



Investment Spotlight

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Skittish About International Investments?

Ease Into Foreign Markets with Closed-end Country Funds

Are reports of economic crisis in Asia keeping you from considering foreign investments for your portfolio? While all foreign investments come with varying degrees of risk, you can still find plenty of attractive opportunities abroad. In fact, some markets in Europe and Latin America are doing well when measured against the S&P 500. Might global investing be a good idea for you?

Multiple Players in the World Equity Market

In 1970, publicly traded U.S. equity securities represented two-thirds of the world's stock market capitalization. Ten years later, the U.S. percentage had decreased to roughly 50 percent. Today, U.S. stock market capitalization represents approximately 38 percent of the world market.* Clearly, foreign corporations are creating the potential for significant investment opportunities within the world equity market.

In addition, including foreign securities in an equity portfolio offers investors the advantage of double diversification—by country and by industry. A study of the world's equity markets showed that diversification into overseas markets over the last 10 years not only increased returns, but also reduced volatility.* The reason? The world's equity market cycles do not move in tandem with each other.

One Way to Participate:

Closed-end Country Funds

Navigating through more than three dozen international equity markets to find value is not an easy task. Closed-end country funds can simplify that process. These professionally man-

aged, diversified portfolios can help investors participate in some of the world's most dynamic economies, while reducing overall investment risk in potentially volatile foreign markets. In fact, in many cases, closed-end country funds may be the only means of entry into a particular foreign market.

How Closed-end Country Funds Work

Unlike conventional, open-ended mutual funds that are priced based on net asset value (NAV)** and can create an infinite number of new shares to meet buyer demand, closed-end country funds go on the market as initial public offerings with a fixed number of shares. Investors can then buy and sell those shares on the stock market, at a premium to NAV or at

discount below NAV. Prices are determined by the forces of supply and demand, in a manner similar to stocks and bonds. Closed-end country funds, therefore, are a unique blend of common stocks and professionally managed investments.

Keep in mind that closed-end country funds come with risks. You can never completely protect your investment against currency problems. Also, if several major holdings from one country falter, the entire fund can suffer. When selected foreign markets are doing well, however, returns on those country funds could be significant. **P&SF**

**Source: Morgan Stanley Capital International*

***NAV is calculated by dividing the total net assets held in the fund by the number of shares outstanding.*

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