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For the New Decade – Think Outside the US

Happy New Year! May this year and the ones after bring you good health and great wealth.

Below is a quick but enlightening recap of how the domestic markets scored in the first decade of the 21st century.

The Dow suffered a 9% loss in nominal terms. S&P 500 fared worse, losing almost 25% of its value. The biggest loser? Think NASDAQ, which is still more than 40% from its all-time high set in January 2000.

Astronomical amounts of money disappeared in events like the tech bubble, bankruptcies of Enron and WorldCom, the housing market collapse, the demise of Lehman Brothers, the global credit crunch, the worst recession since the Great Depression… (the list can go on and on). Here we are today, badly wounded but grateful for yet another decade to pursue our dreams.

Free market mechanisms have been disrupted, thanks to a "helping" hand from Uncle Sam and his loyal partner, the Federal Reserve. Instead of letting unprofitable corporations go bust and giving Americans a chance to put a hold on their spending spree, the Fed, with its ultra-easy credit policy, decided that a bail out was necessary and investors and consumers alike should keep buying assets and spending like there is no tomorrow; thereby, driving up prices. Hedge funds played their part, too, by magnifying the funds available through the use of irresponsible leverage. In fact, when the market was trying to correct these faults (recession), our government, once again in the name of economic stimulation, pumped yet more money into the system, effectively delaying the "real" recession and adding magnitude to the overdue correction.

While domestically we have witnessed a rather gloomy picture, there are a few bright spots abroad. The so-called "emerging markets," led by BRIC—Brazil, Russia, India, and China—have outperformed the US markets by a huge margin in the last decade. The MSCI Emerging Markets Index, for example, doubled over the last decade. The MSCI BRIC Index logged in a whopping 180% increase. As a reality check, market values of the BRIC countries exceeded those in their developed European counterparts last year. It is not difficult to understand this outperformance when GDP numbers in China and India registered in the teens during the good years and they were still able to churn out 7 to 8% growth last year.

Of course, these emerging countries are by no means bullet proof. They have their own problems—political instability, corruption, human rights issues, pollution, extreme wealth disparity, etc. But things are improving. In addition, the rest of the world is becoming less dependent upon American consumers and we are quickly losing importance and "superstar" status. On the other hand, as their name suggests, emerging markets are, no doubt, rising fast, and wealth is being transferred from the developed world (us) to them. Just look at our trade deficit.

From an investment aspect, it is important to invest where money is going and wealth is being created. US investors should, therefore, reconsider their home country bias and begin to think globally. Veteran investment professionals are suggesting that US investors have at least 25% of their equity portion of the

portfolio invested in emerging economies and concentrating domestic exposure in businesses that derive significant earnings overseas.

If you look around at things in your daily life, the idea of global wealth creation becomes apparent. The car you drive may be a Japanese product, the gas that runs the car was probably transported from Brazil or the Middle East, the big flat-screen HDTV could come from Korea, your Nike work-out outfit was likely made in China… you get the idea. Should not your investments be like that?

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