Buying China Revealing the benefits & risks of international investing

lansingbusinessnews.com/features/november-2017/2017/11/buying-china-revealing-the-benefits-risks-of-international-investing/

Putting your investment money in companies from Brazil to China is a risk, but one that could result in a big profit in the future, investment experts say.

Professional financial analysts look at research from a variety of sources when determining which stocks, mutual funds and other instruments are investible. Online references like Bloomberg Markets and Yahoo Finance draw data from stock exchanges themselves, as well as analyses from Thomson Reuters Corporation, Morningstar and elsewhere. Instead they recieve data from the companies that sell those stocks, as reported to the U.S. Securities and Exchange Commission.

But investors can't always rely on a consistent, comprehensive pile of information regarding a foreign business. Morningstar has pages of data on Microsoft; it has less information on Wuxi Little Swan, a manufacturer of home appliances based in Jiangsu, China.

The Risks

When an investor doesn't have the same amount of information on the performance of an international company's stock as he or she would with a domestic stock, the risk of investing increases.

"It's difficult to follow companies not traded on U.S. markets," said Adam Ritt, director of communications for Michigan's BetterInvesting club, part of a nationwide organization of individual investors. "Sometimes, the company's press releases aren't even in English."

A 2012 report by the International Organization of Securities Commissions, a watchdog group for the securities industry, found that foreign investors shy away from international markets that have one set of rules for domestic investors and another for themselves, especially in the form of differing tax treatment — for example, in Brazil, foreign investors were charged a special tax for bond market investments.

How to Buy

If an investor is willing to take that extra risk, there are options for buying into companies based in Asia, Europe and elsewhere. One choice is international mutual funds, also called global funds.

Nearly every large brokerage firm offers funds made up of companies from around the world: Fidelity's International

Capital Appreciation Fund has holdings in Switzerland's Nestle and Chinese tech company Tencent, among others; Mondrian International Equity is more cautious, with its holdings mainly in countries with well-established economies like Japan and France.

Another form comes as American Depository Receipts (ADRs): shares in foreign companies sold on the U.S. exchanges, in U.S. dollars. Most sell for $10-$100 per share, or for a bundle depending on the exchange rate and the price of shares in the company's home nation. The business offering ADRs to U.S. markets does have to comply by SEC rules but, in return, it has exposure to the often more active American exchanges.

There are 495 non-U.S.-based companies on the New York Stock Exchange, and about 200 of them offer ADRs; the others offer shares that can be listed in other markets, such as the London Stock Exchange.

The Rewards

A lot of financial analysis is based on instinct, but history can forecast what will happen to a company in the future, said retail consultant Ronald Brown, who goes by the nickname "DR."

"If you're a 10-hour-a-week investor, you should be in electronic traded funds: try an emerging market fund," Brown recommended. He said he has invested in about a half-dozen Chinese stocks, because he's taken the time to research what information is available on them.

One stock Brown likes now is Alibaba, the enormous, online Chinese e-commerce site — "China's Amazon," as Brown calls it. Its shares are about $170 each, compared to Amazon's $945. Alibaba stock is also reasonably easy to find, as part of mutual funds from T. Rowe Price and Mainstay, as well as in the form of ADRs.

"It's much cheaper, and there is risk, but there is also potential for growth," Brown said. "Be aware of similar (businesses) in a developing country, so you can get in on the ground floor."

There's another suggested benefit to investing internationally: diversification. Though Alibaba and Tencent are in the technology sector, they're not subject as Chinese companies to all the regulations affecting U.S. companies. Domestic businesses in the sector may not grow at the same rate as companies in Asia, for example. Alibaba executives told investors it expects revenue to grow nearly 50 percent in the 2018 fiscal year, as the company works to rival Amazon, Wal-Mart and other online retailers based in the U.S.

As with any investment, investing in international stocks is something that requires a lot of research before deciding on a purchase.

"If you want (a fund or stock) quickly, get a financial advisor," Brown said. "If you want to do it yourself, learn to read a stock. Get all the information you can. It may take you four to five hours to wade through it, but you can buy the 'Facebook' (equivalent) before it's 'Facebook' there."

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