

The Record

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'Emerging' Stock Markets Are Looking Better

BY GREGORY ZUCKERMAN

On the heels of one of the worst years in stock-market history, some experts say investors should shift more money into a surprising area: emerging markets.

For years, shares and bonds from emerging markets made investors wary. Sure, their growth often could be much stronger than that of developed economies, partly because of robust population growth and steadily improving standards of living. But countries such as Brazil, Mexico, China, South Korea and many in Africa often were handicapped by heavy debt, weak currencies, poor corporate governance and high volatility.

That view is changing. Last year's financial meltdown raised questions about the attractiveness of developed nations, which have been dealing with their own serious debt, currency and governance issues.

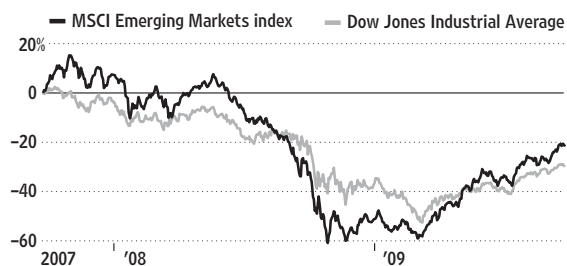
And with few analysts predicting robust growth in developed markets for some time, there's a new appreciation for the promise of robust expansion in some emerging markets.

"Most developed countries have similar economic problems," including over-indebtedness and aging demographics, says James Paulsen, chief investment officer at Wells Capital Management, who predicts that many developing nations will see their currencies rise in value, helping investments in those nations. "Emerging countries possess stronger inherent growth possibilities."

Daniel Arbess, manager of the Xerion Fund, a hedge fund, at Perella Weinberg Partners, says that "emerging markets

In the Lead

Emerging markets fell further and faster than the U.S. last year, but are now leading the comeback.



Note: Through Thursday

Sources: WSJ Market Data Group; MSCI Barra

are arguably the single most important avatar of investment opportunity for our generation. The demand for commodities to support the modernization and urbanization of these and other developing economies, and the demand for food and products by growing consumer classes, should continue to fuel opportunities for years to come."

Faster Growth

Some stock markets in developing nations, including Brazil, already have soared from their lows reached earlier this year. The widely followed MSCI Emerging Market index, which tracks emerging-markets shares, is up 60% this year, compared with a gain of 10% for the Dow Jones Industrial Average. (The Dow fell 1.6% last week.)

On a price-to-earnings basis, however, shares of many emerging-markets companies are comparable to those in developed regions, says Marko Dimitrijevic, a hedge-fund manager who focuses on emerging markets. On a price-to-sales basis,

they're still a bit pricey, however.

Profits of companies in emerging markets "are growing faster than developed markets, yet often still trade at a discount" based on their strong growth and reasonable P/E ratios, says Mr. Dimitrijevic, who runs Everest Capital, a top-performing fund based in Miami.

He's a fan of India, Korea, Nigeria and the Middle East region; he's less keen on Mexico and China, which are more expensive.

Nations outside of the U.S. and developed Europe now account for almost half of global gross domestic product, Mr. Dimitrijevic says. It was less than 40% in 1990. It helps that many of these nations are transitioning from dependence on demand from developed nations to a more balanced exposure to both local and foreign demand.

And while nations with emerging markets once were criticized for excessive government involvement, the rush by



be a good place to be."

Mr. Tuttle agrees that nations like Brazil, Russia, India and China should do well over the long haul. But he worries that these stock markets have gained between 50% and 100% this year, saying that "those types of numbers aren't sustainable. ... I would wait for some sort of pullback."

Analysts say bonds from many emerging-markets nations are less attractive than stock because so many of these countries now are rated investment grade. So investors are no longer being compensated for the risks of going abroad.

Individual investors can find it difficult to buy debt from companies in emerging markets—and some small companies can be harder to track.

As a result, Mr. Tuttle recommends mutual funds such as the Lazard Emerging Markets Portfolio fund (LZEMX), which is up 58% so far this year and has an expense ratio of 1.5%, and debt-and-currency-focused PIMCO Developing Local Markets fund (PLMDX), which has climbed 19% and has an expense ratio of 1.1%. Among so-called tactical funds—which usually can go into all kinds of markets—Ivy Asset Strategy fund (WASAX) is up 19% this year, and Blackrock Global Allocation fund (MALOX) is up 17%.

Exchange-traded funds like the iShares MSCI Emerging Markets Index Fund (EEM) track the MSCI index, providing exposure to Brazil, China and other markets, though not to smaller markets. It's up more than 50% so far this year.

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No-Risk CDs Improve Rates

BY JONNELLE MARTE

Savers have traditionally had to settle for certificates of deposit with lower interest rates in exchange for quick access to cash without a penalty.

But now rates for no-penalty CDs are just as good, if

not better, than those for traditional ones.

"Banks are making the no-penalty CDs more appealing and getting those deposits today, versus not getting those deposits" at all, says Greg McBride, senior financial analyst at Bankrate.com.

Ally Bank's nine-month no-penalty CD recently had an annual yield of 1.85%, compared with 1.55% for its regular nine-month CD, according to the bank's site.

Bank of America was recently offering a nine-month no-penalty CD, called a Risk-Free CD, with an annual yield of 0.7%. Its standard CDs, with terms between six and 11 months, had a 0.5% yield.

While there's no penalty for early withdrawals, some banks do require that people wait 90 days after setting up a CD before withdrawing money. So you should still factor in the time horizon for when you may need the cash, Mr. McBride says.

A no-penalty CD could pay off if interest rates rise from today's very low levels, by making it easy for you to switch. "People who are locking in a longer-term CD [at current rates] are making a big mistake," says Marc Schindler, a certified financial planner in Bellaire, Texas.

TIP OF THE WEEK