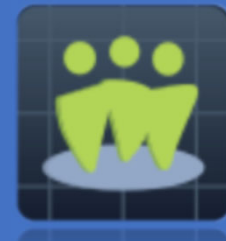


Pros & Cons of Owning Foreign Company Stocks in an Investment Club

JUNE 2023



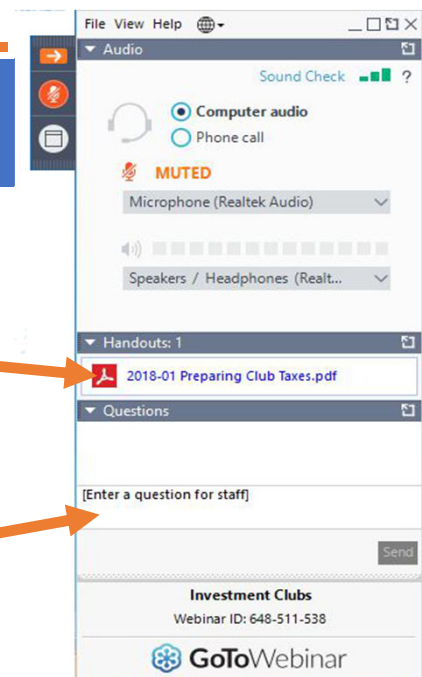
Doug Gerlach.
President,
ICLUBcentral



Handout & Questions

Handout in PDF
format is available
in Handouts tab.

Type questions in
Questions box.



In This Presentation



- Advantages & risks of international investing.
- How to invest internationally.
- Costs of international investing.
- Taxes & international investments.
- Support for & issues with global investing for investment clubs & in myICLUB.com.

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ADVANTAGES & RISKS OF INTERNATIONAL INVESTING

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Advantages of Foreign Investments



- Many great businesses are headquartered outside U.S.
 - More than 58,000 companies trade on global exchanges compared to ~7,000 on U.S. exchanges.
- Some countries offer faster GDP growth than U.S.
- Diversified portfolio may help deliver higher risk-adjusted returns.
 - Not all countries in world are on same economic or market cycles, so companies in other countries may be performing well if U.S. is stalled (& vice versa).
 - Impact of currency exchange can support diversified portfolio.

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Risks & Issues of Foreign Investments



- Venturing outside U.S. can bring unique risks, including:
 - **Political:** impact of changes in foreign government leadership.
 - **Currency:** changing conversion rate of foreign currency to U.S. dollar.
 - **Social:** upheaval by citizens in emerging markets.
 - **Economic:** different recession/expansion cycles.
 - **Climate & environment:** effects of drought, flooding, storms, natural disasters.

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Financial Reporting Standards Are Different



- In U.S., companies adhere to Generally Accepted Accounting Principles (GAAP).
- Most of rest of world reports under International Financial Reporting Standards (IFRS).
 - IFRS is arguably “better” than GAAP.
- ADRs not required to reconcile between U.S. GAAP & IFRS in reports to shareholders, so can be more difficult to interpret financial statements.

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HOW TO INVEST INTERNATIONALLY

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4 Ways to Invest in Companies Outside U.S.



1. Directly in stocks that trade on non-US exchanges.
2. Mutual Funds or Exchange-Traded Funds (ETFs) that invest in non-U.S. securities.
3. American Depositary Receipts (ADRs) of non-U.S. companies.
4. Invest in U.S. companies with significant overseas operations.

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I. Directly in Non-U.S. Stocks



- Some (mostly large) non-U.S. companies trade on U.S. exchanges.
- Or, if brokerage allows, buy/sell shares of stock in companies listed on non-U.S. exchanges:
 - Tokyo, London, Toronto, Shanghai, Mumbai, Hong Kong, Euronext, etc.
- May have higher commissions than for domestic stocks.
- Are listed in country's currency, so must convert from dollars.
- Reporting will be in company's native language & currency.

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2. Mutual Funds or Exchange-Traded Funds



- Hundreds of mutual funds & ETFs focus on international investments:
 - **Global:** can invest in securities anywhere, including U.S.
 - **International:** can only invest in securities outside U.S.
 - **Country/Region:** specialize in single country or area of world.
- Have higher fees than U.S. funds due to costs of management.

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3. American Depository Receipts (ADRs)



- Each ADR share represents set number of shares of foreign company stock.
- Must meet listing requirements & thus can trade on U.S. exchange with ticker symbol just like domestic stock.
 - Also report to SEC, though not always on same schedule/forms as domestic companies.
- Levels 2 & 3 ADRs are sponsored by financial organization/bank.
- Level 1 ADRs are non-sponsored & trade on OTC markets.
- Global Depository Receipts (GDRs) are similar but don't trade on U.S. exchanges.

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3. ADRs (more)



- Dividends/distributions are paid to ADR owners in U.S. dollars at same rate as to holders of listed stock on foreign exchange.
 - Subject to tax withholding on dividends.
- Considered “foreign” companies by IRS & thus subject to rules regarding foreign investments & income.

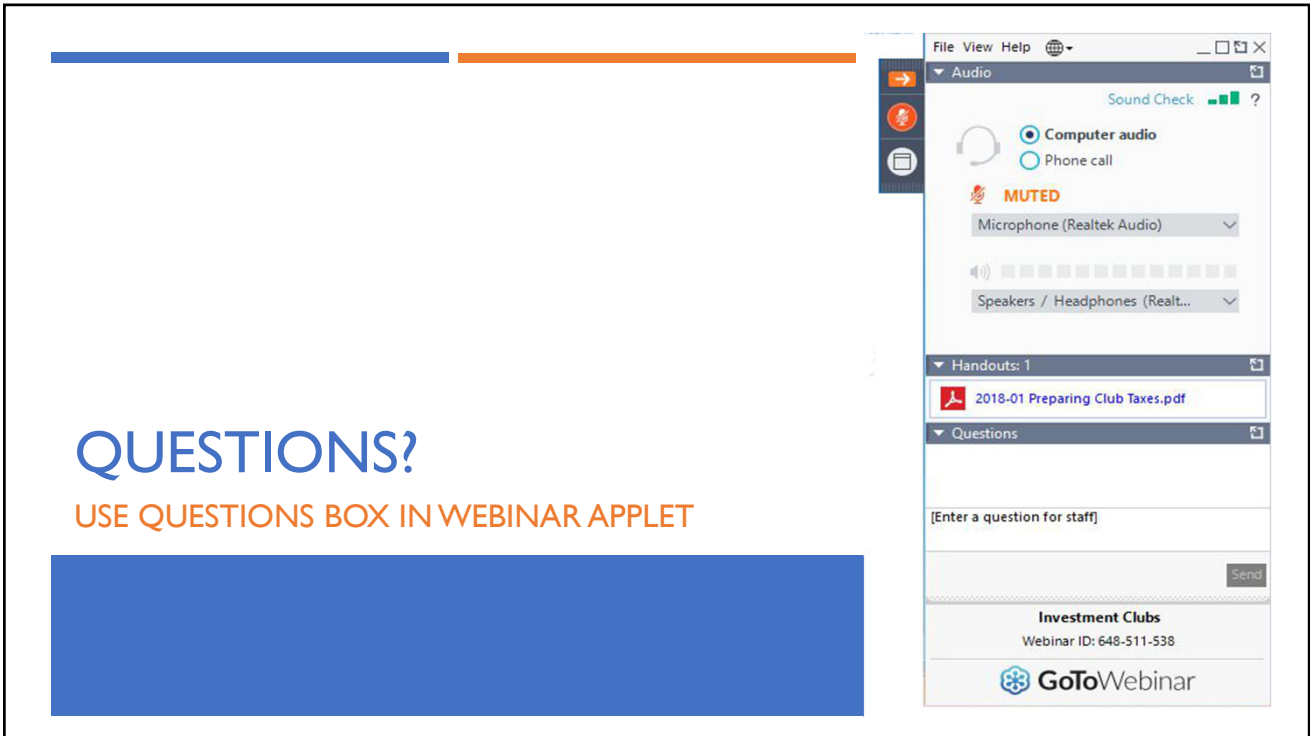
14

4. U.S. Businesses with Major Global Presences



- 30%-40% of total sales & total earnings for S&P 500 companies came from operations outside U.S.
- Companies see many of same benefits of international investing as do individual investors.
- These multi-nationals manage risks of foreign investing (such as effects of currency conversion).
- If you own mega-cap stocks, you likely are already exposed to significant non-U.S. operations.

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The screenshot shows a webinar interface. On the left, a slide displays the text "QUESTIONS?" in large blue letters, followed by "USE QUESTIONS BOX IN WEBINAR APPLET" in orange. Below this is a solid blue rectangular area. On the right, a GoToWebinar control panel is visible, showing audio settings (Microphone muted, Speakers selected), a handout titled "2018-01 Preparing Club Taxes.pdf", and a "Questions" section with a text input field containing "[Enter a question for staff]" and a "Send" button. The bottom of the control panel shows "Investment Clubs" and "Webinar ID: 648-511-538".



The screenshot shows a webinar slide with a title "COSTS & TAX ISSUES OF INTERNATIONAL INVESTING" in large blue letters. Below the title is a solid blue rectangular area. In the bottom right corner of this blue area, the number "17" is displayed.

Direct & Indirect Costs of Foreign Investing



- To trade non-U.S. stocks on non-U.S. exchanges, expect to pay higher commissions.
- Management fees are higher for international/global ETFs/mutual funds than for domestic ones.
- Brokerages often charge additional fees for transactions & distributions from ADRs.

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Foreign Tax Withholding



- IRS demands full taxes on income/gains from non-U.S. investments.
- Dividends & distributions paid by foreign companies (including ADRs) will likely have taxes withheld from amount paid.
- These taxes are remitted to government of paying company.
 - They know they can't easily collect taxes due from U.S. residents.
- If country has reciprocal tax treaty with U.S., then U.S. citizens can claim credit on taxes paid to foreign government & apply towards their U.S. tax bill.
- Requires additional reporting & documentation by U.S. taxpayers.

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Foreign Income Reporting by Partnerships



- IRS has specific rules for partnerships (investment clubs) to report all foreign income received.
- Schedules K-2 & K-3 are used to report foreign-source income.
 - Are more than 20 pages long for club & for each member.
- 2022 rules allow clubs to *opt out* if they meet certain conditions (see ICLUBcentral's 2022 tax preparation webinar for details).
 - However individual members may request personal K-3 from club, which are needed if they have other foreign source income & wish to claim IRS tax credit.
- If you must file K-2 & K-3, then e-Filing is essential – otherwise your federal tax return could be *hundreds* of pages.

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MANAGING FOREIGN INVESTMENTS IN MYICLUB.COM

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Recording Foreign Tax Withholding



- myI CLUB.com **Record Cash Distribution** page includes fields for **Foreign Tax** withholding.
- Enter **gross (total) amount** of dividend.
- Enter amount of **foreign tax** withheld from payment.
- Foreign taxes paid are deducted from total dividend & difference deposited in selected account.

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Enter total amount of dividend (actual cash received + foreign tax withheld).



Accounting

Summary

Wizards

Set

Buy

Sell

Cash Distribution

Reinvest

Stock split

Merger with cash

Spinoff

Charges paid by company

Create new valuation

Edit/delete valuation

Security settings

Enter beginning security

Enter amount of foreign tax withheld.

Record Cash Distribution/Dividend


A Cash Distribution occurs whenever a company returns a payment to shareholders. Dividends are the most common type of distributions, though there several others. For payments that include several types of distributions, use the "Add another distribution type" link to enter them all on one screen. Be sure to enter the Gross/pre-tax amount of the distribution that you received. Enter any foreign tax withholding in the Foreign Tax field. For dividends paid by ADRs, any associated processing fee should be entered as a separate deductible expense transaction.


NOTE: After you select the Symbol and enter the Payout Date, myI CLUB.com will attempt to select the appropriate Ex-Dividend Date and automatically calculate the total Amount of the distribution. Confirm that these amounts and dates match those reported by your brokerage firm.

Symbol	TM	The ticker symbol of the income-yielding security. An asterisk denotes an 'inactive security' (zero shares held).
Payout Date	6/15/2023	Date of distribution.
Ex-Div Date	3/30/2023	Ex-Dividend date of distribution. (Find it) (What's this?)
Type	Dividend	Type of distribution.
Amount	\$ 998.35	The total amount received in the distribution.
Foreign tax	\$ 99.85	The amount of the foreign tax paid (if any). Leave blank if none.
ADD ANOTHER DISTRIBUTION TYPE TO THIS TRANSACTION ↓		
Cash Account	Ameritrade	Account to which the income was distributed.
Comments		

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myICLUB will record net dividend amount in account.





Record Cash Distribution/Dividend

A Cash Distribution occurs whenever a company returns a payment to shareholders. Dividends are the most common type of distributions, though there several others. For payments that include several types of distributions, use the "Add another distribution type" link to enter them all on one screen. Be sure to enter the Gross/pre-tax amount of the

PDF Email

in Tax field. For dividends paid by ADRs, expense transaction.


You have successfully recorded the following transaction(s):

Type	Security income	The action taken.
Date	6/15/2023	Date of the transaction.
Ex-Div date	3/30/2023	Ex-dividend date.
Type	Dividend	Type of the security income.
Symbol	TM	Ticker symbol of the security.
Company	Toyota Motor Cp ADR	Name of the company.
Amount	\$898.50	Net amount of the Dividend.
ForeignTax	\$99.85	The amount of the foreign tax paid.
Total Amount	\$998.35	Total amount of the Dividend.
Account	Ameritrade	The Dividend was deposited to Ameritrade.

- Charges paid by company
- Create new valuation
- Edit/delete valuation
- Security settings
- Enter beginning security

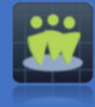
Comments

Reclassification of ETF/Fund Distributions



- After year ends, many ETFs & mutual funds reclassify dividends paid in year as other types of distributions (returns of capital, capital gains, etc.).
- These require adjustment to transactions before tax returns can be generated.

Properly Identifying Non-U.S. Securities



- It is club's responsibility to identify **Security Type & Country** in their myICLUB.com records for all securities owned.
- Each security owned by club can be edited in **Accounting > Security Settings**.
 - Treasurer/administrator should review these any time new security is added & *always* before taxes are generated.

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myICLUB > Accounting >
Security Settings

Edit security settings

This page allows you to edit the symbol, name, security type, tax status, and (for mutual funds and fixed cash investments) method used for cost basis calculation.

Basic Settings

Company Name Toyota Motor Cp ADR

Symbol TM (What's this?)

Exchange NYSE

Security Type Common

Advanced Settings

Federal Tax-Free?

Country Japan (What's this?)

Quote Symbol TM (What's this?)

Submit

Cancel

Select **Country** from
dropdown menu.

NOTE: All stocks in
myICLUB database
default to **U.S.**
companies.

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What Is a “Foreign” Company?



- IRS defines “foreign company” as any company that is not a U.S. company.
- This does **not** necessarily mean country in which company primarily operates.
 - Some companies have registered offshore in Bermuda or another jurisdiction though they primarily operate in U.S.
 - Many “Chinese” companies are registered in Cayman Islands.
- **Do not assume you know country in which company is registered—always verify.**

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How to Identify Country of Registration



- Look for country in which company is “registered” or “domiciled.”
- You may be able to find country at:
 - **myICLUB Quotes/Info** page.
 - Company annual report
 - Value Line.

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Get Stock Quotes/Information

Get a current price, historical growth chart, or review the split and dividend history (including ex-dividend dates) about a security.

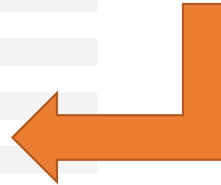
[Symbol lookup](#)

Toyota Motor Cp ADR (NYSE: TM)

Founded in 1937, Toyota is one of the world's largest automakers with 10.38 million units sold at retail in fiscal 2022 across its light vehicle brands. Brands include Toyota, Lexus, Daihatsu, and truck maker Hino; market share in Japan is about 51%, while U.S. share is nearly 15.5%. The firm also owns large stake in Denso, a parts supplier, about 20% of Subaru, and holds investments in many other firms, including shares of Uber Technologies, Joby Aviation, DIDI Global, Aurora Innovation, and about 5% in each of Mazda and Suzuki. Fiscal 2022 sales excluding financial services were JPY 29.1 trillion. Toyota also has a financing arm and manufactures homes and boats.
(<https://www.global.toyota>)

6/14/23 Close: \$165.57	52-week High/Low: \$130.07 - \$167.04
P/E (TTM): 12.5	Size: \$274,440.5 M (Mega)
EPS (TTM): \$13.26	Market Cap: \$226,141.8 M (Mega-cap)
Div & Yield: \$4.99 (3.0%)	Sector: Consumer Cyclical
Insiders: 1.0%	Industry: Auto Manufacturers
Institutional: 0.1%	Security Type: Common Stock (ADR)
Beta: 0.7	Domiciled: Japan
Volume: 950,115	Primary Business: Japan
3-month Avg Vol: 281,233	Headquarters: Japan

myICLUB
Quotes/Info
page shows
country of
Domicile.



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myICLUB.com Global Diversification Report

- Recently-released report shows diversification of club portfolio by country of origin.
- Depends on correct assignment of **Country** in **Security Settings**.
- Does not include securities with multiple country exposure (such as region ETF or fund).
- Accessed from **Portfolio** section of **myICLUB Reports**.

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Global Diversification Report shows percentage by country (as set in club's Security Settings).

Global Diversification



Report as of 3/31/2023 (Most recent club valuation statement).

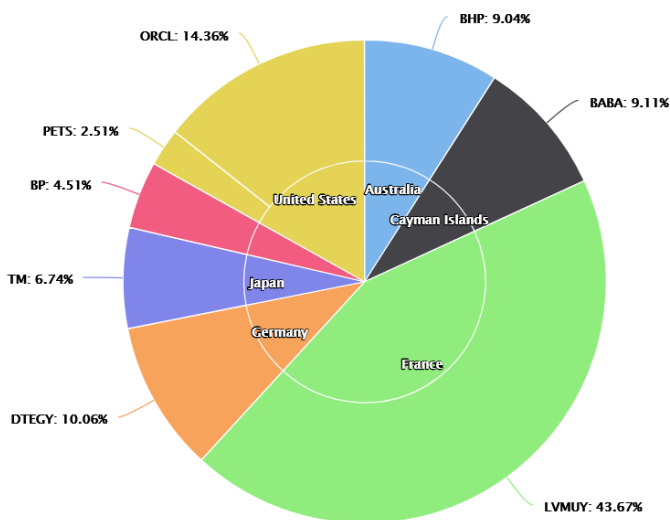
Exclude Cash from Percentages

Country	Company	Market value	% of Club
Australia	BHP Billiton ADS (BHP)	\$76,092.00	8.5%
	Total Australia Companies	\$76,092.00	8.5%
Cayman Islands	Alibaba Group Holdin (BABA)	\$76,635.00	8.6%
	Total Cayman Islands Companies	\$76,635.00	8.6%
France	LVMH Moet Hennessy L (LVMUY)	\$367,460.00	41.3%
	Total France Companies	\$367,460.00	41.3%
Germany	Deutsche Telekom ADR (DTEGY)	\$84,665.00	9.5%
	Total Germany Companies	\$84,665.00	9.5%
Japan	Toyota Motor Cp ADR (TM)	\$56,676.00	6.4%
	Total Japan Companies	\$56,676.00	6.4%
United Kingdom	BP Plc (BP)	\$37,940.00	4.3%
	Total United Kingdom Companies	\$37,940.00	4.3%
United States	Petmed Express Inc (PETS)	\$21,112.00	2.4%
	Oracle Corp (ORCL)	\$120,796.00	13.6%
	Total United States Companies	\$141,908.00	16.9%
	Ameritrade	\$3,131.87	0.4%
	First Bank	\$45,745.99	5.1%
	WD Liability Account	\$0.00	0.0%
	Totals Cash & Other	\$48,877.86	5.5%

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Global Diversification Chart

(Excludes Cash)



Global Diversification Graph is visual display of report.

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Foreign Security Support in Club Tax Printer



- **myICLUB Club Tax Printer** fully supports foreign tax withholding, foreign income reporting, & Schedule K-2/K-3.
 - Proper handling depends on club's correct identification of country of each security owned during tax year.
 - Additional functionality supports partnership opt-out procedures.
 - Schedule K-2/K-3 preparation may be onerous for treasurer & costly for club, so consider whether non-U.S. investing is worth additional complexity.

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CONCLUSION

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International Investing Is a Choice



- May be better to avoid non-U.S. investments in investment clubs altogether.
 - Treasurers whose clubs abide by K.I.S.S. principles tend to stick around longer than clubs that make things complicated.
- Let members decide for themselves & invest internationally as they see fit in their personal portfolios.
- ***Remember: investment club portfolio does not need to be managed as standalone broad investment vehicle – often best to operate it as domestic stock fund.***

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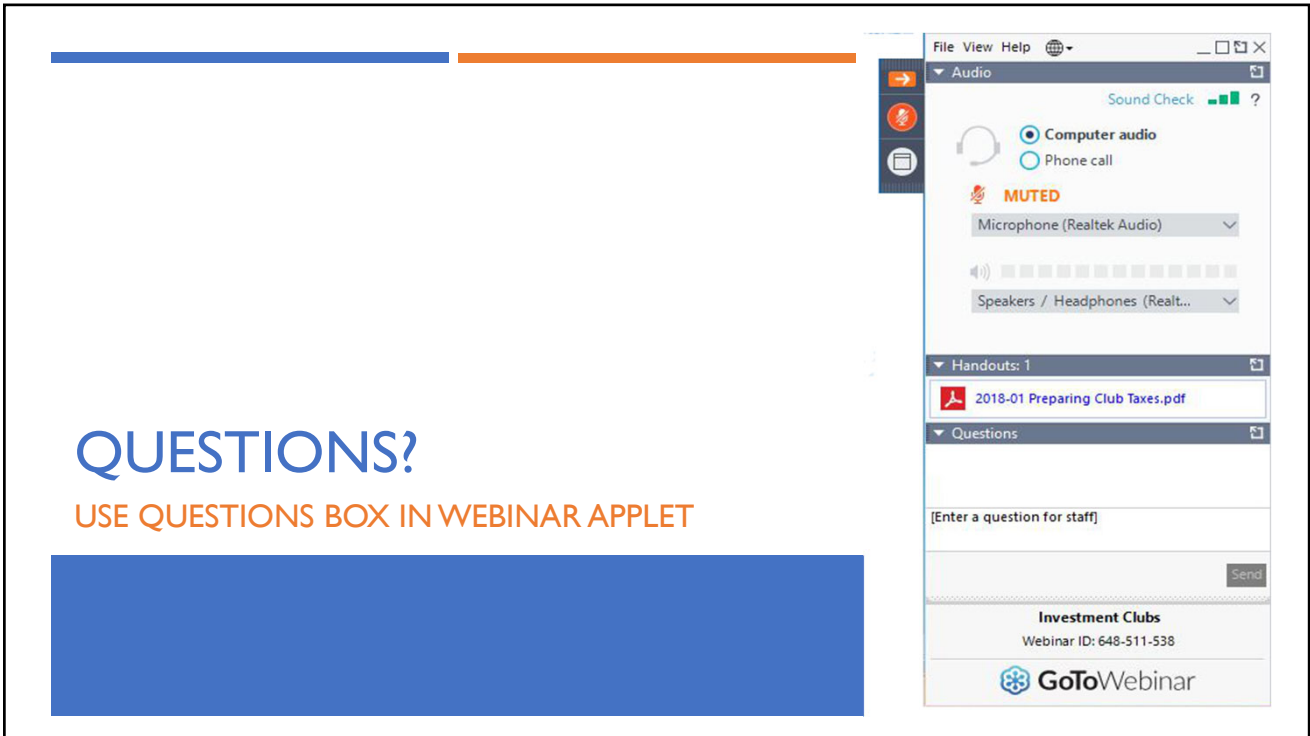
If Action Is Required



- If your club wishes to avoid complications from holding non-U.S. securities, don't hold those positions into next tax year.
- **Divest before year-end** (including receipt of dividends) & only have to worry about headaches in complying with IRS rules in current tax year return.

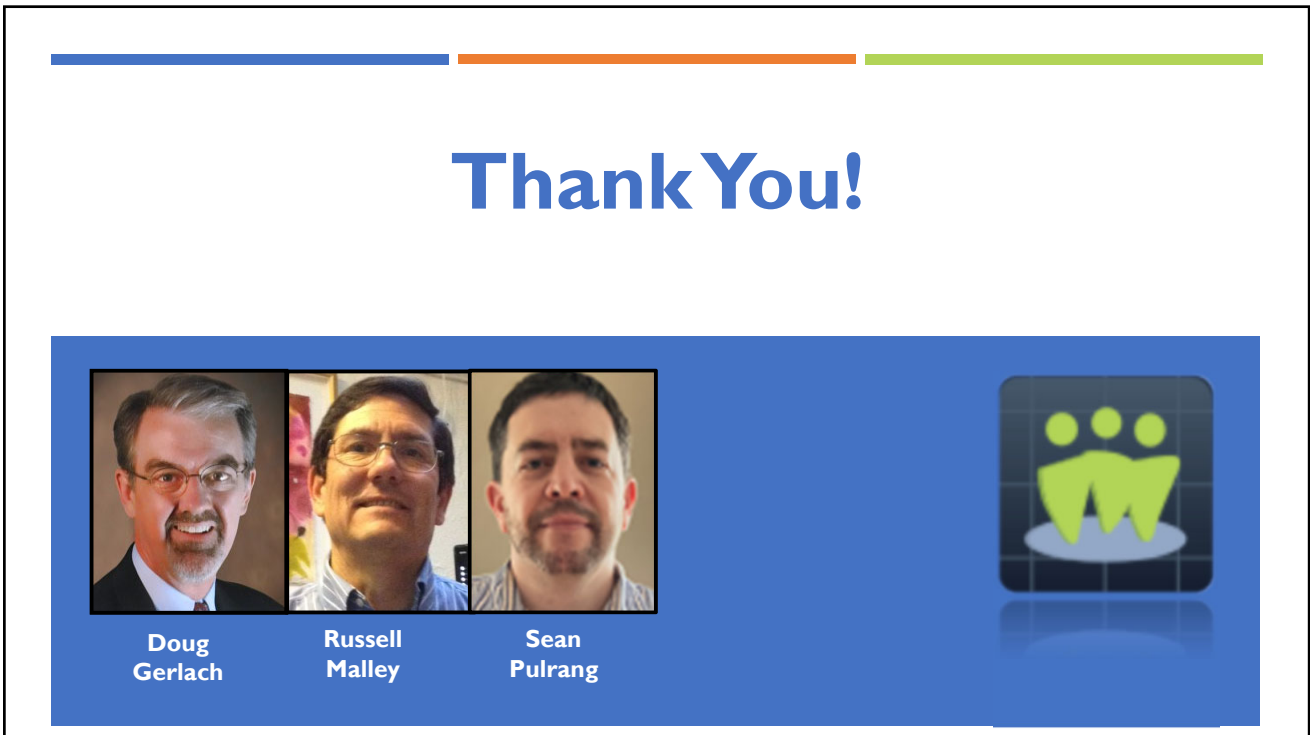
37

ICLUBcentral Investment Club Webinars
by Doug Gerlach, ICLUBcentral Inc.



QUESTIONS?
USE QUESTIONS BOX IN WEBINAR APPLET

The screenshot shows a webinar control panel on the right side of the screen. It includes a 'File View Help' menu, an 'Audio' section with 'Sound Check' and 'Computer audio' selected, and a 'MUTED' status for the microphone. Below the audio settings, there is a 'Handouts' section with a PDF file named '2018-01 Preparing Club Taxes.pdf'. A 'Questions' section is visible with a text input field containing '[Enter a question for staff]' and a 'Send' button. At the bottom of the panel, it displays 'Investment Clubs', 'Webinar ID: 648-511-538', and the 'GoToWebinar' logo.



Thank You!

The slide features three headshots of the speakers: Doug Gerlach, Russell Malley, and Sean Pulrang. To the right of the photos is a green icon representing a group of people. The names of the speakers are listed below their respective photos: Doug Gerlach, Russell Malley, and Sean Pulrang.