



# Fisher Funds

## Investor Education Centre

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### **BRIC or Brick**

**08/11/09**

Investing in emerging markets has always seemed exciting. The prospect of massive economic growth in developing countries, leading to strong company profits is appealing. And the thought that you can discover a great little Indian or Chinese company at a really cheap price is an investor's dream.

But, emerging market stocks can be the most volatile on the planet. Emerging countries are growing, and have been for some time, at a faster rate than developed countries.

Just recently we saw that China's economy grew 8.9% in three months, compared with the same period in 2008. In fact, all of the world's economic growth over the next year is expected to come from developing countries. In light of the growing importance of the rapidly expanding economies like Brazil, India and China, it makes sense to invest in their stocks. But most investors who have ventured into emerging market stocks have some battle scars.

With the potential of return comes risk. Emerging markets pose special risks. Companies don't always treat shareholders as owners. A company, particularly one owned partly by the government, often has higher priorities than rewarding shareholders.

It can be difficult to get good quality information about the companies you want to analyse, and their stock markets are often poorly monitored and regulated compared with developed stock markets.

There can also be greater risks in emerging economies of revolutions, coups, and government defaults.

In 1997-98, the MSCI Emerging Markets Index tumbled 57%, largely because currencies of one emerging country after another collapsed during the "Asian contagion".

But the emerging economies of today are better than those of ten years ago, and will likely become even better investment destinations in time.

It's just a question of how you go about investing in them.

We have talked before about diversification, and this becomes particularly important when investing in emerging markets. Even though emerging markets do tend to be correlated, rising and falling at the same time, it still pays to spread your bets rather than backing one particular country to be the best performer.

Emerging markets are not the place to try DIY investing. Having invested in China for several years, we know how many companies we researched and dismissed before finding the handful of good companies that we now own. Our investment team has spent hours on trains travelling through the Chinese countryside to visit companies and eyeball the management and the company facilities.

There is no substitute for first hand research in any market, and particularly in the case of emerging markets.



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Another useful strategy in emerging market investing is to approach it incrementally. In a volatile market, it is better to invest in increments rather than investing in one go and running the risk that your timing was wrong.

There is no doubting the importance of emerging markets for all of us, whether we are investors or not. Share market investors should focus first on growth (since growing profits will drive share prices up). Emerging economies have significantly better growth prospects than developed countries, so they are a great place to start.

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