Monday Money Wise • Tuesday Property
Wednesday High Life • Thursday Learning
Friday On the Road • Saturday Technophile

Colin Bloodworth offers a simple guide for navigating global investment options

Grow Your Savings: Allatter of Markets

t is widely accepted that if you want your savings to grow in real terms, a portion should be allocated to the world's capital markets. Governments do not make money, they spend it. While your money in the bank may be feeding the capital markets, your share of the proceeds at current interest rates will not even keep up with inflation. So for your money to grow, you have to invest.

How do you access and allocate savings to the world's stock markets? It's not too difficult as you can buy shares directly through a stockbroker or enter the markets through managed funds, life insurance products and regular savings plans.

But how do you determine which markets to buy into? Should you buy global stocks, US stocks or local stocks? Up to a few decades ago there were limited opportunities to invest in freely traded stocks outside the United States, Europe, Japan and a few Commonwealth countries. These are still considered the major markets of today.

Gradually however, a number of other countries came onto the scene, realizing that stock markets were a means of attracting capital and increasing prosperity. These became known as "emerging markets."

More recently, stock markets have been established in many more countries, some of which might raise the eyebrows of experienced investors. These have become known as "frontier markets."

Majormarkets

The biggest market in the world in terms of capitalization is beyond doubt the United States. It is the home of eight out of 10 of the largest companies in the world, some of which, including Apple, Exxon, General Electric and Chevron, are worth more than the entire stock market capitalizations of smaller countries.

Some companies also hold cash reserves greater than those of many sovereign countries. If you invest in a global major market fund today you are likely to



find yourself with a spread of countries close to that of the MSCI Developed Index.

Marketsindex

The investment would be allocated roughly in the following proportions:
United States (52 percent), United
Kingdom (10 percent), Japan (9 percent),
Canada (5 percent), Australia (4 percent)
with the remaining 20 percent spread
around European countries, New
Zealand, Singapore and Hong Kong.

Emerging markets

A fund following the MSCI Emerging Markets Index today would have a spread roughly on the following lines: China (18 percent), South Korea (15 percent), Brazil (12 percent), Taiwan (10 percent), South Africa (8 percent) with the remainder (37 percent) allocated to a dozen or so countries including Russia, India, Mexico, Malaysia, Thailand and Indonesia.

Some fund managers try to "beat the index" with different focuses.

One enterprising manager coined the acronym BRIC, which stands for Brazil, Russia, India and China and investments were devoted to these four rising stars alone. Other funds focus on specific regions such as Asia, Latin America and Africa, or on single country funds.

Frontiermarkets

This is a fairly recent development and shows how quickly the rest of the world is trying to catch up. The markets are not sufficiently mature to be fully considered "emerging markets" but some of them are rapidly improving access and liquidity

to investors as well as to speculators.

"emerging" and "frontier" will be more difficult to draw. The leaders in this field are currently Kuwait, Qatar and the UAE but there are some interesting participants such as Kenya, Bangladesh, Pakistan, Romania, Serbia, Sri Lanka and Vietnam. Note that Cuba and North Korea, the last true bastions of communism, are not included as they have continued to resist the capitalist model.

One fund manager is offering single country funds for Mongolia and Iraq. They may appeal only to investors who are looking for excitement but there are some very strong fundamentals. Iraq, for example, is sitting on the world's fifth largest oil reserve and its oil is very cheap to extract. It does not need to incur the huge costs of deep water drilling, extracting from tar sands or the environmentally questionable process of fracking (the use of high pressure liquids to drill into rock). This means that the country could become very wealthy — if the politics can be sorted out.

But which markets should you invest in? The answer is not a simple one and we will address it next time. But now that we have identified the three main geographical groups we can begin to consider the merits of each.

Colin Bloodworth, director of PPI Indonesia, has spent over 20 years in Indonesia. If you have any questions on this or a related subject, you can contact the writer at indonesia@ppi-advisory.com