

## BLACK ENTERPRISE FEATURE – OCTOBER 2004

### Investment Roundtable Investing Outside the U.S.

**Opportunities in overseas markets can be yours with the guidance of our expert panel of money managers**

*By The Editors*

The United States' economic recovery, which seemed to be a foregone conclusion in the spring, hit a summer swoon that virtually erased all of the gains that the Dow Jones Industrial Average, Nasdaq, and S&P 500 indexes had amassed during the first quarter of 2004. With the U.S. markets returning to the sluggish ways of the last recession, where is an investor to go for profits? The overseas markets may offer some hope. With the euro becoming one of the world's strongest currencies, China's economy approaching double-digit rates of growth, and other emerging markets showing promise, the world economy offers great opportunities for investors to diversify their portfolios and capitalize on the strength of fast-growing companies in foreign countries.

We assembled four international investment professionals to discuss the best ways to approach the international markets and how to avoid the risks.

The members of our roundtable are Eddie Ramos, head of the international equity division for Baltimore-based Brown Capital Management Inc., ranked No. 4 on the BE ASSET MANAGERS list with \$5.5 billion under management; Ron Holt, managing director of research at Hansberger Global Investors, sub-adviser for the Harris Insight International Fund, which holds \$180 million in international and global equities; Clifford Mpare, managing director of research, portfolio manager, and head of hedge funds at Piedmont Investment Advisors, a Durham, North Carolina-based firm with \$400 million under management; and **Thomas Mims, founder and CEO of Emerging Africa, a New York-based third-party provider of financial information to Bloomberg that specializes in the African capital markets.**

**BLACK ENTERPRISE:** What is your forecast for the U.S. economy in the second half of 2004 and first quarter of 2005?

**RON HOLT:** While the underlying economy has been performing well and you're seeing an increase in the level of jobs, and that's all positive, there are other issues that continue to be potential negatives for the U.S. economy. The uncertainty of an election will probably lead to a bit of uncertainty for the U.S. economy and specifically for the U.S. dollar, which we expect to continue to weaken from this point.

**CLIFFORD MPARE:** I think the U.S. economy is strong, but we are seeing some signs of a slowdown. The question is whether this is a pause that refreshes, or if there will be a termination of the economic expansion. There are suddenly some issues that we have to be concerned about. The twin deficits—budget and trade—is certainly one. The depreciation of the dollar is two. We have problems generating employment. But corporate profits are still on the rise. In the first quarter of this year, corporate profits were over 20%. Corporate profits should be up again by 20% in the second quarter.

We believe the second half of 2004 will be a little better than the first half, but we'll be watching the Fed in terms of its direction with interest rates. We'll also be watching inflation, but we don't believe it will overheat as we move into the second half of the year.

**EDDIE RAMOS:** What's going to happen in the fourth quarter of 2004 and the first quarter 2005? It's not good, in my opinion, because of debt, debt, and more debt.

Bush's tax cut seemed to have rebounded the economy somewhat. But if you cut the revenues from the government, you have to cut the expenses too if you want to have a balanced budget. Instead, expenses have risen dramatically, far beyond what anyone expected here in the U.S. So, the government debt situation scares me. Regardless of who gets elected to the White House, they're going to have to grapple with this over the next couple of years, and I could anticipate higher taxes for the entire country. Then there are long-term issues, like Social Security and healthcare funding

for Medicare, that a lot of people seem to be putting off.

The consumer debt picture is also something that really scares me. Stats for home equity lines of credit that were about \$100 billion back in 1999 recently came out for 2003 at \$340 billion. When you're taking that amount of positive equity and transferring it into debt, that can be dangerous—especially at a time when interest rates are going up.

Another issue for the fourth quarter is that we really have no idea what's going to happen regarding terrorism. Who knows what's going to happen in Korea? The markets don't like uncertainties. You get the feeling that something is going to happen, maybe something bad. I hope not.

**THOMAS MIMS:** It appears to me that we're in an overvalued bear market. That means that there's going to be some descending in order for the bear market to resolve itself. The economists I've spoken to are saying that they don't believe the gains that have been experienced in this country in the last six months or so can be sustained.

**HOLT:** There are some positive things out there. We don't invest in markets, we invest in companies, and there are still companies out there that are growing their profits quite rapidly. There has been a lot of restructuring, so you don't have the type of corporate debt that you used to have in this country. Companies are starting to spend again on equipment, technology, and other areas. Many of these companies are investing outside of the U.S. and can take advantage of what's happening overseas as well.

**BE:** So how should investors approach this market? Should they look for a stock picker, or do they need to stay more indexed, in terms of their investing?

**HOLT:** I'm a believer in stock picking. If you can find someone who's been able to demonstrate that they can outperform the market, and the process they use has a historical track record, then you should go with an active manager.

I'd also say that all of the negatives we've talked about—the falling dollar, rising interest rates, and the twin deficits—could actually create a positive environment outside of the U.S. Every investor should have some portion of their portfolio invested outside of the U.S.

**RAMOS:** I think it's really a stock picker's market. But going forward, the question is whether it should be a stock picker's market. Anytime you've got uncertainty, so much uncertainty from a macro and political standpoint, then you always want to go with trying to find the best companies. I'm a big believer that the trajectory of a company's stock price only follows one thing—that's the company's earnings, period. As long as you get that right, in the long run, you'll be correct about the stock that you own.

**MPARE:** In this environment, where we need to resolve whether we are in a bear market or a bull market, having the ability to pick the right stocks in the right sectors is the only way to make money. Indexing only applies, and is a winning strategy, when the market is one direction. That means mostly in a bull market where you can have the indexes do well. So, for the next couple of years, I think the only strategy that one can use to win in investing is stock picking.

**BE:** Where do you think investors should look for growth internationally next year and in coming years?

**MPARE:** The International Monetary Fund forecasts that gross domestic product on a global basis should be about 4.6% this year and next year about 4.4%. So global gross domestic product is healthy, which implies the global economy is going to continue to do well, with the U.S. leading, but with Japan also doing exceptionally well, given its exports to China. China has been the engine of growth. Latin America also continues to do relatively well.

There is a question whether Europe can continue to grow, or whether the soft economy in Germany is going to be a problem for the whole continent. But generally, the global economy looks healthy. There are three themes that are important when you look at the global economy and the global environment: technology, globalization, and competition.

China plays a very critical role in all three themes, especially competition, with its cheaper products. China has had a great impact on the U.S. inflation picture, and that will continue to be the case. But we think it's going to be positive as we move forward.

On a global basis, we're OK, unless we have another terrorist attack like September 11, 2001, in the U.S. or the Madrid train bombings in March of this year.

In the only area that I concentrate on, Africa, there are two countries that I like: Ghana and South Africa. Their macroeconomic environment has improved dramatically over the last two or three years. Monetary policy has been very positive in Ghana. The inflation rate has gone from about 40% to about 10%. Interest rates have gone from 33% to 11%. There is dramatic performance in Ghana.

South Africa has also had some good performance. Inflation is down, and the rand has really rebounded from the collapse that it sustained a couple of years ago. So those are the two countries in one region that I like.

**MIMS:** For the first half of the year, of the top 10 performing markets in the world, six of those markets are in Africa. Ghana is No. 1; Uganda, No. 2; Nigeria is No. 3; Zambia is No. 4. In the overall ranking of 56 countries, the U.S. market is 32. It is not necessarily going to sustain at this rate. But, from the way I see it, the African capital markets will pretty much stay anchored at this level and have upside potential.

The problem is with lack of liquidity and accessibility. You need to have an exit when you enter these markets. Africa has 53 countries, and we're only talking about 16 capital markets that are really of any significance. Therefore, are we going to talk about regionalization of African capital markets? Or are we going to talk about one trading platform for the whole continent? There are many factors that can come into play, and I believe that if just a few of them come in, we will see Africa as a place to invest.

BE: How do investors take advantage of the African markets?

MPARE: The American Depository Receipt (ADR) route makes sense for those who don't want to venture into the complex area of investing directly in the shares in the local markets because that entails finding a broker and going through a lot of things that may be complicated for the individual. If you go to the Internet, [www.LiquidAfrica.com](http://www.LiquidAfrica.com) is a Website where you can make trades on the continent.

**MIMS:** Of 112 ADRs out of Africa, 70 are from South Africa; 20 are from Egypt; the rest are spread around. Just call your broker, or go on the Internet to [www.ADR.com](http://www.ADR.com) and look at the African ADRs. Most of them are put out by the Bank of New York. Look at the ADR's category, which business it's in, read about them, and see how some of that relates to other things that are happening in the world.

MPARE: Remember, risks are there. Nobody should go into this market assuming that there are no risks because Ghana's market is up 92% or Zimbabwe 140% since last year. One of the reasons these markets are doing well is because they have political stability. Ghana's democratic government is fostering stability. Until you have a sustained period of democratic reforms and stability, there are risks that one has to balance against the return potential that one can get from an African country or Latin American country or even an Asian country. We saw the Asia blowup in 1998. Who could have anticipated that was going to happen? At the time, we were talking about the Asian tigers and GDP growth rates of 10%, 12%, and higher and then suddenly, something happened.

HOLT: Are there any closed-end or open-end funds that investors should look at that focus on Africa?

MPARE: There are two funds that I am aware of. The Investco Southern Africa Fund (XSOAX) invests in all types of companies in the Southern Africa region. Also, the ASA Limited Fund (ASA) is an exchange-traded fund that can be found at [www.ETFconnect.com](http://www.ETFconnect.com). It provides exposure to businesses in South Africa that have gold mining and related activities as a major portion of their business.

BE: What other areas around the globe are hot?

RAMOS: Europe will do well. They're doing a good job of increasing productivity. Their real estate markets have done extremely well, just like the U.S. They are not nearly as indebted as U.S. consumers are, with the exception of the U.K., but the U.K. economy is growing much faster than the U.S.

It's been a long time coming, but they've implemented labor market reforms. Recently, Germany increased the work week from 35 to 40 hours. This hasn't happened in 45 years. The fact that it started in Germany is very good, and hopefully it will start happening in France because that will lead to further productivity gains.

Japan is another place that is very slow about making necessary structural reforms. But it seems like some things they're doing are starting to kick in. However, you're not finding a lot of companies trading at reasonable prices in Japan. And Japan has long-term issues—primarily demographics. They're going to have to seriously address increasing the working-age population and increasing the global competitiveness of their companies.

China is having an incredible impact on global economics. When you've got an economy that is growing at 9%, it seems like anything you throw money at is going to grow. There was over \$100 billion in foreign direct investment in Shanghai last year—that's more for that one city than the entire country of India. That's going to continue, and the government is doing the appropriate thing in trying to slow down the economy. But, at the same time, they have to grow their economy at least 7% a year just to create enough jobs for the number of people who are entering the workforce. So, it's a fine balance.

If you have a longer-term view, you can find very attractive companies in China. It's probably the greatest investment for the next generation, looking out 20 to 25 years. You have to be concerned about government intervention, but that's something that you always have to look out for. And, in the near term, there's certainly a risk of a slowdown. But longer term, it's one of the best investment stories out there.

HOLT: I'm a value investor, so some of the places that we are looking for opportunities aren't doing so great right now. One of those is Europe. In terms of stock performance, Europe has done reasonably well, but economically has been lagging behind the rest of the world. However, when you look at valuations [of companies] in places like Germany, France, and some of the industrial heart of Europe, they are still attractive. These are cash-rich companies that are paying barely significant dividends, which helps the total return for investors. So Europe is a place that we continue to like.

A market that hasn't done well economically but has a lot of potential is Korea. They've had problems, and their consumers continue to battle with extremely high levels of debt. They've also struggled with the concern about the slowdown in China. Korean companies have been significant investors in China. And they have world-class companies that are well managed and produce products that are used around the world. Take Samsung Electronics, the preeminent manufacturer of consumer electronics and information technology products. If you think about the Samsung of 10 years ago, it made cheap products. Now they are an innovator. The brand awareness and the quality of the products has picked up on a global basis.

The other area that stands out is Japan. It's been a market that has performed fantastically over the past year. The companies are, in terms of balance sheet strength, probably the strongest in the world, with 30% to 60% of the balance sheet being represented in cash. In terms of some of the underlying fundamentals, like profitability of the companies, return on equity, and return on assets, Japan is still well below what you could find in Europe and in the U.S., but they've improved over the last several years. So I think we have to pay more attention to Japan as we move forward.

BE: What are the risks when investing internationally, and what strategies can be used to take advantage of some of the hot markets?

RAMOS: You have to account for so many things as an international investor that you don't have to worry about as much when you're investing in U.S. companies. Starting with the emerging markets,

there is everything from government involvement and meddling to the families that own a lot of these companies doing what's in their best interest, not the interest of those investing in their company, and the macroeconomics of the country you're operating in, whether it be inflation or interest rates. Political developments that take place in the countries also heighten risks. Dubious accounting in a lot of these companies makes it difficult to decipher what kind of information they're disclosing or, just as importantly, not disclosing. If there's nobody on Wall Street that covers the stock, you have to figure it all out for yourself and do your own financial statements. From a risk standpoint, I think investors should leave it to the professionals.

**BE:** In terms of strategy, should investors stick to mutual funds, or should they deal with a broker who knows international markets and do individual ADRs and stocks?

**RAMOS:** A lot of people rely on their brokers and, quite honestly, the brokers don't follow international managers as closely as they follow domestic managers. They go with name brands oftentimes, so I would say rely on more objective measures like the Morningstar and Lipper rankings of international funds. I would say the best way to get international exposure is through mutual funds. In terms of percentages, depending on your age and the time frame of when you need the money, there's an appropriate recommendation for everyone, but I tell people to have at least 25% in international.

**MPARE:** If you invest directly, use iShares, like iShares Japan or iShares Europe ([www.ishares.com](http://www.ishares.com)). That's an easy way to get index exposure to the international markets without going to a mutual fund. But, again, if you go through mutual funds you gain active management. I think 10% to 25% of one's portfolio should definitely be in the international markets, whether it's Europe, Asia, Latin America, and certainly some participation in the emerging markets. Mutual funds serve the purpose, and most of the large companies like Fidelity and Alliance Capital all have international funds.

**HOLT:** I just want to point out that with risk, the door swings both ways. Currency risk is the greatest example. It's been helping international markets, but it can also hurt international markets at some point.

I think it's important to use a diversified approach to international investing. You should consider using mutual funds or at least a professional money manager as a way to help you manage risks. Look for a strategy that gives you access to a range of markets outside of the U.S. I would not exclude emerging markets. In terms of percentages, it depends on the profile of the investor, your risk tolerance, and how you will sleep at night with international investments—but 5% on the low end and up to 25% on the high end would be where the average investor should be positioned.

**MIMS:** Of course, we've talked about ADRs, a good way to go in Africa in particular. Also, we've identified about 165 publicly traded companies in Africa that have a market cap of at least \$50 million. These companies are in banking, in brewing, telecommunications, housing, mining—very steady defensive companies that are going to be around. Looking at a three-year window, these are the companies that offer the most liquidity. For an investor to have 5% of their portfolio in Africa right now would be a good way to get a taste of things.

**BE:** Are there any other reasons why our readers should diversify their portfolios with international investments?

**MIMS:** Right now, Africa presents opportunities that existed in this country 30, 40 years ago. The African market cap is around \$300 billion. I believe that in five years it's going to be over \$1 trillion. The opportunities are there to amass a huge amount of wealth, as did the people who were in the U.S. market back in the 1920s or 1930s.

**HOLT:** I believe every investor should have a portion of their assets outside of the U.S. I encourage your readers to sit down with their investment adviser and come up with a strategy involving how much they want to invest—not if they will invest outside of the U.S.—then be committed to it.

**MPARE:** Anybody who is investing has to study and make sure that the decisions they make are consistent with the expectations of the returns they want to achieve. They have to have exposure to all of the asset classes, real estate, U.S. equities, U.S. bonds, and international. You have to put it all together in a diversified portfolio, that's how you're going to achieve the most efficient risk-adjusted returns.

**RON HOLT**

Hansberger Global Investors

Stock (Exchange: Ticker)	Price at Recommendation*	Projected Growth Rate
Samsung Electronics Co. Ltd. (KSE: 005930.KS)	\$417,000 (Won)	15% -- 20%
Petrobras (NYSE: PBR)	28.39	NA
Kingfisher PLC. (PNK: KGFHF.PK)	5.36	15%

\*AS OF JULY 20, 2004. SOURCE: YAHOO FINANCE, RON HOLT

Samsung: "It's a leader in its product. It's a brand that continues to grow and the company continues to be very attractive in terms of valuation—trading on a forward price-earnings ratio of less than 10 times—despite what we think is solid underlying 15% to 20% earnings growth moving forward."

Petrobras: "Based in Brazil, Petrobras is one of the world's 10 largest oil companies and one of the leading deepwater operators worldwide. Over the long term, Petrobras is expected to be one of the fastest oil and gas companies in the world in terms of production. The company is expected to benefit from rising gas demands in Brazil. Despite such a positive growth outlook, Petrobras' valuations are among the lowest in the world."

Kingfisher: "Kingfisher is a U.K.-based home improvement retailer. They are the dominant player in France, Taiwan, and China. The company trades around 12 or 13 times earnings, and we believe it can grow in the 15% range moving forward."

**EDDIE RAMOS**

Brown Capital Management

Stock (Exchange: Ticker)	Price at Recommendation*	12-Month Price Target
Teva Pharmaceutical Industries Ltd. (Nasdaq: TEVA)	\$32.23	\$42.00
Walmart de México. (PNK: WMMVY.PK)	29.75	37.00
Espirit Holdings (SEHK: 330.HK)	34.20	44.00

\*AS OF JULY 20, 2004. SOURCE YAHOO FINANCE, EDDIE RAMOS

Teva: "They produce generic drugs at a time when there are all kinds of constituencies pushing for more affordable drugs. Anytime something bad happens in Israel, usually Teva is affected adversely in terms of the stock price. But that's the time to go in and purchase the stock because the long-term projection of this company is that it's going to continue growing."

Walmart de México: "The attraction to this company is that even without looking at the company's business model, you have to appreciate the fact that the Mexican economy, we feel, is going to be a strong consumer growth economy in the long run. Walmart is just the operating muscle and the purchasing muscle."

Esprit: "This company is a Hong Kong-based retailer. In the last three years, it has grown about 40% per annum. The company has an incredible amount of space to grow, not only in Europe—where 80% of the sales come from—but obviously also in Asia and the United States, where it recently bought back its brand."

**THOMAS MIMS**  
**Emerging Africa Ltd.**

Stock (Exchange: Ticker)	Price at Recommendation*	12-Month Price Target
AngloGold Ashanti Ltd. (NYSE: AU)	\$31.90	\$37.40
MISR International Bank (OTC: MIBRY)	3.50	4.25
Zambia Copper Investments Ltd. (OTC: ZMBBF.PK)	0.75	1.25
*AS OF JULY 20, 2004. SOURCE: YAHOO FINANCE, THOMAS MIMS		

AngloGold: "AngloGold, in addition to mining, is involved in the manufacturing and marketing of gold products, as well as the development of gold markets. I'm seeing this as a company that knows what's going to happen with currencies, vis-à-vis gold. Gold has been in a bear market for about 25 years now, you can never tell."

MISR: "Its main activity is the provision of a broad range of lending depository-related financial services to the various business sectors. Its year-to-date change has been 46%."

Zambia Copper: "I chose it for two reasons. Year to date, it's up 120%. Also, once again, it's a play on natural resources."

**CLIFFORD MPARE**  
Piedmont Investment Advisors

Stock (Exchange: Ticker)	Price at Recommendation*	12-Month Price Target
Medtronic Inc. (NYSE: MDT)	\$50.06	\$60.00
Doral Financial Corp. (NYSE: DRL)	37.19	50.00
Nucor Corp. (NYSE: NUE)	78.00	95.00
*AS OF JULY 20, 2004. SOURCE YAHOO FINANCE, CLIFFORD MPARE		

Medtronic: "Medtronic fits the profile of a company that has superior products; they have consistently executed their plan and they have good management. When I look at a stock or a company, good management is very important. Return on investment is about 20% and return on equity is well above 20%."

Doral Financial: "It's been an exceptional company in terms of performance, both in terms of earnings growth and in terms of the share performance. It has certainly benefited from the boom in the housing market. There's certainly a concern that perhaps there is a bubble brewing, but because it has its focus in Puerto Rico, we see less of a risk."

Nucor: "It produces 20% of the steel production in the country. Nine months ago, the expectation for the company in earnings was \$4.00 and now it's about \$9.00. There has been a dramatic improvement in earnings expectation. Most of the products they make are products for heavy equipment. These are the kinds of products that will be in high demand as the global economy expands."

The sideways gyrations of the stock market over the last year provided a challenge for our three stock pickers from last October's Investment Roundtable. Only Raymond Stewart of Rasara Strategies excelled under the difficult conditions, scoring a 23.95% gain on the three selections that he offered our readers. Stewart's focus on financial services firms was the right call in a low-interest-rate environment. Isaac Green of Piedmont Investment Advisors posted a 7.68% gain, and selections from Randall Eley of The Edgar Lomax Co. mustered only an increase of 2.78%. Mary

Pugh of Pugh Capital Management suggested bonds that are best held until their maturity dates of 2011, 2013, and 2033.

2003 Stock Update				
RANDALL ELEY				
Company Exchange: Ticker	Recent Price*	Price at Recommendation**	Total Return***	Current Value of \$1,000 Investment
Exxon Mobil Corp. (NYSE: XOM)	\$45.83	\$34.94	31.17%	\$1,311.70
Merck & Company Inc. (NYSE: MRK)	44.80	56.65	-20.92	790.80
Eastman Kodak Co. (NYSE: EK)	25.29	25.78	-1.90	981.00
Portfolio Performance			2.78	3,083.50
ISSAC GREEN				
Company Exchange: Ticker	Recent Price*	Price at Recommendation**	Total Return***	Current Value of \$1,000 Investment
Exxon Mobil Corp. (NYSE: XOM)	\$45.83	\$34.94	31.17%	\$1,311.70
Applied Materials Inc (Nasdaq: AMAT)	16.65	18.18	-8.42	915.80
Time Warner† (NYSE: TWX)	16.79	16.74	0.30	1,003.00
Portfolio Performance			7.68	3,230.50
RAYMOND STEWARD				
Company Exchange: Ticker	Recent Price*	Price at Recommendation**	Total Return***	Current Value of \$1,000 Investment
Popular Co. Inc. ‡ (Nasdaq: BPOP)	\$22.09	\$18.07	22.25%	\$1,222.50
Sovereign Bancorp Inc. (NYSE: SOV)	\$21.67	\$17.29	25.33%	\$1,253.30
Marshall & Ilsley Corp. (NYSE: MI)	\$39.22	\$31.56	24.27%	\$1,242.70
Portfolio Performance			23.95%	\$3,718.50
*AS OF JULY 16, 2004. **AS OF JULY 18, 2003. **TOTAL RETURN REFLECTS STOCK APPRECIATION AND INCLUDES STOCK SPLITS AND DIVIDENDS. †FORMERLY AOL TIME WARNER—CHANGED NAME AND TICKER SYMBOL FROM AOL TO TWX. ‡TWO FOR ONE STOCK SPLIT. SOURCE: YAHOO! FINANCE				