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The Global Stock Market: Implications to American Investors

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The Global Stock Market: Implications to American Investors

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Investors in most industrialized nations have many alternatives beyond the traditional checking and savings accounts. Alternatives such as stocks, which can be purchased off over 180 exchanges worldwide, bonds, mutual funds, retirement plans (401k, 501c, 403b), annuities, money market accounts and CDs are often used as investment tools. With all these alternatives, how does one determine which tool or tools to utilize in investing their hard-earned income?

A few things that need to be considered when making these tough decisions are risk tolerance, liquidity, investment time frame and income level. Will the investor be dependent on this money to live, or can it be invested in the market and remain untouched for years to come to allow for growth? Many investors these days tend to place their 'extra income' into a portfolio established for growth potential, usually with more risk in anticipation of more returns, while placing their retirement savings, children's college education or other specific expenses/desires into more stable, consistent options, like a CD, bond, or a conservative mutual fund.

Global Integration

"The world capital markets began a trend towards greater global integration in the late 1980s." [1] Four factors have lead to this so-called global market. First, investors started to see the benefits of an internationally diversified portfolio, and began to diversify. Secondly, some of the major capital markets became more liberalized, due to the elimination of fixed trading commissions on stocks and a reduction in government regulations. This made it easier to do invest internationally. The impact of technology,

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[1] Eun, Cheol S. and Bruce G. Resnick. International Financial Management: Second Edition. New York: Irwin McGraw-Hill, 2001. (92)

communication and computers is the third factor. It became evident as they facilitated efficient, 24-hour security trading, that the world desires to be interconnected. Finally, multinational corporations began to realize the benefits and importance of finding sources of new capital internationally.[2]

The world is becoming smaller and smaller everyday. Transportation and communication technologies have shrunk the world by immense proportions. No longer does it take six weeks to travel from the United States to Japan, it takes just seventeen hours. Communication can be transmitted from country to country in a matter of seconds, through email and fax machines. The changing times have had a large impact on the changing stock markets. Markets now have to adjust to people's demands and schedules. Business hours occur around the clock, 24 hours a day. Companies can see the impact the financial markets have on the world. That is why virtually every country is listed on an exchange, if not three or four. They have to be in order to succeed.

Investors will notice that many of the world's largest companies have shares available on many of the world's exchanges. General Electric can be purchased off on nineteen exchanges around the world.[3] 61 of the top 100 multinational corporations are non-American, while 39 are American companies. Below are two charts, each with examples of some of the worlds' most well known firms.

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[2] Fabozzi, Frank, Franco Modigliani and Michael Ferri. Foundations of Financial Management: Second Edition. Upper Saddle River: Prentice Hall, 1998. (144)

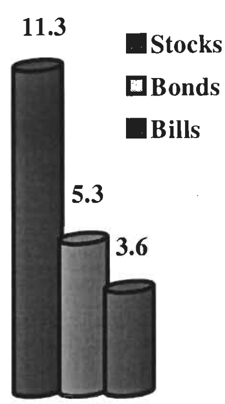
[3] General Electric Website - www.ge.com. September 2001.

Well-Known non-American firms	
Honda	Japan
Sony	Japan
Daimler-Chrysler	Germany
Royal Caribbean Cruises	Liberia
Seagram	Canada
Royal Dutch Petroleum	Netherlands
Glaxo Holdings	UnitedKingdom

Well-Known American Firms	
General Motors	Phillip Morris
Boeing	Du Pont
Ford	Intel
General Electric	Kodak
IBM	Motorola
McDonalds	Coca-Cola
Hewlett Packard	Xerox

The Stock Market

The stock markets have proven time and time again as the place to be for high returns. Since 1926, including the years of the Great Depression, stocks have averaged an 11.3% return, while bonds have averaged 5.3% and savings account/t-bills about 3.6%. [4] Stock markets have had tremendous profit making opportunities in the past, despite the current slump of the twenty first century. [5]



[4] Ned Davis Research Tools – c/o American Express Financial Advisors. October 2001.

[5] Yahoo!Finance - www.yahoo.com/finance, October 2001.

Cross Listing

When a firm has its equity shares listed on one or more foreign exchanges, in addition to their home country stock exchange, the firm is said to be cross listed. Cross listing is not a new concept; however, with the increased globalization of the world's equity markets, the number of firms that cross list their shares has increased dramatically in recent years. Large multinational corporations often cross list shares, as well as many smaller firms. [6]

There are currently 6,305 cross-listed shares, although the number of companies represented is much smaller. This figure includes equities listed as ADR, and it does not take into account the firms that are listed on more than one foreign exchange. General Electric, as mentioned above, is listed on 19 stock exchanges around the world; thus making up .3% of the cross listed shares worldwide. [7]

In 1998, Germany had by far the lion's share of these foreign listings. 2,784 were found on the Deutsche Borse, almost 51% of the world foreign listings. Foreign listings accounted for almost 79% of the shares listed on the exchange. London, NASDAQ, the NYSE and Paris had only 1,481 listings between them or 27%. [8]

A firm may decide to cross list its shares for many reasons. The most prominent reasons are that cross listing provides a means for expanding the investor base for a firm's stock, thus potentially increasing the demand and volatility of the stock. An increased demand for a stock usually increases the market price. Additionally, a greater

[6] Eun, International Financial Management (88)

[7] Eun, International Financial Management (146)

market demand and a broader investor base help improve the liquidity of the security. Secondly, cross listing brings the previously established name recognition of the company into a new capital market, thus paving the way for a firm to source new equity or debt capital from local investors. Local consumers are potential investors and they may be more likely to invest in a stock if it is available locally. International portfolio diversification is occurs more readily if investors can trade their securities on their own stock exchange. A final benefit of cross listing is that it may mitigate the possibility of a hostile take over of the firm due to the more diverse, broader investor base. [9]

Cross listing a stock can lead to many increased benefits for a company. Although it is easy to conclude that the best place to make money is in the equity market, and that listing a stock on a foreign exchange is beneficial, the decision making process is not that simple for a firm.

A firm might recognize the benefits of cross listing a stock, and might choose to do so. Firms often choose to list in different countries to 'ensure that their shares can be bought and sold by a large range of investors'. There are over 180 stock exchanges in the world today; some in well-developed nations, others in emerging countries. With so many choices, and each exchange offering its own unique characteristics, how does a firm choose where to cross list its stock?

A company needs to find out which market will most effectively enhance the attractiveness of their stock to investors, and whether or not the exchange will continue to

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[8] Eun, International Financial Management (147)

[9] Fabozzi, Foundations of Financial Markets and Institutions (78)

meet their needs as they take on the role of a public company in that country. [10]

Methods Utilized in Purchasing International Stocks

The stock market is where to be to make the most money, if one can tolerate the risk and volatility of the market. But the decision to be involved in equity is only half of the decision. The other key issue for the American investor is whether to invest in domestic stocks (American companies) or to invest in international firms.

Mutual Funds

Today, Americans have four options when it comes to purchasing international stocks.[11] The most common way to diversify internationally is through a mutual fund. A mutual fund is basically a "mini-portfolio" in itself. Typically run by one manager, or a team of managers, a mutual fund is a composition of dozens of various stock positions. Each fund has a specified purpose, such as growth, value, or matching the market; and the manager usually holds large positions in many different firms. There are almost 15,000 mutual funds in existence today.[12]

Oppenheimer Quest Balanced Value is a mutual fund from the Oppenheimer Family. It is a five star fund, and is positive year-to-date. Oppenheimer Quest Balanced Value is currently made up of 58.7% U.S. Stocks, 2.9% Non – U.S. Stocks. The remaining portion is 26.7% bonds, and 11.5% cash. As far as the breakdown of holdings within the fund, OPGIX consists of 23.9% financials, 23.4% services, 19.2% technology, 11.3% retail, 9.3% energy, 8.1% utilities, and 6.1% industrial.[13]

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[10] NASDAQ website – www.nasdaq.com. December 2001.

[11] Class notes – International Finance (winter 2001). Dr. Christopher Korth – professor

[12] Morningstar Principia Pro – c/o American Express Financial Advisors. February 2002.

[13] Morningstar Principia Pro – c/o American Express Financial Advisors. February 2002.

OPGIX
58.70% US Stocks
26.70% Bonds
11.50% Cash
2.90% Non-US Stock
Holdings
23.90% Financials
23.40% Services
19.20% Technology
11.30% Retail
9.30% Energy
8.10% Utilities
6.10% Industrial

By investing in a just one mutual fund, an individual can invest in a vast number of companies, both international and domestic, depending on the fund. This is an easy way to diversify without having a lot of money in the market, and without too much risk.

Purchase off an American Exchange

Another way an American can invest in stock of a foreign company is to buy the stock off an American exchange. Many large foreign firms have floated stock either on the New York Stock Exchange or onto NASDAQ, after meeting some tough listing requirements. This allows an investor to purchase shares of stock like Sony or Toyota, without leaving the United States. Beyond the country of origin, there is virtually no difference to the American investor who holds these shares. The stocks were purchased in America, they will pay dividends in U.S. dollars, and all literature and prospectuses will be delivered in English. [14]

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[14] All About Global Investing – Toronto Stock Exchange Investor Publication. July 2001. (15)

As more and more people purchase the stock of a company, the ability to obtain capital becomes easier and easier for a firm. Initially, it will cost a large sum of money to float an issue of stocks in America, but the potential profits that can be earned will be worth the extra costs and effort.

American Depository Receipts

Similarly, many companies are available on the NYSE and NASDAQ through ADRs. An American depository receipt provides the same benefits to the investor as above, the distinguishing elements of an ADR, however, exist in the listing process. Listing directly on an American exchange is quite difficult. Many foreign companies find they fall short of these requirements, but have a great desire to be listed in America. If this is the case, the exchange might grant them the opportunity to list as an ADR.

When a company lists as an ADR (or a similar version found in Europe or Asia), the firm does not actually cross list their stock. The stock is listed on the home exchange, while certificates with a claim to these shares are listed and sold abroad. This act is common for those firms who are smaller and cannot afford the monetary expense of direct listing, or cannot uphold or refuse to abide by the requirements of the exchange and the American regulatory agencies.[15]

American Depository Receipts can be either solicited or unsolicited.[16] In a solicited ADR, the foreign company approaches the stock exchange. The NYSE or NASDAQ, with the permission and assistance of the foreign firm, will begin the listing process for an ADR. An U.S. bank buys the firms' stocks, and assumes the majority of

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[15] Eun, International Financial Management (47)

[16] Class notes – Global Financial Markets (Fall 2002). Dr. Ajay Samant - professor

the risk from the listing standpoint. Receipts for these purchases are then listed on the exchange; the stock itself is traded on the home-country exchange. An investor will then purchase stock in the company, and will follow the stock on the NYSE or NASDAQ, which reflects the performance of the home market.

An unsolicited ADR occurs at the demand of investors. Quite often, American investors desire to buy stock in a company that is not listed on an American exchange. To help overcome this, an exchange will petition a bank to underwrite and float the ADR. The company does not originate unsolicited ADRs. Many advantages occur when a foreign firm lists an ADR. Firms can overcome tremendous hurtles, and they can achieve global diversification, which might reduce the vulnerability of its stock prices, globally. ADRs can also new used to raise new money for a firm.[17]

Purchase off a foreign exchange

The last means an American can use to invest in a foreign company is to buy the stock directly off the foreign exchange. Although it sounds simple, it is quite complicated. Trades and transactions must be done in the foreign currency; dividends will be received in the foreign currency as well. [18] It is also much more difficult to research the companies. All literature sent would be in the domestic language of that country, and all paperwork involved will also be communicated as such. The investor will typically pay a larger percentage in trading and commission costs as well, due to

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[17] Class notes – Global Financial Markets

[18] All About Global Investing (18)

different market practices abroad. Many trades will require a minimum of $20,000 in order to be processed.[19]

Another factor that needs to be considered while determining whether to purchase off a foreign exchange is the time difference. Trades on the foreign exchanges will occur during their hours of operation; thus transactions might occur at 3:15 AM. Investors are not protected under Securities Investor Protection Corporation (SIPC) when they purchase stock off on a foreign exchange.[20]

With such disadvantages to the investor, why would anyone in their right mind choose to invest this way? The fact is most people do not. Instead of the dealing with the hassle to get a specific foreign stock, an investor will purchase a domestic equivalent instead. Companies are aware of the behaviors of investors, and the choices they make.

The World's Stock Exchanges

Each exchange is a company in itself. It has a board of directors, a marketing team, an accounting department, and all other necessary departments of a successful business. Almost every country in the world has an exchange on its home soil, if not more than one. The United States itself is home to two major equity exchanges, three world-renowned derivative exchanges: The Chicago Board of Trade, The Chicago Options Exchange and the Chicago Mercantile Exchange, and many regional exchanges like the American Stock Exchange (AMEX).

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[19] All About Global Investing (19)

[20] All About Global Investing (22)

Many countries of the world can be seen as financial powers. Of the 180+ equity exchanges in the world, seven can be seen as the 'important' exchanges. Two of them, the New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotations (NASDAQ), are American Exchanges. The other major players are the London Stock Exchange (LSE), The Deutsche Borse Exchange in Frankfurt Germany (FSE), the Toronto Stock Exchange (TSE), the Tokyo Stock Exchange (TOSE), and the Euronext Exchange (EURO), in Amsterdam, Brussels and Paris. Below is some background information of each exchange.

Exchange	Domestic Companies Listed	Foreign Companies Listed	Total Number of Companies Listed	Market Value
New York	2862	445	3307	$ 7,134,747.00
NASDAQ	4000	429	4429	$ 3,218,490.00
Tokyo	1894	43	1937	$ 2,764,186.00
London	2292	499	2791	$ 1,833,544.00
Euronext	1556	289	1845	$ 922,221.00
Frankfurt	933	195	1128	$ 887,722.00
Toronto	1409	47	1456	$ 488,354.00

[21]

Recent issues have arisen which have created the need for smaller, less dominant exchanges to merge and form one more sizable and stable unit of competition. There have even been talks of achieving the creation of one global equity exchange. Multinational discussions have been occurring over the past few years to discuss the feasibility and necessity of this exchange. Currently, the main participants have been the New York Stock Exchange, Australia Stock Exchange, and the Euronext, along with the

[21] London Stock Exchange website – www.londonstockexchange.com December 2001.

exchanges found in Hong Kong, Toronto, Tokyo, Bolsa Mexicana de Valores and Bolsa de Sao Paulo.[22]

The World's 'Important' Stock Exchanges

The New York Stock Exchange

The NYSE originated in 1792, and registered as a national securities exchange in 1934. New York has a twenty-five member Board of Directors; the Chairman/CEO, twelve members of the public, and twelve representatives from the securities industry. [23] The NYSE has led the industry in the transformation from fractions to decimals; all quotes are in dollars and cents, instead of 1/16ths of shares now.

In 2001, 262.5 billion shares were traded on the NYSE, worth $11.1 trillion. On average, over one billion shares with a value of $43.9 billion occurred daily on NYSE. The value of non-US stocks was $1.1 trillion for the year or 10.3% of the total value traded.

Top 10 Firms Listed on the NYSE
General Electric
Exxon Mobil
Wal-Mart
Citigroup
Pfizer
Johnson & Johnson
American International Group
IBM
Merck
Coca-Cola

[22] Go For Growth – Euronext. Investor's Publication – September 2001. (8)

[23] New York Stock Exchange website – www.nyse.com. December 2001.

NYSE was home to 445 companies from 53 countries as of October 15, 2001. Austria, Belgium, Camay Islands, Columbia, Cyprus, Dominican Republic, Ghana, Hungary, Liberia, Luxembourg and Turkey each have one company representing them. Canada is by far the dominant nation on the NYSE. [24] At the end of 2001, the NYSE had ADRs listed for 357 companies.[25]

Listing requirements on the NYSE are stringent. A company must be willing to issue 1,100,000 shares initially. Earnings from the previous fiscal period must be at least $2,500,000 or a $2,000,000 average over the past three fiscal years. An initial fee of $36,800 will be charged, along with an additional $14,750 per million shares. Various additional other charges and costs incur as well. Listing fees on the NYSE will be between $150,000 and $250,000 initially.[26]

NASDAQ

NASDAQ, National Association Securities Dealers Automated Quotation, is located in the United States. NASDAQ was the world's first electronic stock market, and it is still the world's largest. The exchange prides itself on being "The Market of Choice" for leading companies worldwide due to its "Growth, liquidity, depth of market — and the world's most powerful, forward-looking technologies."[27]

NASDAQ is home to over half of the companies traded in the United States and with no geographic boundaries, NASDAQ's network allows a virtually unlimited number

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[24] New York Stock Exchange Annual Report – 2001 (9)

[25] www.nyse.com

[26] www.nyse.com

[27] www.nasdaq.com

of market participants to trade a companies' stock. Some of a company's benefits are enjoying greater access to investors, increasing visibility in the market, and an environment that facilitates immediate and continuous trading. An additional benefit includes its unparalleled service. Every company listed on NASDAQ has its own 'director' who provide day-to-day assistance while providing valuable insight and opinions.[28] The NASDAQ exchange has a market capitalization of over $3.2 million.[29]

To list on NASDAQ, a company must have stockholders' equity of at least $15 million, $75 million in market capitalization or $75 million in assets AND revenue. Pretax income must be $1 million for 2 of the last 3 fiscal years. A company must be prepared to float 1.1 million shares at IPO, with a minimum value of at least $8 million. The final requirement is that accounting must meet the regulations of U.S. GAAP.[30]

Companies face a one time initial listing fee of $5000 when applying to NASDAQ. Beyond this, an entry fee is placed on the company's shares outstanding. This fee is based on the number of shares outstanding. For 1 million, the entry fee is $29,525. For 5 million the fee is $58,725. This fee continues to rise until you reached the level of $90,000. At this point, over 100 million shares must be issued and outstanding. The maximum fee a company will pay to list their shares on NASFAQ is $95,000. After the initial listing fee is met, a company will continue to pay an annual listing fee to maintain its presence on NASDAQ. This fee again varies dependent on the number of shares outstanding. The range is $10,710 to $50,000.[31]

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[28] www.nasdaq.com

[29] www.nasdaq.com

[30] www.nasdaq.com

[31] www.nasdaq.com

NASDAQ is home to companies from 40 different nations. To date, there are 429 non-American firms listed on NASDAQ. Canada and Israel are by far the dominant countries on the NASDAQ, with 112 and 79 companies respectively. Only one company represents some countries, like Belize, Brazil Denmark, Italy, New Zealand, New Guinea, Philippines, Poland and Spain.[32]

Top 10 Firms Listed on NASDAQ
WorldCom
Sun
Cisco
Ericsson
Oracle
Intel
Applied Digital
Microsoft
SeeBeyond Technology
Qualcomm

NASDAQ is responsible for trying to create the world's first global stock market. This 'perfect market' will be accessible to anyone in the world, 24 hours a day through the Internet. Ground has already been broken in Japan, Europe, Hong Kong, and Canada while plans are established for Asia, Latin America, and the Middle East. "By reaching out around the globe, NASDAQ is creating new links to additional capital and an even broader pool of investors."[33] Their vision is to create a worldwide market of markets built on a worldwide network of networks that link pools of liquidity and connect

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[32] www.nasdaq.com

[33] www.nasdaq.com

investors from all over the world to assure the best possible price for securities at the lowest possible cost.

Tokyo Stock Exchange

The Tokyo Stock Exchange is the third most influential market in the world, behind the two American Exchanges. The Tokyo Stock Exchange is home to markets in stocks, bonds, futures and options. Established on May 15, 1878, it was incorporated in its present form in 1949. The foreign stock section opened its doors in December 18, 1973. Today, 43 non-Japanese firms trade on the exchange.[34] On April 30,1999 the open cry trading floor officially closed, and technology took over. [35]

The creation of MOTHERS, a market of high growth and emerging stocks, has had a large impact on the success of the TOSE since 2000. This market is similar to the United State's NASDAQ. It is specifically designed for fast growing, newly emerging companies. The restrictions are not as tough as the regular exchange, and it allows for a large amount of liquidity. After only 10 months in existence, MOTHERS allowed foreign enterprises to list upon it. November 1, 2000 will forever be a great day for those foreign firms that jumped on the newest success boat in the Japanese market. [36]

In hopes to compete with the larger exchanges, the Tokyo Stock Exchange merged with both the Hiroshima Stock Exchange and the Niigata Stock Exchange back in March of 2000. By doing so, Japan now has one larger, more influential market. This will allow the focus of competition to be on other countries and not within the country.

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[34] Fact Book 2001: TOSE (21)

[35] Fact Book 2001 – Tokyo Stock Exchange. Investor's Publication (11)

[36] Fact Book 2001: TOSE (30)

In order to deal with credibility issues, TOSE became part of the Intermarket Surveillance Group (ISG) on June 22, 2000. The ISG is an international group of self-regulatory organizations that cooperate on market supervision issues; they are the UN of the financial world. Japan was the first Asian country to join the ISG.

In order for an American Company to list on TOSE, the following criteria must be met. First, existing shares outstanding must be held by a limited number of shareholders. The company must be at least three years old in order to insure stability. At least 1 billion yen of shareholders equity must be present, as of the last completed fiscal year, and they must met pre-tax profit requirements, follow Japanese GAAP and have their dividend paying bank approved by the Tokyo Stock Exchange. [37]

Beyond these, the major requirement is determining the number of shares that can and must be included on the IPO. If the company's stock is closing at home for the equivalent of under 500 Yen, at least 20,000,000 shares must be included on the IPO. If the closing price is between 500 and 1000 Yen, 10,000,000 must be listed, between 5,000 and 10,000 Yen creates the need for only 2,000,000 shares, while closing between 10,000 and 100,000 allows only 200,000 shares. If a firm is lucky enough to be routinely closing above 100,000 yen, they are only required to list 20,000 shares. These closing prices are created using the average of the daily closing prices for the preceding year on the home stock exchange.[38]

Once the listing requirements are met, the fees must be paid. There is an up front listing examination fee of 1 million yen. This is paid regardless if the IPO is approved or

[37] Fact Book 2001: TOSE (32)

[38] Fact Book 2001: TOSE (32)

not. If it is approved, than an additional fixed fee of 2.5 million yen is required to list. On top of this, .0225 yen per share is charged, with a maximum of 13.5 million yen. A reduction of up to 10% can be agreed upon, if a % of the shares are held in America by Japanese investors, or if they will be put on reserve for Japanese to buy at the IPO. As if this did not cost enough, there is an annual listing fee of 150,000 yen for the first 10 million shares listed, with an additional 13,000 yen for each subsequent 10 million shares.[39]

As of January 30, 2001 there were 13 United States companies trading on the TOSE.[40] Most of these companies listed before 1990. In fact there are only 3 that listed in the 90's (Apple Computers, Boeing Company and Bank of America). Dow Chemical was the first American Company to enter Japan, back in 1973, followed closely by IBM in 1974. [41]

American Firms Listed in Tokyo
AFLAC
American International Group
Apple Computer
Boeing Company
DOW Chemical
Eli Lilly and Company
IBM
Merrill Lynch
MOTOROLA
Bank of America
PepsiCo
Phillip Morris
Proctor & Gamble

[39] Fact Book 2001: TOSE (33)

[40] Fact Book 2001: TOSE (37)

[41] Fact Book 2001: TOSE

The London Stock Exchange

The London Stock Exchange is one of the largest and most active in the world. The LSE was founded almost 200 years ago, back in the 1801. This exchange helped fund journeys to the orient and the war with France. They have constantly been changing and reinventing strategies to maintain their top-notch status and to provide the best market they can. They were the first exchange to completely close its trading floor and be dependent on computers and the telephone. LSE strives to "maximize shareholder value through the provision of high quality and competitively priced services."[42]

Many America companies have already taken advantage of cross listing strategies and emerged in the United Kingdom, as well as firms from other nations. London is home to 499 companies from outside the U.K. But what is even more impressive is that of the top 100 'largest international companies' listed on the LSE, 39 of them are incorporated in the United States. The United States is by far the dominant country on the LSE. General Electric tops the charts, claiming 336,440,200,000 pounds of value. Other major influences are Exxon Mobil, IBM, AT&T, Bell South, Bank of America, Motorola, American Express, Chase Manhattan, GTE, Phillip Morris and Chevron. These 12 companies fall in the top 25 listed on the exchange.[43]

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[42] A Guide to the London Stock Exchange: What You Need to Know. Investor's Publication – 1998 (4)

[43] Fact File 2000: Key Statistics of the London Stock Exchange. Investor Publication – 2000 (25)

American Firms Listed in London
General Electric
Exxon Mobile
IBM
AT&T
Bell South
Bank of America
MOTOROLA
American Express
Chase Manhattan
GTE
Phillip Morris
Chevron

With the abundance of pension plans, mutual funds and savings accounts that are traded on the exchange, the success or failure of the LSE literally affects almost every life in the United Kingdom on a daily basis. [44] Besides being the largest exchange in the U.K., one of the top in the world, and the most important in Europe, the LSE is home to more international companies than any other exchange. They have found the niche in the market that other exchanges are dying to get. But how do the do it. What makes them so attractive?

The London Stock Exchange goes above and beyond its call of duty in order to try to attract as many international companies as it can to its floor. When a company demonstrates the desire to list on the LSE, the management does what ever they can to make this dream become reality. They assist in the set up of the IPO, they provide all the required information to the company, and they spread the word that a new face is going

[44] Fact File 2000: LSE (10)

to appear on the LSE through out the world.[45] But along with the great service, comes a price tag of 2.9 – 3.4 million pounds to list in London.[46]

The LSE also assists in raising the necessary capital, and with the actual trading of the stock. Their company services division is what makes them stand out above the crowd. The Company Service division has three objectives: first, to facilitate capital raising and trading in companies' securities and enhancing compan7ies' profiles. Secondly, to ensure companies have the information they want on the trading of their securities and finally, to offer a secure and effective mechanism for making company news widely available.[47] The listed companies benefit from large-scale flexible trading services, low cost executions, and great liquidity.

Euronext Exchange

The Euronext exchange was officially established on September 22, 2000. The stock exchanges of Amsterdam, Paris and Brussels merged to create a dominant exchange in Europe, with a total market value of almost $1 million.[48] The desire to be the 'leading integrated exchange of Europe – leading in terms of quality of service, technology, efficiency, innovation, clearing and settlement. Integrated by offering investors the full range of products and a single platform for cross-border equity and derivative trading'. Their goal is to form relationships with the other major exchanges of Europe and the world to create the need and desire for round-the-clock trading.[49]

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[45] Building on Our Success: Annual Report 2000 – London Stock Exchange (14)

[46] www.londonstockexchange.com

[47] Building on Our Success: LSE (15)

[48] Go For Growth: Euronext (Introduction)

[49] Euronext Stock Exchange website – www.euronext.com. May 2001.

These three exchanges knew one thing when the idea of Euronext arose. To be successful you have to be big. Paris was a world leader in the financial world, and the Paris Bourse was one of the world's largest exchanges. But with the diversification and networking they have created with Euronext, the three exchanges, now one, have the drive and desire to take over the world. It can compete with the 'big' players now, in both size and volume. They took advantage of the changing face of Europe -the elimination of borders both in currency (with the creation of the Euro) and with the dealings of the European Union. This is one of the first steps in the globalization of the worlds markets, and the possible creation of one large market.[50]

Euronext was created by the drive for the global market. Now an American company can launch its stock in three countries for the price of one. It increases the number of potential shareholders, provided greater liquidity and even lower costs – the concept of buying in bulk. Listing on Euronext is quite simple. A company can choose to list from any of the three branches, but its stock is formally listed on the whole exchange, regardless of where it was listed. There are 289 companies listed on Euronext that are not incorporated in France, Belgium or the Netherlands.[51]

The Frankfurt Stock Exchange

The Deutsche Borse, another name for the Frankfurt Stock Exchange, is the major exchange of Germany. FSE provides a highly liquid and international market, while being known as the European leader of publicity, and public relations. Listing on the Deutsche Borse is a quick, non-bureaucratic process.

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[50] www.euronext.com

[51] www.euronext.com

In order for an American company to list on Frankfurt, they must follow either GAAP (the General Accounting Principle of the United States) or IAS (International Accounting Standards) for their accounting. Since all companies must follow U.S. GAAP to be listed on either NYSE or NASDAQ, this requirement is easily obtainable. An IPO prospectus must meet international standards, and a minimum value of 5,000,000 Euro must be issued in an IPO. [52] Costs to list range between 7500 and 10,000 Euro. [53]

There are 12 American companies currently listed in Germany. The Dow Chemical Company was the first American company to list in Germany, back in 1973. IBM was not far behind, having their IPO in 1974. The most recent American addition to the exchange is the Bank of America, in 1999. Other companies listed on the Frankfurt exchange are AFLAC, AIG, Apple, Boeing, Merrill Lynch, Motorola, Pepsi Co., Philip Morris and Proctor & Gamble.[54]

American Firms Listed in Germany
DOW Chemical
IBM
Bank of America
AFLAC
AIG
Apple
Boeing
Merrill Lynch
MOTOROLA
PepsiCo
Phillip Morris
Proctor & Gamble

[52] Frankfurt Stock Exchange website – www.frankfurtstockexchange.com. February 2002.

[53] www.frankfurtstockexchange.com

[54] www.frankfurtstockexchange.com

The Toronto Stock Exchange

The Toronto Stock Exchange is the premier exchange in the world for trading Canadian companies. With a market capitalization of $887,722, it ranks the 7th largest in the world. The Toronto Stock Exchange provides an efficient, liquid market for senior equities. The TSE's listed companies represent a broad range of businesses from across Canada, the United States and other countries. There are 43 foreign companies listed alongside the 1409 Canadian firms.

Top 10 Firms Listed on Toronto
Bell Canada
Nortel Networks
Barrick Gold Corporation
BCE
Kinross Gold
McWadders Mining
Bombardier
CoolBrands Interantional
Orezone Resources
Sunlife Financial

[55]

Listing on the TSE is the right choice for growth-oriented companies with strong track records of business management. Known for its innovative approach to trading, the TSE offers companies a dynamic market in which to raise capital. When considering American companies for an IPO the Toronto Stock Exchange looks at the following information. The company must have net tangible assets of 10,000,000 C$, pre-tax earnings of 2,000,000 C$ for the past three fiscal years and financial statements must be in compliance with U.S. GAAP. If the stock is listed on another exchange, at least

[55] Toronto Stock Exchange website – www.tse.com. February 2002

1,000,000 shares must be held by at least 3,000 investors and the public held securities must have a market value of 10,000,000 C$.[56]

Once the initial listing process is complete, other requirements and conditions have to be met. All meeting notices, information circulars and reports to both the Canadian government and the TSE must be in English. Financial reports to shareholders must show statistics in both C$ and the domestic currency and the company must comply with the TSE timely disclosure requirements.

Floating stock in Toronto is relatively low cost. For a minimal fee non-refundable fee of CS$3,000, any firm that meets the listing requirements can proceed with the IPO. Foreign companies with a primary market outside Canada are also subject to a maximum fee of CS$75,000 per class of shares listed. [57]

What Is Next?

"Taken as a whole, the so called Pacific Rim and Asian regions – loosely defined as the vast area from the Philippines in the east to Turkey in the west, from Australia and New Zealand in the south to Japan in the north – represent the most exciting, volatile, dynamic and potentially explosive investment opportunity of our time. It is the market to be involved in."[58] There are a tremendous number of potential investors over there, just take a look at some of these population statistics. As of 1998, 62% of the world's population lives in Asia; China alone is home to 1/5 (20%) of the population. The Pacific

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[56] www.tse.com..

[57] www.tse.com

[58] All About Global Investing (21)

Rim/Asia area is home to 9 of the world's 20 most populous cities, and 20 of the 40 world's largest cities.[59]

Why the United States?

Many companies decide to list their stock in the United States. In general, if the company is listed on their domestic exchange, they tend to seek a secondary offering here in the U.S. [60] If the company has not yet listed on the domestic exchange, traditionally they will conduct an IPO in the U.S. markets, due to the size and dominance of the exchanges.

Listing stock in the U.S. brings two types of appeal to non- U.S. companies – capital and commerce. Although there can be many benefits of listing stock outside the home country, six factors have been proven to draw the foreign companies to the United States. Issuing stock in the U.S. is a great way to raise capital. The United States has one of the largest economies on the world, thus has a huge pool of capital. Stocks in the United States also tend to be valued more fairly. United States investors typically understand the story of a company or its product value better than other investors. This will result in a better valuation of the stock price.[61]

Another key factor is the diversification/expansion of the shareholder base. Listing in the U.S. provides a non-US company the opportunity to increase its shareholder base while complementing a possible base in the home country. Listing in the United States also increases a company's visibility. Most people around the world

[59] Sabourin, Peter and Alec McLennan. Investing Offshore. Canada: Self Counsel Press, 1998. (79)

[60] www.nyse.com

know the success of the United States stock markets. If a company can have its stock listed on either NASDAQ or NYSE, it has 'made it' in the business world.[62] This proves to home country investors that the company is geared for success, and capable of playing with the big boys.

Beyond impressing home country investors, an U.S. listing increases the chance of research analysts covering the stock. Listing in the U.S. also enables a company's American employees to invest in the company directly. Often a company will have a manufacturing plant or a subsidiary here in the U.S. If the company stock is only listed on the home market, these American employees have only 2 choices if they want to own stock in their company – buy it on the foreign exchange, which can be very difficult, or hope an interest in the company will be given through a stock option plan or a 401(k). [63] If the company decides to list its stock on more than one exchange, it increases the accessibility to the U.S. investor, while providing a more liquid market for its shares.

Finally, a U.S. listing can provide a means for acquisitions. Using U.S. listed shares in place of currency can provide another financing option in times of acquisitions. An offer in U.S. shares may serve as loyalty to a newly acquired company, and provide an incentive to both sides of the venture.

Besides determining whether to list in the United States or not, a company must also choose how to list their stock. Those companies who are listed on their home

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[61] www.nasdaq.com

[62] www.nasdaq.com

[63] www.nyse.com

exchange typically use ADRs.[64] Ordinary shares are usually the vehicles of choice for companies who are not listed in the home market.

Conclusion

There are many alternatives when deciding to invest money in the market – for both the company and the consumer. A company has to decide the exchange or exchanges to list on, and whether to list as an ordinary share or an ADR. The investor needs to determine whether to invest in stocks or bonds, cash or mutual funds, and whether to diversify with international companies, or remain domestic.

Although there are over 180 stock exchanges in the world, the important ones can be counted on your fingers. The exchanges in the United States, Germany, France, Netherlands, Belgium, Canada, Japan, and the United Kingdom are deemed as the most powerful in the world. Various exchanges throughout the world have already begun to merge together with one another to become more competitive both in size and capitalization.

Ultimately, although it will be years down the road, I believe that there will be one stock exchange in the world – the global stock exchange. This exchange will be open twenty-four hours a day, seven days a week, to allow for investors around the world to trade at their convenience. The exchange will be run electronically, and be based out of one centralized location – probably in Europe. The exchange might not even have a trading floor, or a physically existing clearinghouse. Electronic capabilities might

[64] www.nasdaq.com

remove the necessity of these objects. Transactions would be performed instantaneous, from any location around the world.

This dream exists in the back of the minds of investors worldwide, as well as the executives of the various exchanges around the world. Discussions have been occurring to help make this dream a reality, even though it will take years to finalize. But one day, probably decades from now, there will be only one stock exchange in the world, and what a site it will be.

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