



## EMERGING MARKETS

by Daniel O. Kaibel, CFP®  
*Investment Analyst*

If you have had a portion of your portfolio in emerging markets over the last five years, you are probably very pleased that you did. Over the past five years, no other investment category has performed as well (source:Morningstar.com). While there is reason to be excited about their future, there are also reasons to be cautious.

### HISTORICAL PERFORMANCE

From 11/2002 - 10/2007, the SMCI Emerging Markets index gained over 300%. This performance has gained many people's attention. Deposits into emerging market mutual funds reached an all-time high of \$620 billion in 2007 according to the Institute of International Finance.

While there is reason to be optimistic in the long term for these markets, recent performance should not be the main motivator about when and where to invest. In the early 2000's some were advocating investing only in an S&P 500 index fund for various reasons including recent performance. However, this strategy would have produced a negative return since the beginning of the decade through September 12 2008, based on the performance of the SPY exchange traded fund (ETF). This re-enforces the need for diversification in our portfolios. Almost as if 'on cue' after an incredible five year run of outstanding performance, EEM, the emerging markets ETF, has now fallen over 25% from Nov. 1, 2007 - August 29, 2008 (source: Big-charts.com).

### WHAT ARE EMERGING MARKETS?

To establish the criteria for an emerging market, financial analysts consider a country's current economy as well as changes that may be occurring. An emerging market is a nation consisting of low-to-middle per capita

income whose economy is transitioning into a structured open market. An emerging market is embarking on an economic reform program that will lead it to stronger and more responsible economic performance levels, as well as transparency and efficiency in the capital market.

There are differences of opinions, however, on which areas or countries are really developing since there are concerns about how dedicated these countries are about reforming their government and economic platforms.



### WHY THEY ARE IMPORTANT

Without knowing anything more, a case could be made to allocate a small portion of some portfolios to emerging markets for the simple reason that they can provide added diversification. Emerging markets are also important because they provide expanding market opportunities for established companies from more industrial nations. These companies may open a factory or office there, providing higher employment levels, a skilled labor force and a transfer of technology for the developing economy. In return, the company has a potential new source of revenue.

Perhaps a more important reason to look at these areas is that they may bring a much needed dynamic to our own economic future. In the U.S. (and in other developed markets) the "baby boomer" generation will be looking to retire in the years to come. This could make a significant impact on our economic system because the generations that follow have fewer members in the workforce.

---

This article is published by  
Vantage Financial Partners  
Limited.

Any reproduction without  
written permission is pro-  
hibited.

Copyright 2008

# Vantage Financial Partners Limited

---

The emerging markets can provide a much larger and younger workforce and economy. In addition, many of these economies have abundant and less-tapped natural resources which may become more important as time goes on.

## THE RISKS

With the influx of new money into their economies, emerging markets seem to be prone to higher inflation. For instance the Laudus website reports that India's Central Bank has reported inflation to be at a 13-year high. Large increases in inflation can frequently result in a slower economy. An investor should also consider the political risk of investing in emerging markets. Political risks include more than the risk of a coup. The political powers in a country can simply choose to nationalize private firms or change financial regulations in a manner that is harmful to investors.

## CONCLUSION

While it is exciting to think of what the future may bring for these areas of the world, caution should be the first order of business when considering investing there. Once it is determined that a portfolio should contain these investments, it is important to do the due diligence on the instrument (i.e. mutual fund, ETF, individual securities etc.) that is chosen. Since many instruments invested in this area have performed well over the last five years, one may get an unrealistic expectation of a manager's expertise, an index's performance or individual security's promise. Research should be made as to the tim-

ing, amount and specific instrument selection.

Most economies eventually go through this exciting but sometimes treacherous phase. It's interesting to think that at one point the U.S. would have been considered a small, struggling economy with much political & economic risk. It will be interesting to see how growing pains bring about the development of these countries.



---

## VANTAGE NEWS

Picnics in August can be a great opportunity for friends and family to get together to brave the elements (heat & mosquitoes) for an important time of fellowship. We at Vantage grabbed that opportunity when we had our annual summer picnic last month. We're happy to say that it was a success as all enjoyed themselves and there are no injuries to report. We met at Terry and Jeff Kaul's home for some very good eating, games, swimming and interesting conversation. Our conversations ranged from, what it takes to help others when they don't always want that help, to golf, hairstyles, church, learning how to drive a car, and most any other topic you can think of. Little was said about work, which may be why we like it so much when we get together this way.

We mainly get along here at Vantage...but some did take an opportunity to get some "frustrations" out during a contest of will and strength. The Vantage "tug-of-war" was fierce but not too long. It was agreed that the MVP for the losing side was Debbie Rohrwasser (Michael's wife) as she made a valiant "wonder woman" attempt. For the winning side, they just said it was a team effort (we'll let them get away with that overly familiar post game analysis).

---

Investment Managers at Vantage Financial are registered with and securities are offered through LPL Financial, Member FINRA/SIPC. Relationship Managers are registered with and financial planning services are offered through Vantage Financial Partners Limited

The opinions voiced in this material are for general information and are not intended to provide specific advice or recommendations for any individual.

Past performance is no guarantee of future results. The market for all securities is subject to fluctuation such that upon sale an investor may lose principal.

Principal Risk: An investment in Exchange Traded Fund (ETF), structured as a mutual fund or unit investment trust, involves the risk of losing money and should be considered as part of an overall program, not a complete investment program. An investment in ETFs involves additional risks: not diversified, the risks of price volatility, competitive industry pressure, international political and economic developments, possible trading halts, index tracking error.

Investing in mutual funds involve risk, including possible loss of principal. Investments in specialized industry sectors have additional risk, which are outlined in the prospectus.

Investing in emerging markets involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

To subscribe to our periodicals or change your delivery options, please visit our website at [www.vantagefinancial.com/subscribe](http://www.vantagefinancial.com/subscribe).

**Investors should consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The prospectus contains this and other information about the investment company. You can obtain a prospectus from your financial representative. Read carefully before investing.**