Losses in Emerging Markets

Commentary

The strategy for the current market cycle (2012-2015) did not involve emerging markets, which were the opportunity for the previous cycle (2008-2011, ROI +17% Portfolio Alpha, ROI +20% Portfolio Beta). More importantly if any portfolio was not switched or managed out of these markets there would have been substantial losses. These markets are at historic lows, and their currencies are extremely weak against the strong US dollar. Just on exchange rate alone, a portfolio exposed to these markets would incur significant losses.

We believe the emerging countries will not provide good positions if funds are used as a vehicle to capture any possible turn-around opportunity at this stage. The income of these countries mainly come from commodities, which are also at the lows in their cycles when valued against the strong dollar.

Country	Currency	Recent Situation
Malaysia	Ringgit	17 year low
Thailand	Baht	8 year low
Indonesia	Rupiah	20 year low
Brazil	Real	12 year low
Chile	Peso	7 year low
Colombia	Peso	11 year low

Fig 1: Emerging Market Currencies at historic lows

Commodity	Current Price	3M	6M	1YR
Brent Oil	48.96	- 15.0	- 26.0	- 13.8
New York Light Crude	42.60	- 18.9	- 29.7	- 19.7
Gold	1114.30	- 3.7	- 8.3	- 9.2
Silver	15.35	- 0.5	- 9.7	- 10.9
Platinum	996.00	- 4.1	- 13.5	- 17.7
Nickel	4.77	- 11.9	- 26.0	- 29.4
Copper	2.33	- 7.7	- 19.6	- 10.4

As of 15 Aug 2015

Fig 2: Commodities recent performance

Michael Yu
Michael@mypfund.com