WORLD MONEY ANALYST

INAUGURAL EDITION

INTERNATIONALIZE YOUR MONEY. YOUR LIFE.

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Kevin Brekke

Dear Reader,

Since Doug Casey's seminal work ***The International Man*** was published in 1978, the world has changed profoundly. Perhaps most notably, in that year Chinese GDP per capita was 379 renminbi. Today it approaches 20,000, a better than 50-fold increase.

That's what a paradigm shift looks like.

And China is not alone. India is the world's second most populated nation and on track to overtake China in 2030, with far-reaching economic consequences (and opportunities). Similar rates of growth have been experienced throughout the developing world.

Meanwhile, the aging nation states are stagnating, with US GDP growth evidencing barely a heartbeat since 1978 (increasing by a factor of only 2.8). Same story with the UK (up just 1.73 times) and former go-getter Japan (up 4.29 times).

The important point is not, however, that henceforward the aging nation states are going to be lousy homes for your investments – rather, it is that to keep all of your investment eggs in one basket is imprudent to the extreme. Doing so ignores the fundamental truth that markets fluctuate, assuring that at any given time certain markets will be greatly overvalued, and others deeply undervalued.

On that topic, in his classic ***The Intelligent Investor***, Warren Buffett's mentor, Benjamin Graham, discusses a paradox related to the equities of successful companies that is equally applicable to successful economies. Namely, that success invariably attracts an inflow of money that sooner or later assures the successful company's equity (or in our construct, the equity markets of the successful country) rises to the point of becoming overvalued.

There was no question, tracking China's economic "miracle," that the country's equities had become extremely overvalued before the crash of 2007, and warranted the subsequent 62% correction to today's levels. If you were a China-domiciled investor, and remained entirely invested in that market, the consequences would have been devastating.

Herein lies a core mandate for the **World Money Analyst**, to serve as your eyes on emerging opportunities wherever they may be found. To fulfill this mandate, we have assembled a world-class team of analysts around the globe, assuring we always have someone close to the action, armed with critical local knowledge.

In this edition, you'll be introduced to a number of these analysts, meeting others in future editions as they rotate in to share important new information and investment ideas worthy of your attention and further research.

Another Risk: Failing to Diversify

There is more to international diversification than moving out of overvalued markets in order to seek outsized portfolio returns elsewhere. There is overarching risk that comes from leaving all of your assets under a single political jurisdiction. Those risks are growing with each passing day.

Lacking foreknowledge of what desperate acts the flailing sovereignties might try next – exchange controls, debt repudiation, higher taxes, price controls, commodity trading restrictions, trade wars, actual wars? – just means another layer of exposure for every investor.

Given the uncertainty ahead, the *only* rational way to blunt the risks posed by our own governments is through intelligent international diversification, another important topic you'll find covered in future editions of this service. Topics will include internationalizing your bank, brokerage and precious metals storage relationships, and other important steps to be taken in structuring your affairs to legally minimize exposure to capricious government or private legal actions against you.

Meet Your Editorial Board

The editorial board and contributors to this service are as globally diversified as the investments we follow and include, among others: **Grant Williams**, Singapore-based money manager; **Shanmuganathan "Shan" Nagasundaram**, India-based economist and investment analyst; **Steve Belmont**, global commodities specialist; **Gordon Chang** and **Dee Woo**, China analysts; **Greg Weldon**, global macro trend analyst; **Alexei Medved**, Russian investment specialist; **Chuck Butler**, President of EverBank World Markets; and, **Claudio Maulhardt**, Latin American investment specialist. From my office in Switzerland I will provide and coordinate coverage of the fast changing situation in Europe.

Providing guidance on issues related to internationalizing your assets and your lifestyle, are: **Brandon Rowe**, Managing Director of International Man and publisher of this service; **Doug Casey**, chairman of Casey Research and the original "international man"; **John Mauldin,** Chairman of Mauldin Economics; **Terry Coxon**, president of Passport Financial, Inc.; **Adrian Day**, president of Adrian Day Asset Management; and, **Gregory McNally**, Toronto-based legal expert and member of the Turks and Caicos Bar Association.

Expect additional team members to be announced as we continue on our exciting quest to bring to your attention exceptional opportunities across the global stage.

Welcome to the **World Money Analyst**!

Kevin Brekke
Managing Editor
Fribourg, Switzerland

The Danger of a World Without Dragons

By Grant Williams

There are two distinct cultural traditions that feature dragons: the European dragon and the Chinese dragon. Coincidentally, the English word "dragon" comes from the Greek δράκων (drákōn), while in China, the dragon is the most auspicious of animals and the only mythological beast in the Chinese calendar. While everybody is familiar with the legends of dragons, nobody can describe a dragon exactly. Everyone's mental image of a dragon is different.

In dragon lore retold through the millennia, wherever the creature terrorized a frightened public, a brave knight would ultimately gallop forth to slay the beast and thus dispel the fear, allowing people to return to their daily lives.

Since the world reached its tipping point in 2008, when the bankruptcy of Lehman Brothers sent the global economy into a tailspin, the anxiety-inducing lore used to keep the public living in fear has been the "Collapse of 'The System'" dragon. We have repeatedly been admonished that if certain measures weren't allowed, if specific plans weren't implemented, "The System" would collapse.

We heard it with the passing of the Troubled Asset Relief Program (TARP) in October 2008. Then-Treasury Secretary Henry Paulson told a fearful Congress that unless they handed over the $787 billion he demanded, "The System" would collapse.

Days later, then-President George W. Bush eloquently tried to explain just why the public should be afraid of this particular "dragon" with these words:

> *"If money isn't loosened up,*
> *this sucker could go down."*

Our 21st century dragon has many incarnations: "The System," "the Global Financial System," "The Banking System," or even, "This Sucker." But a dragon by any other name remains something of an abstract concept – a mythical creature – because NONE of us actually knows what this much-feared collapse would look like. Nevertheless, we have all been conditioned to be terrified of such an occurrence.

World leaders, particularly in the US and Europe, have been simultaneously warning the public of the presence of a dragon (enabling them to print and spend trillions in fiat currency) whilst battling to slay it (to allay the public's fear and spur spending to spark life into a collection of moribund economies).

Removing the bulk of this fear while keeping just enough of it in place (so as to allow the passage of legislation that otherwise would never be acceptable) has been an extremely delicate balancing act, but one that they are getting closer to achieving.

Unfortunately, the slaying of this particular dragon is going to unleash all sorts of new dark forces that central banks are going to

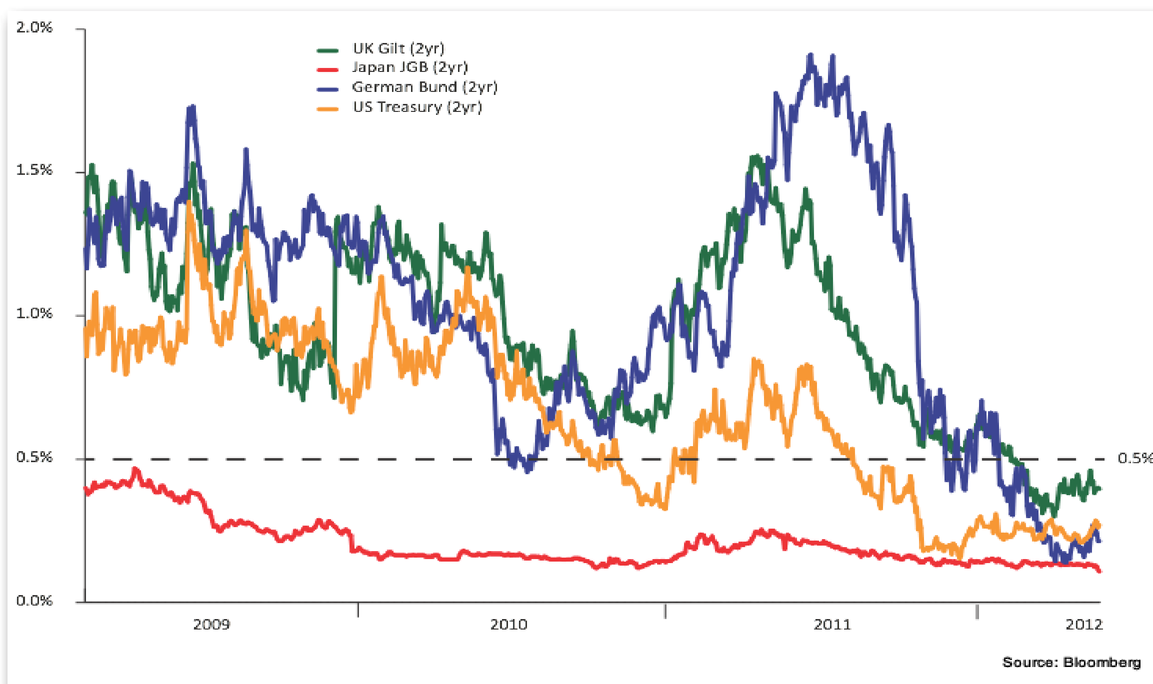
find even more menacing than those with which they have been doing battle for the last 4 years.

When the fear over a collapse of "The System" is dispelled – and as soon as that other mythical creature, an "orderly default" of Greece, has been achieved – the public at large and pension fund managers across the world will look at their holdings of government bonds (particularly those of Germany, the US, the UK and, at some point soon, Japan), and realize that they are only holding them out of fear.

There really are NO fundamental reasons to own bonds at these levels. None.

Absent the threat of a dragon about to scorch their investments, government bond holders will quickly conclude that locking in a negative return is rationally only something done if you were afraid of impending doom. At that point, the danger is that they will sell them aggressively in a search for a return higher than inflation – inflation that, while benign at the statistical level, is all too malignant to anyone with a gas tank to fill or family to feed. And by "anyone," I mean, of course, "everyone."

While this will no doubt be good for equities and commodities in a nominal sense, it will be an absolute disaster for those peddling public debt. Those brave dragon slayers, having successfully managed to quell public apprehension, will find themselves trapped in an environment of potentially spiraling interest rates, where even a return to the long-term average will mean doom.



With US inflation at 3% and closer to 5% in the UK, sovereign debt is guaranteed to provide a negative real return over just about every time frame. In a fearful world, this was wholly acceptable to investors in exchange for the perceived "safety" offered by government bonds. But in a world with no dragons, that quid pro quo becomes unacceptable very quickly.

In aggregate, the governments of the OECD need to somehow borrow an eye-watering $10.5 TRILLION this year alone. In a world devoid of fear, they will be forced to pay significantly more in interest to attract sufficient capital than they did when the dragon was lurking about.

With nominal increases in rates adding billions to the debt-servicing cost of the

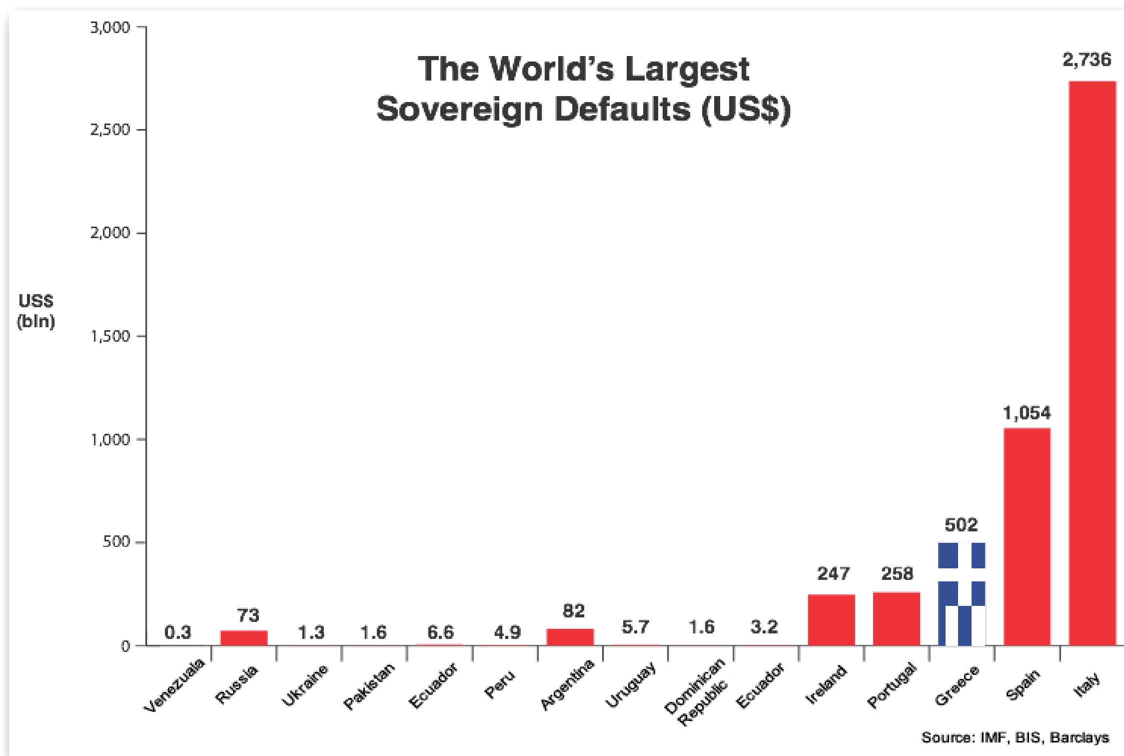
world's governments, it is crystal clear that the one thing they cannot withstand is higher interest rates. The US, UK, Europe and Japan are ALL in the same boat, debasing their currencies as fast as possible in a desperate attempt to inflate their way out of trouble before calamity strikes and their respective debt pyramids topple under their own weight.

Backed into a corner and with all the usual arrows in their quivers long since fired, the world's central banks are trapped and will sooner or later end up facing the very REAL monster that has been asleep in its cave: rising rates.

When fighting a dragon, it pays to have a healthy sense of fear about the potentially negative outcome but what happens when the dragon slayers themselves lose that fear?

Across Europe, it has lately become quite evident that the fear of a Greek default has faded to the point where many central bankers and politicians feel as though such an event could be "contained." They have actively been pushing Greece towards the EU exit, confident that this is one dragon they have the measure of.

But a look at the relative size of this "yield dragon" would suggest that perhaps now is not the time for complacency.



Until now, Argentina's 2001 default was history's largest at $82 billion. As you can see from the chart, Greece is over six times as large. And, should Spain or Italy be drawn into the fray … well, let's just say that if they were, the smart money would all be placed on the dragon.

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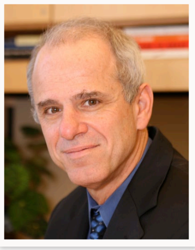


5 Reasons Why Crude Oil Could Be The Best Bet of 2012

By Steve Belmont

Crude oil may not only be the best commodity play of the coming year, it could prove to be the best commodity play of the next three to four years, soundly beating both gold and silver. I am not talking about producers, refiners or drillers or any individual stock – but the real thing: crude oil itself. In fact, we like crude oil so much that if we were forced to make just one speculative commodity play for all of 2012, we would pick crude oil hands down.

Don't get us wrong, we still like gold and silver. In fact, we think silver may be the *second* best bet of 2012. But you can't pour silver into a farm tractor and use it to grow more food. You can't pump gold into a 747 and use it to transport cargo. You can't use gold or silver to make overall production more efficient and generate a higher standard of living. In fact, you can't do any of these things without crude oil. This is why crude is and will continue to be the world's most essential commodity.

Let's say all the gold and silver ever mined disappeared from the earth tomorrow. Would there be consequences? Certainly. Billions and perhaps trillions of dollars of wealth would evaporate overnight. But farmers would still be able to plant and harvest; people and freight would continue to move from one place to another relatively efficiently; manufacturing and commerce would continue. You cannot run trains, planes, tractors or armies on solar and wind power. Take away crude oil and it stops – *ALL* of it. The modern way of life ceases to exist.

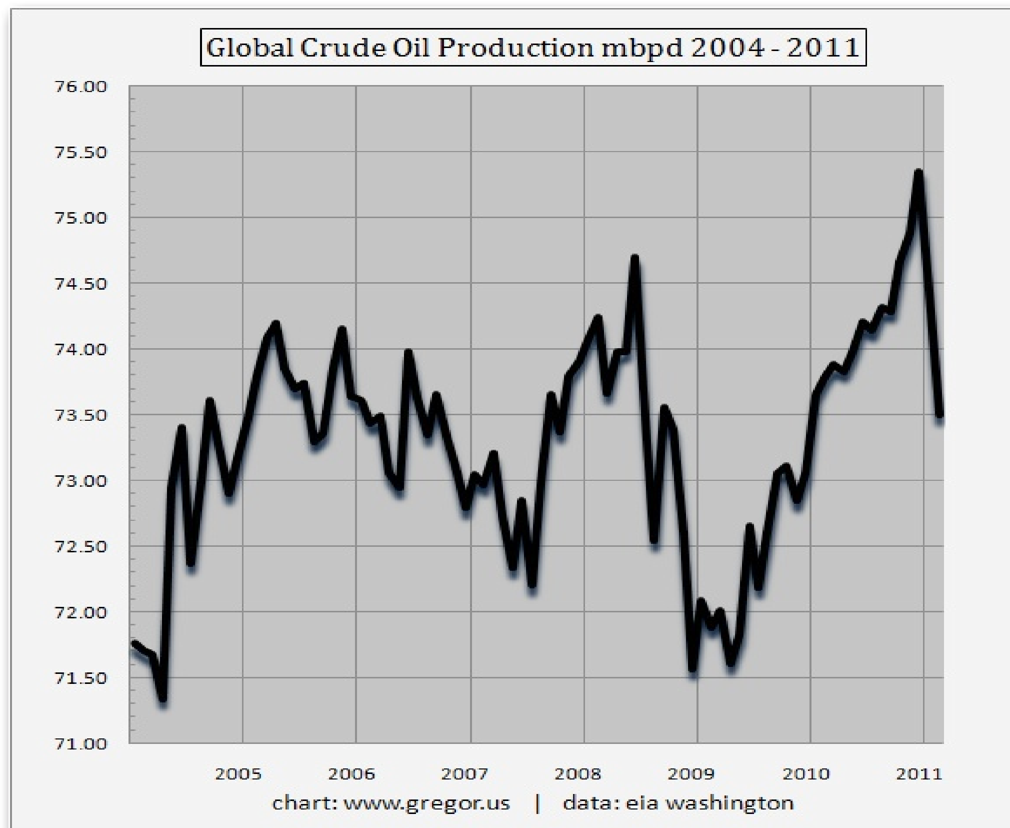
Given this, how much do you think consumers would be willing to pay if push came to shove? … $150 per barrel? … $200 per barrel? … $300 per barrel? The answer is simple: *consumers would have to pay whatever the market demanded because they would have no other choice*. Unfortunately, alternative fuels – even natural gas – are years, if not decades away from having any real impact – making our price target of $150 per barrel eminently reachable.

5 Reasons to Buy Crude Oil Now

1) Oil supplies have peaked – oil supply lags discovery by approximately 40 years. New oil discoveries peaked in 1965. Not surprisingly, production has basically flat-lined since 2005. (See chart below.) Despite all the press given to new deep-water discoveries and North American shale supplies, new production is not keeping up with the depletion of old wells.

2) Producing nations are consuming more of their own output and exporting less. Saudi Arabia, Iran, Norway and Venezuela are exporting far less oil than they did in 2006.

3) Global population is growing rapidly and more people are growing accustomed to better, more energy-dependent lifestyles.

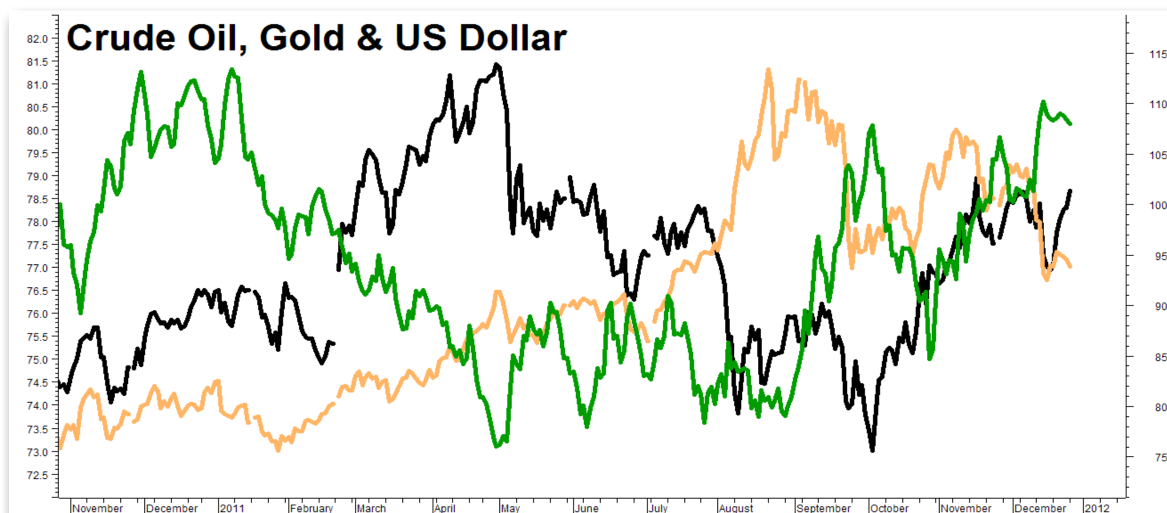


4) Crude oil is decoupling from the dollar. For most of 2011, crude oil was a "risk on," short dollar play. No longer. Crude is rallying in both strong and weak dollar environments. This is bullish.

5) The odds of a preemptive strike against Iran (the 3rd largest oil producer) are the highest they've been in years. The Strait of Hormuz handles 33% of global tanker traffic, which Iran has threatened to close in retaliation for global trade sanctions. Expect it to make good on those threats if bombs start falling on its nuclear facilities.

Better Than Gold?

We believe crude has a better chance of doubling from its current $100 per barrel level than gold has doubling from its current levels of $1,700 per ounce. It's not that we dislike gold. We don't. Some of the same conditions that favor crude will also favor the shiny stuff.



But for "bang for the buck," we feel crude oil is the best opportunity on the board right now.

The chart above shows the recent performance of crude (in black) versus gold (in gold) and the dollar (in green). Crude oil remains firm despite the stronger dollar and weaker gold prices. We see this as an important sign of strength.

How to "Rent" Crude Oil for Pennies on the Dollar

We do not want to tie up a lot of capital in energy stocks or ETFs – *both* of which have a long history of underperforming crude oil. Big volatile swings in nearly all markets means we do not want to commit a lot of capital to <u>any</u> market right now. That's why we'd rather "rent" than buy.

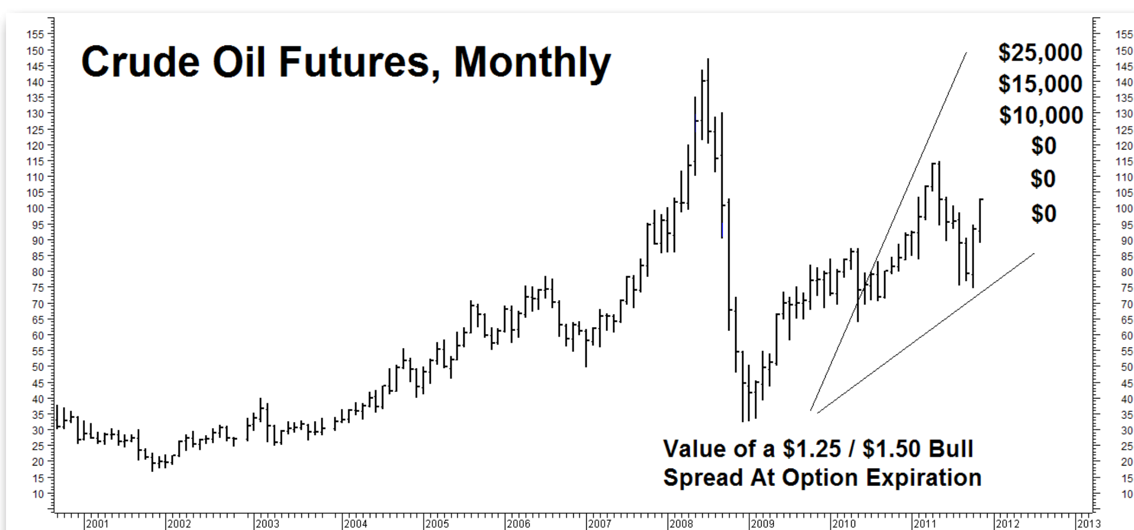
We'll do this by using NYMEX crude oil options, the most liquid (no pun intended) oil option market in the world and makes buying and selling them about as easy as buying and selling most stocks. NYMEX crude options are a *DIRECT PLAY* on the price of the oil itself *and also provide big leverage with fixed risk*. That means we can devote a small amount of capital to our oil investment while keeping the bulk of our hard-earned dollars in safe, interest-bearing instruments. *Unlike a stock or ETF investor, we'll get to "earn interest" on our oil.*

How is this possible? We'll explain, but first the trade…

<u>Suggested Action</u>: *consider placing an order to buy December 2015 $125 NYMEX crude oil calls while simultaneously selling an equal number of December 2015 $150 crude oil calls for a net cost of $3.00 ($3,000) or less, looking for crude to rally back to old highs near $150 per barrel prior to option expiration in mid-November 2015.*

If filled at $3.00, our maximum risk is $3,000 plus transaction costs. We can make as much as $22,000 on this trade. The November 17, 2015 expiration of the December 2012 call options give us nearly four years for crude oil to hit our ultimate target of $150 per barrel.

The suggestion above is a professional trading strategy known as a "bull call spread." What we are doing is pairing the right to own 1,000 barrels of crude oil at $125 per barrel with a



corresponding obligation to sell 1,000 barrels of crude oil at $150 per barrel. We can make the $25 per barrel difference but no more. The $25 difference times the 1,000-barrel contract size equals $25,000, minus the $3,000 cost of the trade equals a net potential profit of $22,000.

How to Create Your Own Crude Oil CD

If we were to buy and fully pay for a crude oil futures contract or an equivalent amount of energy stocks, it would cost us roughly $100,000 (1,000/bbl contract size times $100 per barrel). The trade recommended above only risks $3,000 plus transaction costs. Instead of spending $100K on energy investments we can spend $3,000 for our spread and buy a 4-year CD with the other $97,000, meshing almost perfectly with the 4-year holding period of our crude options. Today, these CDs are paying 1.80% APY. Forty-eight months of interest at 1.80% on the $97,000 we don't have to spend for our bullish crude position works out to roughly $6,984 – over twice the $3,000 cost of our trade.

This means we could lose the entire amount of our crude oil speculation and still come out slightly ahead. In fact, we could buy two spreads per each 100K and still cover our risk completely while doubling our potential. We have, in essence, created our own oil-backed "CD" which we can exit at any time. This is how the pros make long-term bets on oil. We can do the same thing. 🌐

The risk of loss in trading futures and/or options is substantial. Each investor must consider whether this is a suitable investment. When trading futures and/or options, it is possible to lose more than the full value of your account. All funds committed should be risk capital. Past performance is not necessarily indicative of future results.

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Is Now the Time to Buy Chinese Stocks?

By Gordon Chang

Chinese shares have been among the world's worst performers in recent years. The widely followed Shanghai Composite declined 14.3% in 2010 and 21.7% last year. Yet the index has rallied 9.7% from its January 5 low, and the upward trend seems set to continue.

Today looks like the time to buy. Not only are stocks on the upswing, announced growth is high, hitting 8.9% in Q4. Moreover, the market, which moves on government policy more than anything else, should go higher now that central government technocrats have again reduced the bank reserve-requirement ratio. Soon, they will also encourage home purchases and ramp up infrastructure spending. It seems virtually inevitable that Beijing will shift to pro-growth policies.

So what's not to like about the prospects for Chinese stocks?

Before taking the plunge, remember that unless you're living in Mainland China, you must figure any currency gain or loss into your profit equation. For a while now, the renminbi has been considered a one-way bet upward, to the point where many thought this was a sure thing. That perception has changed recently, however. As China's exports have stumbled—in January they were down 0.5% year-on-year and 14.2% month-on-month—there are concerns the currency will fall back.

In fact, Wu Qing, an economist with the State Council's Development Research Center, this month predicted that, unless the People's Bank of China (the central bank) intervenes, the renminbi will depreciate this year. This seemingly startling forecast reflects behind-the-scenes mutterings in the Chinese capital about the unwelcome decline in export surpluses due in large part to falling orders from Europe. Whether because of market forces, as Wu suggests, or by official action, the Chinese currency looks like it has now reversed course and is on a downward path.

In this case, a cheapening currency is a sign of a weakening economy, as supported by recent data: in January, electricity consumption declined 7.5%, car sales tumbled 23.8%, and property prices fell for the fifth-straight month. Of course, the Lunar New Year holiday depressed results, but these numbers confirm a slowing demand-trend evident since the end of last year's third quarter.

A Shift in Sentiment

Today, you can sense a new pessimism about the economy's prospects. There was an estimated $34 billion of capital flight in the third quarter of last year and $100 billion in the fourth. Not surprisingly, Beijing saw its foreign reserves fall last quarter for

the first time since 1998. People's Daily, the Communist Party's flagship publication, predicts a continued decline in reserves this year.

The reversal of money flows highlights a troubling long-term trend. China has outperformed other countries because it was in the midst of a three-decade upward supercycle. Yet China's "sweet spot" era is over, because the three principal conditions that created it either have disappeared or will do so soon.

First, there were Deng Xiaoping's transformational policies, encapsulated by the phrase "reform and opening up." But the Communist Party has turned its back on Deng's progressive attitudes. Hu Jintao, the current leader, is presiding over an era marked, on balance, by the reversal of reform.

Second, the second decade of Deng's "era of change" coincided with the end of the Cold War, which led to the elimination of political barriers to international commerce. The global boom of the last two decades ended in 2008, however, bringing to a close an unusually benign period when countries sought to integrate China into the international system. Then, the world was generally indulgent, tolerating Beijing's mercantilist policies. Now, however, every nation wants to export more, and in this new era China will not be able to export its way to prosperity.

Third, all of this was taking place while China was benefiting from its "demographic dividend," an extraordinary bulge in the workforce. Soon, the country will have one of the worst demographic profiles of any nation. The Chinese labor force will level off next year, or perhaps in 2014, and then it will begin to decline.

Just when China's economy ceases to benefit from these three favorable conditions, it must face the challenge of recovery from the dislocations—inflation and asset bubbles—caused by Beijing's excessive fiscal and monetary pump priming in 2008 and 2009. And what was the biggest of those bubbles? The stock market boom. In 2009, the Shanghai Composite rose an astounding 80.0%.

That spurt puts the index's sharp declines of 2010 and 2011 into context. In short, the stock market's fall in the last two years does not necessarily mean that the current depressed level presents a buying opportunity. Rather, the market was simply returning to pre-bubble valuations.

So, should you be buying Chinese stocks now? Perhaps. But it is by no means the sure thing that many analysts portray it to be...

Gordon G. Chang *is the author of* ***Nuclear Showdown: North Korea Takes On the World****, and* ***The Coming Collapse of China****. He is a columnist at Forbes.com and The Daily whose writings have also appeared in The New York Times, Wall Street Journal, Far Eastern Economic Review, International Herald Tribune, Commentary, The Weekly Standard, National Review, and Barron's. www.gordonchang.com. Follow him on Twitter @GordonGChang*

Europe

Blood in Europe's Streets

By Adrian Day

Mention the idea of buying European stocks and one is met with disbelief bordering on hostility. "Haven't you been reading the newspapers?" is the response. Well, yes, and that's exactly the point. Europe's debt woes have been front and center across the world's media for over two years, and the news has been relentlessly bad. Everyone hates Europe and all (financial) things European.

John Templeton, echoing Baron Rothschild's famous dictum, advised us to "buy at the point of maximum pessimism." And lately, pessimism is rampant both in words and actions; the last few months saw wholesale dumping of stocks in Italy, Portugal and Spain. Few asset managers wanted to face their board or investors at year-end with a lot of PIIGS' stocks on their books. Consequently, investors are now seriously underweight Europe, and we should oblige them by picking up the pieces. Far from suggesting that the outlook for the eurozone is rosy, I am nonetheless buying.

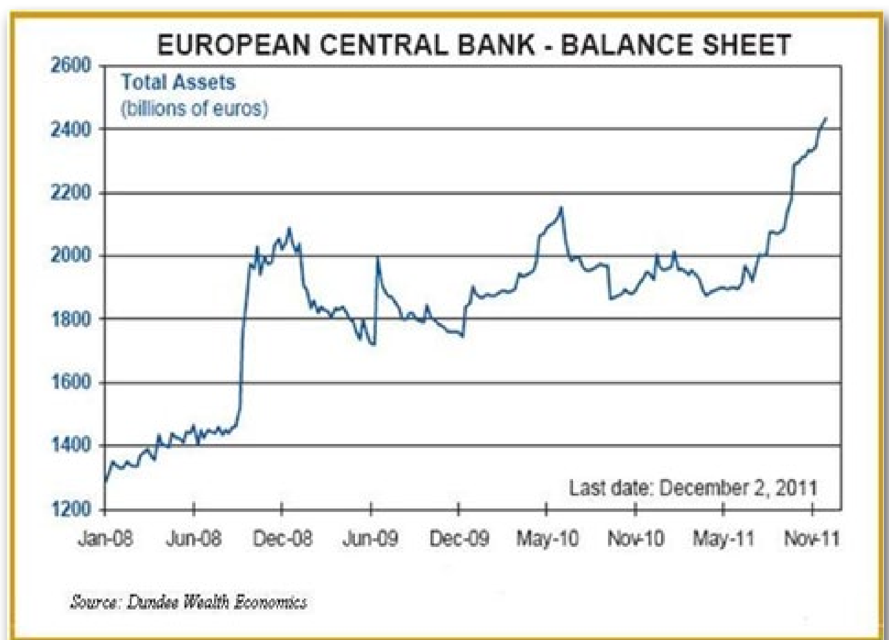
The Problem

To reiterate, Europe is not a pretty picture. Government debt levels throughout Europe are too high, but just as troubling for the markets – perhaps more so – has been the slow realization among the continent's leaders of the challenges ahead and their string of bumbling responses, as well as the lack of a united front. Certainly Germany's taxpayers are getting just as tired of subsidizing wastrel Greeks as the Greeks are of enduring the dictates of Brussels.

Yet, regardless of any policy responses, in the end, the fundamental problem remains: the euro is an artificial construct, a single currency without a single fiscal policy. And as long as that continues, there will be ongoing crises, until such time as there is a closer union, a breakup, or both (closer union among those left as others break off).

The Response

The European Central Bank (ECB) is prohibited from making direct purchases of troubled sovereign debt but is getting around that constraint by making low-cost loans available to banks for them to buy government debt. (Forget about concerns that European banks have too much troubled government debt on their books; someone has to buy the stuff!) The ECB has also cut short-term interest rates and loosened collateral requirements on loans.



The predictable consequence is a dramatically expanding ECB balance sheet -- up 30% since the summer. This trend will likely continue in 2012, with massive tranches of troubled sovereign debt scheduled to be issued as old debt matures.

Consider that this year Italy alone has nearly €400 billion of long-term debt to roll over (and Spain a further €250 billion) compared to its last offering of just €8 billion. The response this year so far has been encouraging, with sales of Italian and Spanish bonds attracting more buyers than anticipated. But the credit downgrades announced mid-January for nine eurozone countries – France, Austria, Italy, Spain, and Portugal among them – and more ratings cuts and outlook downgrades last week could make it more difficult to raise funds, or increase the cost of doing so by forcing bond yields higher. Would you lend money to Italy at 2.7%?

Moreover, both the Italian and Spanish sales were for short-term notes; a more important test will come this spring with long-term bonds on the auction block. The result will be more money printed by the ECB and loaned to banks to buy these bonds -- you can take that to the bank!

Positives and Negatives

In this environment, the negatives surrounding equities are pretty obvious and well-known. The gloomy outlook is surely, to a large extent, priced in. Thus, we don't need any dramatic macro improvement to push stocks higher, just an absence of any unexpected negative development. Indeed, the European rally over the past month was sparked not by any positive developments but simply by sellers' fatigue.

On the other hand, there are several positive factors, many of which are underappreciated in the marketplace. Most importantly, valuations are low while there is significant cash on the sidelines and monetary authorities are pursuing an ever-easier policy.

Stocks Are Cheap

Stocks across the continent are selling at nine or 10 times earnings, with yields over 5%, and only slightly above book value (this, after a rally that has seen stocks up over 20% since mid-December). Drill down, and you find individual securities with valuations even more compelling: stocks trading at four or five times earnings, yielding over 10%, or selling at 30% of Net Asset Value. These are real bargains, and represent valuations typical of bear-market lows.

Buying European stocks now is not without risks. There could be another unexpected disaster that would provoke a sharp sell-off – the proverbial "Black Swan" – or the Euro could weaken more, hurting US dollar prices denominated in Euro (though potentially helping European exporters, as we saw with Germany in the last quarter). And lastly, many European companies themselves have excessive debt levels. Notwithstanding these risks, European stocks are today cheap enough to be a buy.

How to Play in the Best Markets

The German market has been the strongest in Europe the last few months, up over 25% since its early-September low. This is not unwarranted. The market includes many of the continent's strongest companies, the economy is doing better than most, and the country retains its triple-A credit rating. The market is selling at an unchallenging 10 times earnings and yields almost 4%. The iShares Germany Index Fund (NYSEArca: EWG; USD22.08) is the easiest way to buy the broad market.

France is likewise home to many world-class companies. The market is trading at just 10 times earnings and yields over 5%. The French downgrade had been anticipated for weeks and is likely already priced into the market. There is an iShares fund for French equities that trade primarily on the Paris Stock exchange (NYSEArca: EWQ; USD21.18).

The Scandinavian countries of Norway, Sweden, Denmark and Finland are peripheral to the Euro (with Finland the only Eurozone member). The region boasts healthy banks, strong government finances (Norway and Sweden with budget surpluses), and positive GDP growth. The best way to participate is through Investor A/B, a Sweden-based holding company with investments throughout the region and trading at a 30% discount to the net value of its holdings. The "A" shares, with equal ownership and dividend to the "B" shares, are currently trading at a lower price. (Stockholm Exchange: INVEA, yield 4.3%, SEK139.80; OTC: INSXF).

Another holding company – run by legendary value investors Baron Frère of Belgium and Canada's Paul Desmarais – is **Pargesa Holding** (Swiss Exchange: PARG, CHF62.85; OTC: PRGAF). The fund takes large positions in a small number of public companies, including Total, Suez, and GDF Power. Trading at a 36% discount to NAV and yielding 4.2%, it has limited downside but could outperform on the way up.

Cheapest in the PIIGS

The true bargains are in the individual stocks within the PIIGS. Among them, we like **Brisa** (Euronext Lisbon Exchange: BRI, €2.39; ADR: BRSAY), a toll-road operator in Portugal with strong returns and selling at just 3 times earnings; last year's dividend equated to 12%.

In Italy, **Italmobiliare** (Borsa Italiana: ITM, €18.90; OTC: ITSPF) is a typical family controlled conglomerate, with operations in construction, packaging, and banking. It trades at just 30% of book value.

In Spain, we like **Telefonica** (NYSE: TEF, USD16.95), yielding around 10%. Over 40% of its revenue comes from fast growing markets in Latin America, diversifying exposure to beyond Europe and the euro. A series of expensive acquisitions has led to excessive debt levels, but a recent dividend cut, as well as rising cash flows from Latin America, could help the company bring down debt.

These individual companies are not the strongest or most stable companies on the continent (though Investor and Pargesa would qualify as such), but the valuations are compelling. Buying at the right price, as well as trimming back holdings on rallies to reduce the cost basis, will see the investor with a portfolio of companies likely to survive Europe's debt mess (and fully participate in the anticipated rally) with the bonus of high yields while stocks remain depressed. 🌐

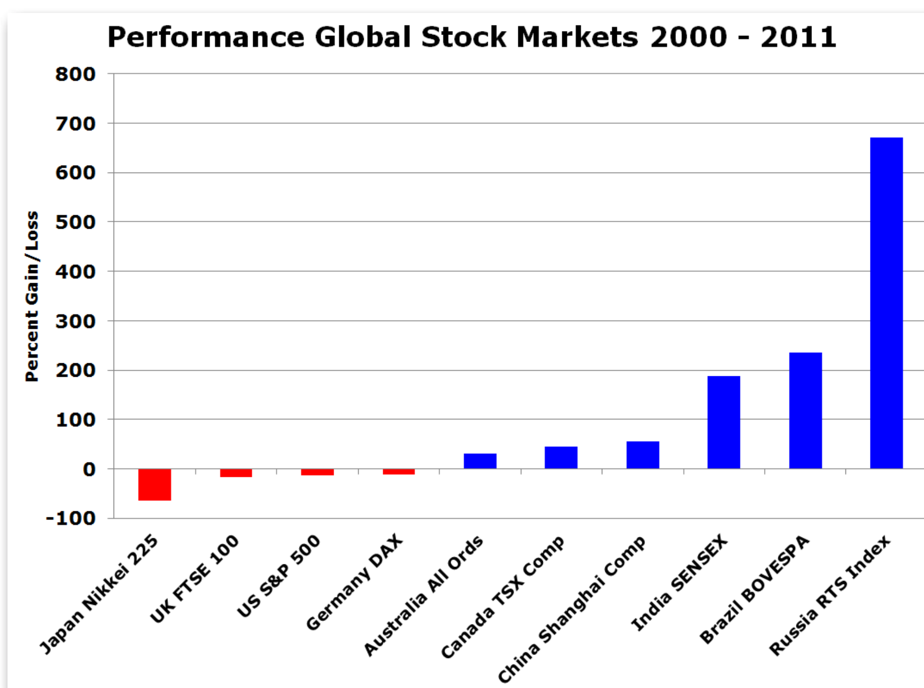
Adrian Day *is a British-born money manager and pioneer in promoting the benefits of global investing with two books on the subject: the ground-breaking* ***Investing Without Borders*** *and his latest* ***Investing in Resources: How to gain the Outsized Potential and Avoid the Risks****. A graduate of the London School of Economics, he is a frequent speaker at investment seminars, and has been interviewed by numerous world media, including* CNBC, BBC, Bloomberg, Wall Street Journal Radio, The Cape Town Argus, La Vie Français, and The Straits Times. *www.AdrianDayAssetManagement.com*

Russia

Why Invest in Russia?

By Alexei Medved

Rarely do most Western-based private investors consider investing in Russia. Yet, the chart below suggests that reconsideration may be in order. Following the Soviet Union's collapse and eventual opening up of the Russian financial markets, the Western press consistently has either been too optimistic or too pessimistic about Russia. Seldom has it been reasonably accurate about its politics and investment potential. At this time, when many developed economies have the problem of excessive debt (the USA debt-to-GDP ratio is over 90%), the Russian government has very little (the debt-to-GDP ratio is under 10%) and $500 billion in FX reserves (the third largest in the world after China and Japan).



In reality, Russian equity and bond markets can provide some very attractive opportunities for the unorthodox and patient investor. Since 2000, despite significantly outperforming the other BRIC markets, the "BICs" attracted much more media and investor attention.

This has contributed to the fact that many Russian companies remain significantly undervalued. For example, **Gazprom (GZP)**, the world's biggest gas producer, trades at a P/E of 2.7, and **Lukoil (LUKOY)**, a large (market cap of $44 billion) vertically integrated oil company, at a P/E of 3.9. By comparison, **Exxon Mobil (NYSE: XOM)** trades at a P/E of 9.6. Lukoil has significant assets outside Russia – including even a retail stations network in Eastern USA – which makes it more diversified geographically. There are many other Russian companies which represent similarly good values in telecoms, metals, retail and other sectors. Some of the better known Russian issues are accessible in the US and other global markets as ADRs, making it easier for Western investors to buy them.

Make Volatility Your Friend

The Russian stock market is a high beta market and can be very volatile. Therefore, we do not advise short-term trading. However, taking a longer-term view has produced impressive returns for clients. To understand the level of volatility and the results it can deliver, consider these past moves in the RTS index (the USD-denominated index for the Russian stock market). In October 1998, at the depth of the Russian crisis, it hit a low of 39. By May 2008, it stood at 2,500 -- a 6,300% gain. Following the 2008 world financial crisis it fell to 500, and then rallied to 2,000 in 2011. After the sell-off in global markets last autumn and their recent recovery, it is currently at 1661. Some volatility!

The Russian bond market can be volatile as well, yet can also offer safe harbor, particularly during times of global uncertainty. The market is divided into two major parts: Rouble-denominated local bonds, and US dollar-denominated Eurobonds, usually issued under English law and traded in the West. While either offers opportunities, Western investors usually prefer Eurobonds to avoid the currency risk.

Today, select bonds offer compelling value. As we are very concerned with the possibility of higher inflation in the USA, currently, we prefer shorter maturities (under 4 years). For example, you can buy a 2.2-year Eurobond issued by a medium-size, highly profitable Russian bank, where a leading Western investment bank owns a minority stake, with a yield to maturity of around 13.5%. That is just one of a number of examples of oversold Russian bonds offering significantly higher returns than Western corporate bonds but also lower risk if one correctly understands this market. Again, we do not advise short term trading in these bonds, but suggest holding them to maturity to capture the high yield.

For 19 years, we have been guiding investors on their equity and bond holdings in Russia and the CIS (Commonwealth of Independent States – formerly the USSR). Although the returns have been rewarding, the nature of this market dictates investing only a small part of your portfolio in it. For the open-minded investor, even a little diversification into these markets can enhance overall portfolio performance. With that overview in mind, in future editions of this service we'll provide specific guidance on Russian investments that catch our attention, and warrant yours.🌐

Alexei Medved *was born and raised in Russia and later moved to the West. He received an MBA from Wharton Business School and worked for a major global investment bank, where from 1989 he developed the East European banking business. Since 1992, he has been running an independent business which concentrates on investments in Russia and the CIS. Contact: amvic@mail.com*

Government Actions Still Hold Key to Fate of Currencies

By Chuck Butler

With the fate of the **Eurozone** still up in the air, our expectations have been that we'd see some stabilization of its problems throughout the year, no matter how temporary. Well, we saw baby steps and then one huge leap. Zhou Xiaochuan, governor of the People's Bank of China (the country's central bank), changed his wording on whether **China** would help the Eurozone with their debt problem from "may help" … to "will help."

Many might question this decision, but to me it makes more sense than China's financing of the U.S. debt debacle. Remember that the Eurozone is China's largest trading partner, and China cannot afford the collapse of that economy. This, to me, simply shows that China sees another opportunity to wedge its foot further in the door of the room that houses the reserve currency of the world.

The Eurozone economy contracted for the first time in 2 ½ years in the 4th quarter of 2011, and a "technical" recession—defined as two consecutive quarters of negative growth—looks unavoidable. Austerity measures will reduce economic output, but will also return budget deficits into the earth's atmosphere. As long as the Eurozone members carry through with these measures, they just might see better times in the future.

The euro remains vulnerable to the whims of traders. So, for now and the foreseeable future, I would think that owning euros should be avoided, unless you have obligations to fulfill that require buying euros.

Canada & the Americas

Canada's economy has shown some cracks recently, but continues to show resiliency against a backdrop of a U.S. slowdown. The Canadian dollar (loonie) has snuggled up to parity with the U.S. dollar. As long as the government continues to take steps to narrow the budget deficit, and the price of oil remains above $100, parity for the loonie looks like a good fit. However, although a strong crude price has worked to underpin the currency, oil would need to rise to 2008 levels (pre-financial meltdown) to boost the loonie higher from here.

Turning to **Mexico**, the peso has been one of the best performing currencies this year, the beneficiary of some lofty predictions about the U.S. economy in 2012. But, like I tell people all the time when asked about pesos … Mexico doesn't pay a "risk premium" to hold them. And if the U.S. economy was going to be so strong as to underpin the peso's rise, why did the Fed lower their forecast for the U.S. economy and extend the zero interest rate cycle from 2013 to late 2014? As always, only money allocated for speculation should be used for pesos.

Further south, it appears that once again the **Brazilian** government's plans to weaken its currency, the real, are being ignored by the markets. After an awful performance in 2011, losing almost 12% against the U.S. dollar, the real has gained more than 8% so far in 2012.

I think that the markets realize that no matter what the government does to weaken the currency, it can't turn away desperately

needed foreign investment to fund the infrastructure projects for its hosting of the World Cup (2014) and Olympics (2016). With government intervention causing violent currency swings, I again suggest that only the speculative allocation of your portfolio be used to buy the real.

Good Old U.S.A.

In 2001, I wrote a white paper called, "The Decline of the Dollar." Mind you this was long before 99% of the world's analysts understood that a multi-year weak dollar trend was about to begin. At the time, the **U.S.** national debt was about $5.7 trillion and set to exceed 4.5% of the current account, a level that has historically presaged a currency crisis.

Up until that time, the dollar had experienced only four completed trends since having its gold backing severed in August 1971. Each of those trends—either weak or strong—began with a fundamental reason acting as a catalyst, and did not end until that fundamental reason was solved or well on the road to correction. Using the same criteria for today's world, the dollar entered a weak trend in February 2002 with the exploding debt picture as the catalyst. Has that fundamental reason been solved, or actions taken to reduce the debt? Unfortunately, the answer is no. In fact, the U.S. national debt has ballooned to around $15.4 trillion, with over $1 trillion added in each of the past 4 years. The 2012 budget deficit is forecast to be $1.333 trillion!

So, while the U.S. dollar may experience bouts of strength (no trend is a one-way street), the downward spiral for the dollar will be the dominant trend.

Asia & the South Pacific

Let's start with the biggest economy of the region, and then end with the best…

Just when everyone thought that the Chinese government's efforts to curb inflation had really made a difference (with inflation falling for six consecutive months), the cold hard fact that inflation was alive and well in **China** hit the Chinese right in the face! So the reduction in reserve requirements that the People's Bank of China performed to loosen monetary policy have been put on hold until last weekend's announced cut. The reduction in reserve requirements, which is like an interest rate cut, had been responsible for fueling a risk assets rally, and that rally, too, has been put on hold at this point.

Slow and steady as she goes with currency appreciation in China will continue going forward.

The **Singapore** economy has begun to show signs of slowing, as it is among the countries in Asia that are most vulnerable to declining demand from Western countries. However, the Monetary Authority of Singapore (MAS) has shown that they are adept at managing expectations and implanting policy aimed at reducing the impact of weak global demand.

Singapore's banking industry remains strong, and is the only banking industry outside of China that the Chinese government allows terms of trade clearance to be settled. The Singapore dollar (S$) is at all times in competition with the renminbi for exports, and the S$ should continue to track the appreciation of the renminbi over time. So, slow and steady for the Sing dollar applies here too.

The **Indian** government reduced the reserve requirement last month setting off fireworks for the rupee, gaining nearly 5%. But even a dead cat bounces, folks, and looking ahead I have my doubts about how much appreciation the rupee can mount… so be careful here. The rest of the world is

slowing down and that will affect the rupee going forward.

What's new to say about **Japan**? They've been in an economic funk for over two decades and are saddled with an aging population, HUGE government debt, and what appears to be turnstile leadership. However, the yen has been one of the best performing currencies in the past 2 years! Why? Well, Japan is still considered a "safe haven," but just like Swiss francs, which once held that honor, perceptions can change rapidly with currencies.

The Japanese government has not tried to hide their desire for a weaker yen and have gone back to the well once again, with another round of quantitative easing (QE). This should be the proverbial "straw that breaks the yen's back." I truly expect the Japanese yen to weaken in 2012, if only because of its overbought position.

New Zealand continues to recover economically and psychologically from the two earthquakes it experienced last year. And while most observers thought the Reserve Bank of New Zealand (RBNZ) would begin to unwind the emergency rate cuts it made after the earthquakes, it has instead decided to keep their powder dry and see what happens with global growth.

However, the New Zealand economy is forecast to grow 2.7% in 2012 vs. 1.3% in 2011, and the RBNZ won't be able to ignore inflationary pressures on the island nation's economy. New Zealand has long had a growing debt in both trade and current accounts. But in 2011, the country made strides to narrow that debt, and if the economy grows as forecasted, we could very well see New Zealand's debt continue to narrow in 2012. This would all be good for the New Zealand dollar.

And then, the best economy in the region … **Australia**. The Reserve Bank of Australia (RBA) was thought to be on the verge of cutting interest rates further at their last meeting, only to see the RBA keep their powder dry and cite the strong economy as the basis for keeping rates steady. The floods that Australia experienced in 2011 caused production at many mining facilities to halt, and squeezed the economy. With those facilities getting back to operations, the Aussie economy is forecast to gain 2.5% in 2012.

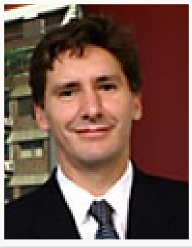
As long as China remains in the "moderation phase" of their economic growth (and not collapse), Australia will continue to provide China with the raw materials they need.

Another thought on Australia. With the world's investors looking for yield, which can't be found in the U.S., Japan, Eurozone, U.K. or Canada, they have turned to Australia, which had a yield differential to the U.S. of 200 basis points in a 10-year government bond. From this perspective, it's almost as if the Australian dollar has replaced the likes of Swiss francs and Japanese yen as a safe haven currency.

Top it all off with the forecast that by the year 2020, Australia will be completely debt free. That's a long way from Japan's 250% and the U.S.'s 100% debt-to-GDP ratios today.

That about covers the world for this month. As I like to say, that's all for this time, 'till next time … stay diversified! 🌐

Chuck Butler *is President of EverBank World Markets. Everbank is an FDIC insured US-based bank specializing in WorldCurrency® Certificates of Deposit and deposit accounts denominated in select global currencies. Contact: www.EverBank.com.*



In Their Own Words

Go South: An interview with Claudio Maulhardt

__Claudio Maulhardt__ of Copernico Capital Partners first came to our attention when he spoke at a Casey Research conference held at La Estancia de Cafayate, Argentina. His impressive credentials in managing money in Latin American markets – markets where many international institutions fear to tread – makes him a perfect World Money Analyst correspondent.

As background on the markets in which he immerses himself, we conducted the following interview with Claudio on January 12, 2012.

Your Editors

WMA: Let's start by asking you to tell readers a bit about your firm -- how you invest, what you look for and what areas geographically interest you?

CM: Our company Copernico Capital Partners invests with a hedge fund philosophy. We try not to go with the herd, but rather to seek opportunities in which our own analysis suggests that there is deep value. Though we receive some outside research, we mainly rely on our own proprietary analysis.

We tend to look for situations in which we see that there is deep value that most people have either overlooked or under-researched. Oftentimes it may be a company or situation that others hate. It's a strong word, but investments that everyone else "hates" can often be a good indicator that something might be interesting to us.

WMA: What countries do you mainly focus your investments in?

CM: We are based in Buenos Aires, but we have offices in Uruguay and New York as well. We focus geographically our investments in Latin America and the Caribbean, essentially opportunities south of the Rio Grande.

WMA: In terms of weightings, what countries do you currently have the most exposure in?

CM: It's a two-part answer, because nowadays we are around 50% in cash. That means we are not finding a lot of value, actually. Of the portion that we have invested, we are approximately one-quarter each in Argentina, Brazil, and Mexico. The balance is spread around, with probably 5% in the Dominican Republic, 5% in Uruguay, and the rest in Columbia and Panama.

WMA: We'll return to the countries where you're investing, but when you say deep value – music to our ears – what sort of a metric would qualify an investment for you as deep value?

CM: We also do bonds as well as equities, and obviously those have different metrics. In general, our best profile tends to be distressed situations. For example, bonds of viable companies that have defaulted, as that allows us to buy at very cheap prices and then be an important part of the restructuring process. On the equities side, we're exclusively looking for companies that may have suffered a setback, but which still retain the ability to generate cash. Once we find a distressed company that still generates cash, we'll look at how much the market is paying for that cash. Free cash flow yield is a key metric for us.

We're also looking for multiples that look very inexpensive, perhaps less than three times EV/EBITDA, or price/earnings south of five times -- very cheap -- in companies in which earnings are actually growing. Unfortunately, that's a combination that's very hard to find nowadays. In Latin America there are a lot of markets that have become very much mainstream, particularly Brazil, Mexico now, and also Chile.

Although inefficiencies also exist in those markets, it is always easier to find them elsewhere in the region. In many cases, legislation and the courts tend to favor the equity holder. This means that when a company goes bankrupt, it is very unlikely that the equity holder will lose it all. However, markets tend to react as if the equity had no value. In many occasions, that is when we come into play.

As an example of this sort of opportunity, in 2009 a large supermarket chain in Mexico, Comercial Mexicana (a.k.a. Comerci), went into default because of a very bad FX hedging strategy. As a result of the devaluation of the Mexican peso (from around 10 to 14 per USD), the company actually got into $1.5 billion dollars of FX debt and defaulted. The equity market then priced the stock literally at zero.

But Comerci is a supermarket chain that sells everyday items and collects cash on a daily basis, so it quickly got back in control of its problems and successfully restructured its debt. Its stock went up about 20 times. It's not that we profited all the way, but there was a lot of space for us to capture a good gain. This is the sort of situations we are looking to.

However, that sort of opportunity has been hard to find in Latin America lately. The region has been doing very well and few viable companies got into trouble. In fact, the default ratio over the last two years has been less than 1%, so it's been very, very hard to find this sort of trades. Yet there's been opportunities of other kinds.

WMA: Of course, one of the advantages of looking in places such as Latin America for investments is that there are far fewer analysts looking at those markets, versus those in the United States, or Europe. Your firm has specialized in these markets for a long time and there isn't all that much competition, relatively speaking. Is that a fair statement?

CM: I would say we have a lot of competition in Mexico, Brazil, and Chile, but we have much less competition in the other markets (though it is growing in Peru and Colombia because of a joint venture their exchanges did with Chile that opened their markets). So, they are getting more mainstream coverage as well.

Still, there's a lot less competition than in more established markets. And there are still countries that have been completely neglected by the mainstream, and you can still find values there.

WMA: Let's talk about one of those countries, the country where you are currently sitting: Argentina. The country has, to put it diplomatically, an "interesting" government. They seem to be determined to make it very hard for people and businesses to understand the rules, because they are always changing things around. So people tend to think of Argentina as something of a basket case. But in reality, isn't Argentina a much more robust economy than most people give it credit as being?

CM: Actually, Argentina is the country where we see the most value in all of Latin America. One thing that makes us get reassured about the fact that there is value is that it's a perpetual sell or underweighting by Wall Street research houses, basically because they seem to think there's no business to be done here.

The government, as you said, has been interfering with the private sector and with the market to an extent that makes even those of us from the country to say, as a joke that more than a history, Argentina has a criminal record.

But when you step away from the usual prejudice and actually look at what Argentina looks like today, you'll find out the country has been growing at a compounded growth rate of around 15% in dollar terms over the last 10 years. And that it has basically no unemployment beyond frictional unemployment, and has almost no public or private sector debt whatsoever. The public sector debt-to-GDP ratio today is around 40%, but if you net that against the amount of debt held within the public sector, it falls to less than 14% of GDP. All these are impressive numbers for any country in the world.

The country is running a minimal overall public sector deficit, and it's still running a current account surplus. Another advantage is that it is a commodity producer in a world in which you're seeing money being printed without restraint, so the outlook for the hard assets it has to sell is a big structural benefit for Argentina.

On the social side, I would say that, in general, Argentina's population tends to be very well educated. And it's a young population, so you don't have the problems you have in so many countries (particularly in Europe) where aging populations are causing a big pension problem.

Despite having all this negative press in the investment community, it's worth noting it's not a small economy, but a member of the G20.

WMA: You and I exchanged an email recently about an article, I think it was from the Wall Street Journal, urging investors to consider Argentina as a place for their money. I remember your comment back to me, when you said something like, "I hope that it doesn't become too mainstream," because that would affect your ability to buy bargains, of course.

But who knows? Maybe one of these days the government will actually make some good moves, and then the country could really take off!

CM: We have to remember that in the mid-90's, which is not in pre-historic times, Argentina represented around 16% of the MSCI LatAm Index. Today it has fallen out of even the "emerging markets" category and is considered a "frontier" market.

WMA: What's the significance of that?

CM: It's basically in a different category so people whose mandate is to invest in emerging markets do not hold Argentina anymore (or if they do, they would have a marginal exposure). In other words, it's a very overlooked market.

WMA: Which begs the question, how is the stock market doing?

CM: The stock market did not do very well last year -- it was down about 35%. Of course, Argentina wasn't the only country that had a bad year; Brazil, Mexico, and Chile all were down in the area of 25% in 2011. So Argentina and some of the less liquid smaller markets suffered from a sympathy effect.

Even so, earnings for Argentine companies actually went up in 2011 by around 10%. Cash earnings were significantly higher and the yield for the market overall was north of 5%. That puts you pretty much in line with the other markets.

WMA: And how did your fund do?

CM: We have a Latin American fund, and in that fund we had very little exposure to equities overall, last year, and it was up

about 6.5%. But we also have a specific Argentina equity fund whose mandate is to be fully invested at all times, and that fund was down about 30%. So, even though we outperformed, the market overall was very, very weak. There were stocks like bank stocks that were down around 50% for the year.

WMA: Based on some of our conversations, you believe there is a good chance that the Argentine government will be forced to devalue the currency. If that happens, what effect is that likely to have on the Argentine stock market?

CM: In the case of a devaluation the stock market will likely go up in peso-terms as people seek refuge from the weakening currency by buying hard assets or anything they deem to be as close to a hard asset as possible.

It would, however, likely fall significantly in USD terms. In Argentina in particular, banks represent 40% of the index, so I would expect the hit in USD terms to be hard. Anyway, bank stocks dropped 60% in 2011 - maybe anticipating a portion of the potential hit they would suffer if the currency devalues fast.

WMA: Being contrarian by nature, which you clearly are as well, we believe the time to buy a market is not after it's had a big run-up, but after it's had a big fall. That was certainly the case in Brazil last year. As you look at the Latin America markets right now, do you think that they're now reaching the point where there's some real value there, or are you still cautious?

CM: Depending on the specific market we're talking about, it's a very different opinion. We still think Brazil is an overheated market. Before 2011, I think it was extremely expensive; now it's just expensive.

WMA: What about Mexico?

CM: Mexico is in a much better situation. Particularly, Mexico is helped by what we view as the only undervalued currency in Latin America. The economy is less vibrant than in Brazil, perhaps, but has less of an opportunity in our opinion to contract significantly from current levels. We actually expect it to grow more in 2012 than last year, so earnings will probably follow pace.

The peso moved from around 10 to 14 against the dollar in 2009 and it's never come back. Whereas in Brazil, we are still seeing a depreciation of around 10% from the highs. But there's still a long way to go.

WMA: What about Argentina?

CM: As I said, Argentina attracts us. Of course, as we are a Latin American fund, we can't be 100% invested in Argentine equities, and it wouldn't be safe to do that, but we like that foreign investors tend to overlook the market. It's completely out of the mainstream index, so Wall Street has largely forgotten about Argentina. It's under-researched, and whenever it's researched, it's a perpetual sell, which I think balances all the buys that they have on other markets.

Companies have learned how to survive all the government's interference. In fact, they have actually been able to grow their dividend payouts, their cash earnings, and they've spent something like 10 years deleveraging. So today you're able to buy companies in Argentina that have very little risk of going bust, essentially because there's nothing to go bust on. And they're really generating very good free cash flow yields.

I think that one of the best examples of how Wall Street treats Argentina and how mistaken they are, in our opinion, can be seen in one analyst who initiated coverage on Telecom Argentina (TEO), which is one of the largest stocks listed here and has an ADR listing that allows investors to buy the stock in New York.

The conclusion of these guys about Telecom Argentina – at 2.7 times EBITDA, 6 times price/earnings, 10 times free cash flow yield, and paying an 8.6% dividend yield – was to rate it a "Hold" because of the risk perception that there is with Argentina.

That's one of our preferred stocks in Argentina and, actually, we even have a twist on this. There's a holding company to Telecom Argentina – which has as its only business to hold shares of Telecom Argentina – that trades at a 35% discount to Telecom Argentina. It also trades in ADR form. It's much more illiquid, but if you want to buy, you can buy. It's called Nortel Inversora and the symbol is NTL.

WMA: Since we're going around the area, what about Chile? You think Chile is still too expensive, or is it valued okay?

CM: I think if you look in terms of multiples, Chile looks very expensive. But I think that it's probably the only Latin American market in which you are really, really safe as an investor in terms of regulation and government interference and the like. So it deserves a lot of the premium it trades at.

What's interesting in the Chilean market is there is always a lot of M&A activity going on, and there's always the opportunity to profit from that. Right now, for example, there is a company, a maritime and port operator, called Vapores that is undergoing a restructuring involving a rights issue and is receiving $1.3 billion from one of its shareholders. The situation looks very interesting, as that cash will turn the business around for the better. It only trades in Chile, but it's not hard to trade Chilean stock as there's no capital controls for foreigners.

WMA: Wrapping up, would you say the Argentine telecom company is your favorite? Is that the one you think readers might want to look into?

CM: Yes, I think that's our preferred stock in Argentina, or for that matter in Latin America. In Argentina we would also go with a real estate company called IRSA, and the symbol is IRS, which is unfortunate, but it's not your friend, it's a stock. This company owns the best office buildings and the largest shopping malls in Buenos Aires. The shares trade for around a $600 million market cap. If you add the debt to that, you go probably to around $1 billion dollars, and that's the value of just the shopping malls subsidiary, which by the way also trades in ADR form on the symbol APSA. You get the entire offices and land bank for free.

Viewed in another way, you're buying the company at around one times book. That's a book value that has been depreciated significantly over the years, and you're buying prime office and shopping mall space in Buenos Aires for around $500 per square meter.

WMA: Some very good insights, and some great fodder for further research. Thank you very much. Until next time! 🌐

We like the way Claudio thinks and agree that Latin America holds promise in select situations. The consensus of the IM team is that dark clouds are gathering on the Argentine currency devaluation horizon, and suggest cautious patience when considering investing in this market.

Claudio Maulhardt *is a partner and portfolio manager at Copernico Capital Partners, a hedge fund manager headquartered in Buenos Aires, Argentina, with a Latin America geographic focus. Claudio joined Copernico in 2003 following ten years as a senior equity research analyst for Latin America at ABN AMRO in Buenos Aires and New York, and at Banco Republica in Buenos Aires. Claudio graduated from the Universidad de Buenos Aires in economics. Contact: infocopernico@copernico.com.uy.*

Get an International Broker

By Kevin Brekke

Continuing the mission of the International Man project to assist our readers with internationalizing their money and life, **World Money Analyst** will pry open the global investment oyster in search of profit opportunities. It's a big world filled with lots of companies that trade on dozens of exchanges, and that poses an obvious challenge: how can we trade these markets using a single broker?

To scale that hurdle, our goal was to find a broker that gives us access to the world's prominent exchanges; is an online broker with competitive commissions and fees; and accepts US persons as clients — not an easy feat in the shadow of the UBS tax evasion scandal with US revenue authorities. The scandal's fallout saw many foreign banks and financial institutions turn away US person as clients.

However, hurdles notwithstanding, we found a great fit: Interactive Brokers.

Interactive Brokers is headquartered in Greenwich, Connecticut, with offices in Australia, Canada, China, Estonia, Hong Kong, Hungary, India, Russia, Switzerland, UK, and the USA.

As you can see from the table we compiled, they offer trading on exchanges that span the globe. Products offered include stocks, options, futures, forex and bonds.

Individual, joint, trust, LLC, IRA (Roth, traditional, rollover, SEP), corporate, partnership, and unincorporated business accounts are available.

Interactive Brokers	
USA:	NYSE, NASDAQ, ARCA, AMEX, ISE
Canada:	Toronto Stock Exchange (TSE, TSX Venture)
Mexico:	Mexican Stock Ex. (MSE)
Austria:	Vienna Stock Exchange
Belgium:	Euronext Brussels Stocks
France:	Euronext France
Germany:	Frankfurt Stock Ex., Stuttgart Stock Ex., XETRA
Italy:	Borsa Italia
Netherlands:	Euronext Netherlands
Spain:	Bolsa de Madrid
Sweden:	Swedish Stock Exchange
Switzerland:	Swiss Exchange (SIX)
UK:	London Stock Exchange (LSE)
Australia:	Australia Stock Ex. (ASX)
Hong Kong:	Hong Kong Stock Ex. (SEHK)
India:	National Stock Ex. Of India (NSE)
Japan:	Tokyo Stock Ex. (TSE)
Singapore:	Singapore Ex. (SGX)
S. Korea:	Korea Stock Ex. (KRX)

Interactive Brokers has a US$10,000 minimum (or its equivalent in another currency) to open an account — US$5,000 for IRAs. They charge a US$10.00/mo inactivity fee. Accounts generating commissions less than the minimum in any given month will be assessed the difference as a monthly inactivity fee. Although the fee is less than optimal, think of it as a convenience fee we must pay-to-play on the global markets within a single trading account.

Two commission-pricing structures are offered: flat rate and cost plus. Individual trading frequency and share volume will determine which commission schedule is right for the investor.

The account opening and funding procedure may be bit challenging, but we believe the advantages offered from an Interactive Brokers' account are well worth the effort.

*For more details and options, please visit the website via the hyperlink in the table. Kevin Brekke is the Managing Editor of **World Money Analyst** and European correspondent. Contact: Kevin.Brekke@gmail.com*

WMA Recap

- A crude oil option strategy to retain your upside while **lowering your risk by creating a "Commodity CD".**
- **"Buyer beware" is the name of the game** as fundamental shifts are underway in the Middle Kingdom.
- Europe's pain is our gain. **Great European companies for the taking** at fire sale prices.
- **Don't write off Russia.** *Gazprom* (GAZ. MKT) is selling at a 2.7 P/E.
- **Watch the actions of governments** and their monetary authorities to understand the fate of currencies. With Australia forecast to be debt free within the decade, the **Aussie dollar is on its way to safe haven currency status.**
- **Monitor Argentina for opportunities.** Watch Telecom Argentina (NYSE: TEO), his #1 pick south of the Rio Grand. Hold off buying for now, **as the IM team expects a devaluation within 3 to 6 months**, at which point as cheap as the stock market is now, should become a screaming buy.
- **If you need a broker** specializing in global trading, **check out Interactive Brokers.**

A note about our schedule: the March edition of **World Money Analyst** will publish March 22. We will return to our usual third Thursday schedule starting with the April issue.

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