

THE POTENTIAL OF THE BRIC NATIONS

Why emerging market equities have the world's attention.

Provided by Timothy C. Hucks, CEP, President, Rising Tide, Inc.

Brazil. Russia. India. China. These four nations have some of the fastest-growing economies on earth and are becoming drivers in the world economy. In the coming decades, they may command as much attention as the U.S., Japan and other "heavy hitters" ... or more.

The future aside, we know one thing about the BRIC nations and other emerging markets: collectively, stocks in these countries have outperformed U.S. stocks for the last 20 years.

During this past decade alone, the MSCI Emerging Markets Index brought a total return of 102.4% while the S&P 500 posted a total return of -10.0% (-24.1% before dividends). Across the 1990s, the S&P 500 produced a total return of 432.0% - pretty impressive. Yet the MSCI Emerging Markets index posted a total return of 2408.6% for that decade.^{1,2}

Great volatility ... but also great potential. If U.S. stocks soar or fall, emerging markets really feel the effect. We've seen them recoil in the first quarter of 2010. Yet short-term slumps aside, there are compelling arguments for investing in emerging market equities as part of a diversified portfolio.

Look at last year's returns. In 2009, the benchmark index in Brazil (the Bovespa) gained 82.66%. Russia's RTS gained 128.62%. India's Sensex 30 advanced 81.03% and China's Shanghai Composite rose 79.98%.³

Look at the last decade. The Dow and the S&P 500 underperformed in the 2000s compared to previous decades. How did benchmark indices in the BRIC nations do?

Are you sitting down? Brazil's Bovespa gained 301% across the 2000s. India's stock market gained 249%. China's Shanghai Composite was the laggard, only rising 72% over that stretch. Russia's RTSI gained 863% in the past decade.³

BRIC, or BRIMCK? Some economists would modify BRIC to BRIMCK, arguing that Mexico and South Korea belong in this collective powerhouse. The key market indices in Mexico and South Korea respectively advanced 44.87% and 49.65% last year.³

The (corporate) opportunity of a lifetime? Wall Street bulls see wisdom in giving more and more weight to the BRICs in portfolios. They draw a line between the impressive, sustained growth of these nations to higher returns and rising demand for capital. They look at these nations and see a rapidly growing middle class and upper middle class and a corresponding rise in spending ... translating to a momentous opportunity for global companies who leap into the right place at the right time ... translating to great corporate profits down the line.

Of course, this vision assumes that the BRIC nations will a) keep economic policies in place that drive growth, b) avoid political and social upheaval, and c) escape the worst of global economic crises.

A new alliance? A decade ago, "BRIC" was simply Wall Street slang - a term coined by Goldman Sachs economist Jim O'Neill. Today, the BRIC nations appear to be heading toward some form of coalition. In recognition of their power, BRIC leaders have scheduled annual economic summits - the first one was in Russia in 2009, the 2010 summit is in Brazil. The presidents and prime ministers of these countries entered into dialogue to determine how their economies can work together and maintain their fantastic growth.

In sum, the BRIC nations are responsible for about 15% of global GDP, and about 40% of the gold and hard currency reserves on earth are in their possession.⁴

Does the BRIC demand your attention? Some financial consultants think that any well-diversified portfolio should have a toe (or a foot or a leg) in emerging markets - the gains of recent years are simply too spectacular to ignore. Others counter with the argument that past performance is no guarantee of future results, and cite the remarkable volatility that can affect the stock markets of these nations. If you are interested in learning more, have a chat with the financial professional you know and trust.

Timothy C. Hucks, CEP, is a Certified Estate Planner, Registered Investment Advisor and President of Rising Tide, Inc. He may be reached at www.risingtideinc.com, 919-968-8675, or tim@risingtideinc.com. Securities offered through [Capital Investment Group, Inc.](#) Corporate Office: 17 Glenwood Avenue, Raleigh, NC 27603 • 919.831.2370. Member [FINRA/SIPC](#).

These are the views of Peter Montoya Inc., not the named Representative nor Broker/Dealer, and should not be construed as investment advice. Neither the named Representative nor Broker/Dealer gives tax or legal advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The publisher is not engaged in rendering legal, accounting or other professional services. If other expert assistance is needed, the reader is advised to engage the services of a competent professional. Please consult your Financial Advisor for further information.

Citations.

¹ realclearmarkets.com/blog/Omnivest_1-4-10.pdf [1/4/10]

² cnbc.com/id/34645043 [12/31/09]

³ cnbc.com/id/34643111 [12/31/09]

⁴ nytimes.com/2009/06/17/world/europe/17bric.html?_r=1&pagewanted=print [6/17/09]