

Week 10 discussion 1

Based on what you uncovered in the e-Activity, determine the most significant risk factors associated with investing in the company you selected when compared with investing in a domestic company. Provide specific examples to support your response.

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 investment return because your foreign earnings translate into more dollars. If the foreign currency weakens compared to the U.S. dollar, this weakness reduces your investment return because your earnings translate into fewer dollars. 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.