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MARKET MATTERS: Chinese New Year reminds us to consider emerging markets

By Joseph Matthews

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With the celebration of Chinese New Year this month comes a reminder for us to consider the many cultural traditions and innovations coming from the nation. Silk, tea, martial arts, and even the fork all originated in China. And as we wind down from the Super Bowl, we might also remember that football was first played in the Chinese Han Dynasty, 206 BCE to 220 CE. With more than 1.3 billion people, the nation certainly has a pool of ingenuity to rely on.

With the sharp swings in the market this month, it might also serve investors well to consider global diversification across nations like China — that is, not only to appreciate its rich culture, but to research its investment possibilities. Investing in emerging markets is one way to diversify and help mitigate risk, as emerging market indexes are affected by somewhat different factors from American stocks.

Investors can shape a portfolio with international exposure through a number of routes: individual stocks in American multinationals, shares in foreign companies that trade on their local exchanges, or shares of non-U.S. companies that trade in the United States and in American currency.

According to the Chinese calendar, we are in the Year of the Dog, portending good fortune in the coming twelve months. However, I wouldn't necessarily rely on luck to create a successful portfolio — I would much rather do the research to help decide which direction to go.

One first step might be to relate national trends to the global stage. Here in the United States, for instance, there seems to be some agreement on the need for massive infrastructure projects. The current administration has proposed a $1 trillion infrastructure improvement initiative and analysts believe it will become a political priority in coming weeks.

Infrastructure growth is an international trend, one that is gaining ground. We might look at basic materials, like metals and concrete, as a starting point for investment.

Emerging markets can be a tricky asset class, but are nonetheless an important area for investors to consider for diversification. While doing this research, it helps to compare emerging market economies and those of the developed world. Ask, are there large segments of developing nations' populations that are underserved? If so, in what industries? Then, look for companies that have the potential to fill the gaps that exist. Companies that are poised to fill these gaps may be positioned for long-term growth.

Here's an example: the banking industry in India. As India's economy continues to expand, so does its middle class, which may lead to increased demands for homes, cars, and other items financed by bank loans and credit.

Of course, as in all investments, we should take care to fully research the sectors and individual firms, gathering as much information as possible, including professional advice where appropriate, and making sure the money we invest fits into our short- and long-term investment goals.

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