



Dividend Hunters... Look Abroad!

After peaking above 12,800 in May, the Dow is now down to about 12,000. While investing in stocks for the long-run is always a prudent idea, stock price gains are not always assured over short investing horizons.

However, smart investors know that their portfolios must contain blue chip stocks, growth stocks, and dividend heroes.

Now... broad market forces control stock dips and rallies, and even the best run companies take a dive when investor sentiment sours!

However, fortunately for investors, individual companies, not market sentiment, control the fate of their dividend payouts. So, even if a solid company's shares drop on a broad market pullback, it likely will still pay out dividends if its earnings stay solid.

So dividends are an investor's friend because they provide income that gooses market returns, and a layer of diversification against the broader market.

When markets are rallying, most investors, barring the level-headed and well-advised ones, pooh-pooh dividend stocks and focus solely on stock gains. When markets sour, investors come back to dividend payers.

Moreover, sane investors always seek out diversification and have a portion of their assets in bonds or CDs. But what is one to do when 1-year CD rates are no higher than 1.3% and inflation¹ is running at about 2.2%, as it currently is.

This is when you should look for strong dividend paying stocks. Moreover, dividend payers may be less risky than bonds because bonds lose value when interest rates rise but dividend payers may well increase rates. Plus, you always have the option of selling your shares and shifting into higher yielding bonds when the time is right.

But again, what is one to do if even large-cap US stocks on average deliver a dividend yield of only 2.2% – just about in-line with inflation?

¹ <http://www.forecast-chart.com/forecast-inflation-rate.html>

The answer, my friends, is *to look abroad for dividends!* Because foreign stocks deliver significantly higher dividend yields than their counterparts in the U.S., partly because many foreign companies have a more traditional approach – that their earnings belong to shareholders and must be returned as rising dividend payouts.

Here are a few examples of foreign dividend yields^{2,3} : Israeli grocery company, Blue Square Israel 42.68%; Argentine gas utility Transportadora de Gas del Sur 39.72%; CorpBanca of Chile 24%; Brazilian Telecom 10.1%; Finland's Nokia 9.49%; France Telecom 9.4%... well run companies, national brands, with high transparency and accountability... no fly-by-night operators.

What to know

If you decide to venture into foreign-dividend land, know this:

Irregularity of Dividends: Though foreign dividends are higher, they are less regular in timing and amount. For example, foreign dividend payouts may occur just once or maybe twice a year. Also, while we in the U.S. are used to a fixed dollar amount per share, foreign dividends are typically not a fixed quarterly or annual amount but a *percentage* of the company's earnings – companies pay out what they can afford to, not what Wall Street expects them to... refreshing, isn't it?! But typically, over the long haul, foreign companies dish out more over the long haul.

Dividend Taxation⁴: Taxation on foreign dividends is all over the map. Some countries - Argentina, India, Hong Kong, Singapore, the UK and the UAE to name a few - **do not** tax dividends. Some others do – Switzerland 35%, Australia 30%, Germany 26.4% (the Germans... always down to first decimal precision!), Italy 27%, France 25%, Spain 19%, Brazil 15%, Canada 15%, China 10%, to name a few.

Tax Credits⁵: Thankfully, the U.S. has mutual tax treaties with most foreign governments that U.S. investment houses flock to invest in (some lobbyist earned his keep!). They let U.S. investors receive a credit for taxes paid to foreign governments on their dividends. Therefore, you're better off holding foreign dividend payers in a taxable investment account rather than in your tax-free IRA or 401(k). But it goes one step further. Some countries, such as Germany and Canada, only tax dividends held in taxable U.S. investment accounts but waive taxes for dividends paid into IRA and other qualified pension accounts. So please speak with your investment advisor or tax preparer on this to make sure you get this credit. So see if skipping the IRA makes sense if you're going

² http://finviz.com/screener.ashx?v=152&f=fa_div_pos.geo_notusa&o=-dividendyield&c=0,1,2,4,5,7,14,65,66,67

³ <http://seekingalpha.com/article/262759-20-foreign-dividend-stocks-paying-out-more-than-5-yields>

⁴ <http://topforeignstocks.com/wp/2011/01/23/withholding-tax-rates-by-country-for-foreign-stock-dividends/>

⁵ <http://articles.moneycentral.msn.com/Investing/Extra/LookAbroadForDividends.aspx>

abroad for dividends. Foreign tax credits can be carried back 1 year and carried forward 10 years.

Currency Risk: Foreign companies pay dividends in their local currencies. These dividends are then converted to U.S. Dollars at prevailing exchange rates. Currency exchange rates could fluctuate significantly, either adding to or eroding your dividend yields. So make sure you understand historical currency exchange factors for the countries you are investing in.

Different Accounting Standards: U.S. investors are accustomed to GAAP reporting but many foreign companies follow different accounting standards which may inhibit your understanding of their financials. So tread with caution.

[Where to look](#)

ADRs: To get foreign dividends, you don't necessarily have to go too far. Of the 895 foreign companies listed on US exchanges (ADRs), 345 pay dividends. You could easily use one of many online screening tools to build lists of ADR dividend payers and their history of payouts. One starting point for dividend portfolio selection could be the [International Dividend Achievers index](#). It consists of shares of foreign companies traded on US exchanges which have consistently increased dividends for at least five consecutive years.

However, ADR companies tend to soon adapt local customs – and while they pay slightly higher dividends than American companies, you may get a lot more if you more purely invest abroad... that is, in non-U.S. listed firms.

ETFs⁶: You could do so in the comfort of your pajamas with a foreign dividend-focused ETF, such as the Dow Jones STOXX European Select Dividend Fund which yields 5.9% the Dow Jones International Select Dividend Index Fund while yields 4.6%, the Wisdom Tree Europe Small Cap Dividend Fund which yields 4.2%, and so on. (Please note, these are not specific investment recommendations but merely examples to further your understanding.)

Alternately^{7, 8, 9, 10} you could look up an ETF or mutual fund's listed holdings (this is publicly available information) and cherry pick firms you like if you have the expertise needed to invest in foreign countries. The online world is also rife with blogs and newsletters. Or, you could leverage your own experience if you have spent a reasonable amount of time in some foreign country.

⁶ <http://etfdb.com/2010/examining-international-dividend-etfs/>

⁷ <http://investingforaliving.wordpress.com/2011/03/22/finding-foreign-dividend-stocks/>

⁸ <http://blogs.reuters.com/reuters-wealth/2011/01/20/the-quest-for-high-dividends-overseas/>

⁹ <http://onecheesecake.com/2011/06/foreign-dividend-tax-withholding.html>

¹⁰ <http://www.dividendgrowthinvestor.com/2010/09/four-international-dividend-stocks-to.html>

Mutual Funds: There are a number of well managed mutual funds concentrating on the purchase of foreign stocks that pay high dividends. This may be the best idea for those of you that don't have the interest or time to research individual companies or ETFs.

[Summary](#)

Investing in foreign dividend stocks can goose your returns. But remember, there are more variables and unknowns when you invest abroad. It's fine to take the easy way out and hop on to a foreign-dividend ETF or mutual funds after consulting your investment advisor. It's less fine to D-I-Y unless you've done your research exhaustively and very sure of the risks involved in your foreign investing.

Here's wishing luck on your dividend shopping trip abroad!