causing many investors to seek out potential investments that will expose their portfolio to the country.



Taxes on Foreign Dividend Stocks

Tax rates on foreign stocks vary by specific countries, making some countries much more tax friendly than others. It is important for investors to pay attention to country tax rates since a high tax may could make an attractive dividend yield much lower than originally expected. Here are the five highest country tax rates on dividends.



Although these tax rates are high, there is some good news for investors. The U.S. allows a limited amount of foreign taxes paid on capital gains and dividends to be used as tax credits to avoid double taxation. These taxes can be deducted using the [IRS form #1116](#).

On the flipside, there are many countries that are very tax friendly to U.S. investors. Below is a list of countries that do not charge taxes on dividends to U.S. investors:

Argentina	Cyprus	Mauritius	South Africa
Bahrain	Egypt	Oman	Tunisia
China	Hong Kong	Qatar	UK
Colombia	India	Singapore	UAE
Croatia	Jordan	Slovakia	Vietnam

Investing in Specific Countries and Regions

In most countries within North America and Western Europe, there are not many complications aside from individual country's tax rates that affect investors. For Western Europe, ADRs are common, which makes life simpler for a U.S. investor seeking exposure in a specific company.

However, not all regions are easy to access. In some countries, the only options that investors have are to consider an ADR or ETF. Below are several regulations for specific countries.

Canada

Canada is one of the easiest and safest countries for U.S. investors to invest in. There are plenty of ADRs, ETFs and even U.S. equivalent shares of Canadian companies for U.S. investors to consider.

Two major ADRs that are based in Canada are [Royal Bank of Canada \(RY\)](#) and [Agrium \(AGU\)](#). There are more ETFs with exposure to Canada including the **Canada Energy Income ETF (ENY)** (View at: [Dividend.com / ETFdb.com](#)) and the **IQ Canada Small Cap ETF (CNDA)** (View at: [Dividend.com / ETFdb.com](#)).

United Kingdom

Investors are also often attracted to stocks based in the United Kingdom. Although investing in the UK is much less risky than an investment in an emerging market, it still carries some risk.

ETFs and ADRs are the easiest way to enter the UK market. There are nearly [350 UK focused ETFs](#) including **iShares MSCI United Kingdom Index Fund (EWU)** (View at: [Dividend.com / ETFdb.com](#)) and **Invesco PowerShares BLDRS Europe 100 ADR Index Fund (ADRU)** (View at: [Dividend.com / ETFdb.com](#)).

Well-known ADRs that are based in the UK include [Barclays Plc \(BCS\)](#) and [Unilever Plc. \(UL\)](#).

Eastern Europe

Investing in companies on exchanges based in Eastern Europe is considered to be fairly easy. However, investors often have a difficult time finding an account that will allow them to invest in these stocks. Investors may also find that there are far less companies to choose from on these exchanges.

Investing in **Russian** stocks can be very complicated. It is much simpler for investors interested in Russia to consider ADRs or ETFs.

One dividend paying large cap Russian ADR is **Mobile TeleSystems (MBT)**. An ETF with high exposure to Russia is **iShares MSCI Russia Capped ETF Profile (ERUS)** (View at: [Dividend.com / ETFdb.com](#)).

Asia

The Asian countries that are easiest for U.S. investors to access are **Hong Kong** and **Singapore**. Both countries are simple to access and have a tax treaty with the U.S. However, there are several Asian countries that are not so simple. For investments general to Asia, try ETFs like the **PDR S&P Emerging Asia Pacific ETF (GMF)** (View at: [Dividend.com / ETFdb.com](#)) or a BRIC focused ETF like **SPDR S&P BRIC 40 (BIK)** (View at: [Dividend.com / ETFdb.com](#)).

Japan

Japanese stocks have outperformed most other countries in 2013, rising about 34% through mid-August. Foreign investors interested in Japan have plenty of options, whether it be investing directly through a Japanese exchange or investing in an ADR or ETF. There are over [150 ETFs](#) that focus on Japan. The largest Japan-focused ETF is the **iShares MSCI Japan ETF** (View at: [Dividend.com](#) / [ETFdb.com](#)).

China

Shares in China are broken into A shares and B shares. A shares are limited to Chinese investors and a limited amount of foreign institutions, while B shares can be traded by anyone. There are not many good quality companies that offer B shares, which makes most investors invest in stocks listed on the Hong Kong Exchange.

The Hong Kong Exchange has three types of shares: H Shares, Red Chips and P Chips.

H Shares are companies registered in the mainland, while Red Chips are state-controlled companies that are registered in Hong Kong. P Chips are offered by companies registered in Hong Kong and not controlled by the state.

The largest China-focused ETF is the **iShares FTSE China 25 Index Fund (FXI)** (View at: [Dividend.com](#) / [ETFdb.com](#)). There are also many Chinese ADRs available to U.S. investors including [China Mobile \(CHL\)](#) and [China Life Insurance Company \(LFC\)](#).

India

Despite India's friendly tax policies for U.S. investors, India is a very tough country to invest in. Investing in Indian stocks was completely closed to all individual investors until 2012. However, despite the new regulations, most India-based companies have not provided services to allow U.S. investors to invest in their companies.

It is suggested that investors interested in India should look at ADRs or ETFs. One example of an India focused ETF that pays dividends is the **Invesco PowerShares India Portfolio (PIN)** (View at: [Dividend.com](#) / [ETFdb.com](#)).

Thailand

Thailand limits foreign ownership of an individual company to 49%. For banks and financial services companies, ownership is limited to 25%. Shares of Thailand-based companies are considered foreign (F) or local (L) shares. If a foreign investor invests in local shares by accident, they are not entitled to dividends unless they convert their local shares to foreign shares. Luckily, there are a few ETFs that focus on Thailand including the MSCI Thailand Capped ETF (THD) (View at: [Dividend.com](#) / [ETFdb.com](#)).

Middle East & Africa

The **United Arab Emirates** is generally foreign investor friendly, with favorable tax treatment on investments. However, investors may have some trouble finding a UAE-based broker, and ADRs are few and far between. Investors can also benefit from the country's tax treaty with the

U.S. On average, the return on capital for investments in the UAE was 28% through mid-August 2013.

The ETF with the highest exposure to the UAE is the **Market Vectors Gulf States Index ETF (MES)** (View at: Dividend.com / ETFdb.com)

Many investors are interested in investing in **Saudi Arabia** due to its tremendous oil industry. Unfortunately, shares of Saudi Arabia-based companies can only be bought by citizens or members of the Gulf Cooperation Council. The only way to invest in this country is by investing in a Middle East-based ETF like **SPDR S&P Middle East & Africa ETF (GAF)** (View at: Dividend.com / ETFdb.com) or **WisdomTree Middle East Dividend ETF (GULF)** (View at: Dividend.com / ETFdb.com).

Africa

There are few options in Africa for investing due to political and economic instability. **South Africa** is the easiest country in Africa to invest in and the only country in Africa with a significant amount of ETFs to invest in. **Nigeria** and **Botswana** are also popular African countries to invest in, with 2013 returns averaging 19% and 16%, respectively. Although most countries in Africa are open to foreign investment, it can be very difficult to find a broker in these areas.

South America

Investing in companies based in South America is much easier to do if you speak Spanish (or Portuguese in the case of Brazil) since most of the information on stocks is not in English. This being said, it is much easier to invest in these companies with ETFs.

Argentina has gotten attention from foreign investors with its outstanding returns, but the country remains difficult to invest in directly. Popular ADRs include [MercadoLibre Inc. \(MELI\)](http://MercadoLibre.com) and [Arcos Dorados Holding Inc. \(ARCO\)](http://ArcosDorados.com).

Colombia is one of the hardest countries in South America to invest in, but many investors are interested in the country due to its strong economy. On the upside, **Chile** and **Peru** are generally easy to invest in.

Where Do I Begin?

If you are interested in investing in foreign stocks, it is important that the right research is done before you hand over your cash. Once you have an idea on what region you are interested in, you must decide which method of foreign investment is right for you.

ETFs or mutual funds will be the simplest way to add international exposure to your portfolio. Be sure to check out our list of [Dividend ETFs](http://Dividend.com) and ETFdb.com's [Country Exposure Tool](http://ETFdb.com) to find a list of foreign ETFs.

ADRs will require some extra research before investing that may not be easy to find. However, if you are interested in a specific company and would prefer to invest in that company rather than a fund, ADRs may be a better choice for you. For a full list of dividend paying ADRs, check out our [Foreign Dividend Stocks](#) page.

Although some investors prefer to invest directly in a foreign exchange, it can be very difficult and risky to do this. Finding a broker alone can be a tedious and overwhelming task. To find out more about investing directly abroad, contact your broker for assistance.

Whichever method you choose, it is essential to thoroughly research any company or fund that you are considering. It is also a smart idea to consult with a tax expert before making any investment abroad.

Investors can find additional information on stocks through companies' investor relations pages and SEC filings.

Helpful Links

- [Foreign Large Cap Equities ETFs](#)
- [Foreign Small & Mid Cap Equities ETFs](#)
- [SEC International Investing Page](#)

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