

The Basics of International Stock Investing

In today's global economy, it makes sense to seriously consider international stocks as part of your investment portfolio strategy. If you wish to invest abroad, you'll need to understand the unique characteristics of foreign stocks and the special risks they carry. As you will learn, international stocks can play a number of different roles in helping to diversify a portfolio.

Why invest abroad?

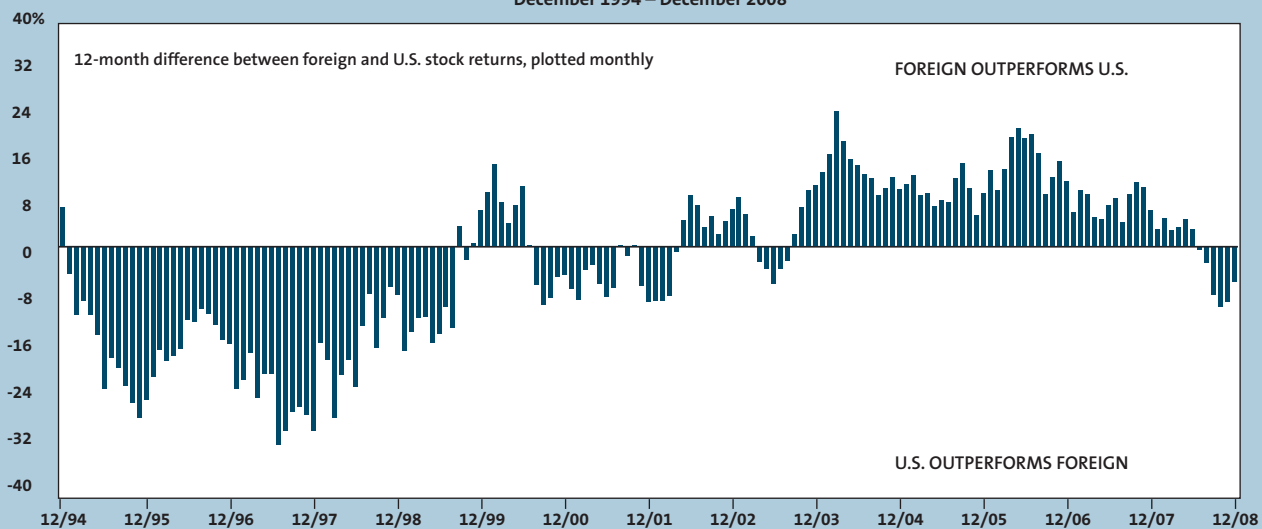
Over 50% of the world's equities (measured by market capitalization) originated and are traded outside the U.S., as of December 31, 2008. There is no global stock exchange, but information about the various national and regional markets—many of which are quite sophisticated—is available to international investors every day.

The best reason to invest abroad is that investing overseas helps diversify your portfolio. Although diversification cannot assure a profit or protect against loss in a declining market, it can help your portfolio take advantage of opportunities in a wide variety of markets while potentially mitigating losses that occur in any one market. International stocks work well in this regard because trends in foreign stock markets often do not correlate well with bull or bear market cycles in the U.S. While one or more foreign markets may at any time be moving in the same direction as their U.S. counterpart, longer-term correlations are low.

Investing internationally can also provide opportunities for long-term gains. Numerous countries, other than the U.S., have shown strong returns and performance leadership.

Chart I: Comparing Foreign and U.S. Stocks Over the Long Term

December 1994 – December 2008



Annualized Total Returns

	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08
MSCI EAFE Index	8.06	11.55	6.36	2.06	20.33	27.30	-13.96	-21.21	-15.66	39.17	20.70	14.02	26.86	11.63	-43.06
S&P 500 Index	1.32	37.58	22.96	33.36	28.58	21.04	-9.10	-11.89	-22.10	28.68	10.88	4.91	15.79	5.49	-37.00

Primary factors affecting international stock returns for U.S.-based investors

Like U.S. stocks, international stocks may rise or fall based on the outlook for corporate earnings, the local or regional interest rate environment, actual and expected inflation, the pace of local or global economic growth, and even current stock market psychology. There are, however, important differences in the risks carried by domestic and foreign investing:

- Many countries are considerably less stable politically than the U.S. and have much less diverse economies. Political or economic upheaval could jeopardize foreign investments. Thus, the overseas investor must continually monitor and interpret the internal developments of other countries.
- Financial information about specific companies can be harder to obtain because accounting and financial disclosure practices can vary widely from U.S. standards.
- Foreign investments are also impacted daily by currency translation. Initially, dollars must be converted to the local currency to purchase a foreign security. Subsequently, share price quotations, stock dividends, and sale or redemption proceeds must be converted from that currency back into U.S. dollars. Because foreign exchange rates fluctuate constantly with changes in each currency’s supply and demand situation, currency movements can increase or decrease the dollar value of the investment even if the security’s price remains unchanged.

Although currency translation can have considerable impact on equity returns—on the upside or the downside—the effects diminish over time. The dominant long-term influences on stock prices are the track record of each individual company and local equity market performance. Investing in foreign stocks should not be viewed primarily as a way to play the currency markets, but rather as part of a long-term investment strategy.

**Table I:
Example: The Impact of Currency Fluctuations on Foreign Stock Returns for U.S. Investors During the Six Months Ended 12/31/08**

	Local Market Return	Local Currency vs. U.S. Dollar	Return to U.S. Investors
France	-26.80%	-11.77%	-35.42%
Germany	-28.76	-11.77	-37.15
Italy	-31.90	-11.77	-39.91
Japan	-35.88	16.94	-25.01
Mexico	-23.55	-25.60	-43.12
Netherlands	-30.93	-11.77	-39.07
Singapore	-39.15	-5.70	-42.62
Sweden	-23.95	-23.93	-42.15
Switzerland	-21.39	-4.30	-24.77
United Kingdom	-19.43	-27.76	-41.79

Source: MSCI Rimes.

This chart is for illustrative purposes only and does not represent an investment in any T. Rowe Price fund. Past performance cannot guarantee future results.

Managing international risks

Risks arising from political or economic differences, as well as from potential difficulties of obtaining information, can be reduced by diversifying stock investments across a range of countries and industries and thorough research by experienced professionals.

Because it is so challenging to manage portfolios of individual international stocks, international mutual funds are typically a simpler and more cost-effective approach to non-U.S. investing. Investors can choose between funds that invest strictly outside the U.S. (which are labeled as international funds), or “one-stop shopping” funds that balance U.S. and international holdings (called global funds). Both approaches offer professional management and broad market exposure; be sure to examine a fund’s expenses and track record before selecting one.

Fitting international stocks into your portfolio

One of the most sensible ways to decrease the overall volatility of a portfolio is through the inclusion of international stocks. Keep in mind, however, international stocks will not necessarily reduce risk exposure, even though this has happened in the past. For example, of the equity portion of a well-diversified portfolio, 20% might be in international stocks. (The amount of your portfolio you should have in equities will vary depending on your time horizon. Visit troweprice.com for more information.)

Chart II: Suggested Portfolio Diversification—Equity



We believe it makes sense to have a majority of your international equity exposure in a core fund that has a broadly diversified portfolio of well-established companies. This diversification gives the fund manager the flexibility to allocate assets to the most compelling regions outside the U.S. If you have a particular interest in a certain region, you may want to put some assets in a more specialized fund, such as one emphasizing small companies or a single country or region, although we suggest that no more than 5%–10% of your portfolio be invested in any one sector.

In the last three decades, periods of domestic or foreign stock outperformance have not continued indefinitely but have varied in duration. While you should keep in mind the risks of international investing, you should also consider its significant advantages. Diversifying through foreign stocks can help smooth the fluctuations of your overall equity portfolio and offers the opportunity to participate in dynamic overseas companies and economies that may be growing faster than their U.S. counterparts.

Insights reports provide background information on many aspects of investing. *Call 1-800-638-5660 to request a prospectus, which includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.* T. Rowe Price Investment Services, Inc., Distributor.