



MONEY MORNING

GLOBAL INVESTING RESEARCH REPORT

Global Investing: Has Wall Street Rigged the Game?

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Retail investors face an ugly truth.

The game is rigged against you.

In the decades to come, the real money will be made investing overseas. The fast-growing markets in Asia, Eastern Europe, Russia and parts of Latin America will emerge as key places to do business, and their companies will see their values soar.

Indeed, in its recently completed yearlong study of the global financial markets, the McKinsey Global Institute predicted that worldwide financial assets will soar from \$118 trillion in 2005 to more than \$200 trillion by 2010.

And what's more, said McKinsey: **The disproportionate share of that growth will take place in the so-called "emerging" markets of Asia and Europe.**

The big investment banks like Goldman Sachs understand very well that these markets are the places to be.

They've known it for years.

And so have their well-heeled clients, who have been profiting handsomely from this valuable guidance.

But retail investors have been excluded from this clubby arrangement. They've been told over and over that international investments should occupy only a tiny place in one's portfolio – a dollop or so for purposes of diversification, but no more than 5% or 10%. Indeed, these retail investors view global investing as the "Wild, Wild West" of personal finance – a risky, ruinous and even foolhardy venture – because that's what they've been conditioned to believe.

Don't misunderstand: We, too, are big believers in diversification. But we're also big believers in facts.

And for the typical individual investor, these "facts" lead to several important wakeup calls.

And **Wakeup Call #1** is this: **Over the next several decades, foreign markets will be profit machines.**

If you want proof, just ask the World Bank.

Today, the United States and Asia each account for 28% of the worldwide economy.

Combined, that's a total of 56%.

Twenty-five years from now, America's share of the global economic pie will have slipped to 24%.

But Asia's will have soared to 55%.

In other words, in just over two decades, Asia will be twice the economic powerhouse that the United States is today.

By focusing only on U.S. stocks, you'll only be looking at one-quarter of the world's investment opportunities.

You'll miss out on some of the world's fastest-growing markets.

And you'll get left behind.

The greatest growth will come from China, India and the newly capitalist economies of Eastern and Southern Asia. There may be some other growth areas such as Russia and the OPEC countries if oil prices are high, and Brazil if they're low.

But the big story is Asia, which has both a huge population – almost 3 billion people in countries that are rapidly enriching themselves, or are already rich – and rapid productivity growth.

This wasn't always true in the past. With Europe growing slowly, Japan mired in recession since 1990, and the rest of Asia still small, the past 25 years have been pretty good for investors in the United States. They even managed to slightly increase its share of the world economy.

The future will be much, much different.

And that brings us to **Wakeup Call #2: Wall Street is well aware of the global growth to come. Indeed, they've known about it for years, and their clients have been profiting nicely at every step along the way.**

But "retail investors" – those who lack a \$10 million portfolio – have been left in the dark. And now, with the real global growth still to come, those uninformed retail investors are going to get left in the dust.

But it doesn't have to be that way ...

Out of Reach Doesn't Mean Out of Luck

Needless to say, now that you're "in" on the global-growth "secret," you have an immense competitive advantage over investors who are still in the dark.

Unfortunately, even that's not enough.

We said the game is rigged against you. And it is – and to an even greater degree than you realize. For there's still one more obstacle blocking your path to the really big profits available from global investing.

As a retail investor, the second part of the "ugly truth" is this: While you can buy any U.S. or Canadian stocks you want, there are a lot of foreign stocks that the Securities and Exchange Commission prohibits you from buying.

You see, foreign companies that haven't registered with the SEC are off-limits to individual investors.

The objective of this well-intentioned regulation is to protect you from foreign fraudsters. But the registration process these overseas companies face is not a simple one, so the rule can also stop you from investing in legitimate companies – ventures that could one day grow into Asia’s version of Cisco Systems, Intel, or Microsoft.

Even the foreign-based companies that have successfully navigated the exhaustive SEC registration process can often be tough to get information on.

Don’t expect much help from the brokerage gallery, either. *With so few of these foreign stocks available for purchase – and with information requiring so much additional effort to get – your broker isn’t going to offer you too many of these opportunities.*

If he’s not pushing the same, tired U.S. blue chips, he might offer up the occasional “international” or “global” mutual fund.

Chances are good that these funds are little more than an overly diversified portfolio of U.S.-based companies that qualify as “international” only because of a tenuous toehold a few might have on some small, foreign market.

With their lousy performance and fat sales loads, mutual funds like these put money in your broker’s pockets by siphoning future profits out of yours.

Wall Street Big Boys like Goldman Sachs don’t face these problems. As institutional investors, they aren’t constrained by the SEC registration requirements. What’s more, Goldman Sachs’ partners and important friends can benefit from an obscure SEC regulation, Rule 144A. According to that rule, if the shares are sold to a small group of investors – less than 50 is the generally recognized limit – the securities are considered a “private placement” and as a result are registration-exempt.

That probably all sounds unfair, and perhaps it is. But that’s where **Money Morning** comes into play.

In fact, with only minor apologies to the hit 1980s television show of the same name, you can call us “The Equalizer.”

Going With the Flow

The Money Morning name tells our story and summarizes our unique strategy.

We follow the money.

No matter where in the world it travels.

And no matter what form it takes.

By scrutinizing the key worldwide money flows, we can eliminate the markets and investments that have already run way up, and can search out those that remain cheap—but still have the potential to move, and move strongly.

We mentioned the importance of faster productivity growth, which is actually a type of money flow.

You see, faster productivity growth translates into higher investment returns. Companies in countries with high productivity growth each year become more competitive against companies from low-growth countries. That’s why Chinese clothes, Japanese automobiles, and Taiwanese and Korean consumer electronics can dominate the U.S. market.

Contrary to popular myth, U.S. managers in those sectors aren't hapless idiots, but U.S. companies do face competition from foreign rivals who are getting better at their jobs each and every day.

Is it risky to invest internationally? It can be, but it's just as dangerous to eschew the entire global-investing mantra, rely entirely on domestic U.S. stocks instead.

At least internationally you have different politicians, different economic circumstances and different production capabilities to invest in. Yes, international investments can be seized by left-wing governments, can lose value because of incompetent governments, or can be taken over by hordes invading from just across the border.

But let's face it ...that's not a lot different than buying into an Enron or WorldCom. And, after all, isn't that what diversification is for?

With our team of investment experts from around the world, we are able to examine all of those developments as they relate to global investing, and can then forecast future trends, combining all this with our money-flow analysis to bring you the very best investment ideas and market opportunities.

And that's not all. As we've demonstrated with our understanding of intricate foreign-stock registration regulations, we'll also wade through the morass of U.S. securities laws to uncover ways for you to profit – without having to be a billionaire, a financial institution, or a partner in Goldman Sachs.

And you won't have to miss out on the "Asian Microsoft."

Just recently, our money-flow analysis pointed to Taiwan as a lucrative long-term investment opportunity. Drilling down, we uncovered a top Taiwan play: It was Hon Hai Precision Industries, a Taiwan-based company that manufactures **all three** of the hot new video game consoles that have taken the \$10 billion worldwide video-gaming market by storm.

We're talking, of course, about the Sony PlayStation 3, the Microsoft X-Box360 and the Nintendo Wii.

Hon Hai isn't some little wannabe: As the maker of every global gizmo from Hewlett-Packard PCs to the hot new little Apple iPhone, Hon Hai has grown into a global leader so dominant that *BusinessWeek* magazine labeled it an "earnings machine."

Sounds like a great investment, right?

Wrong.

Unfortunately, Hon Hai isn't registered with the SEC, meaning its shares aren't available to retailer investors.

We didn't give up, of course. While we couldn't get around the SEC regulations, we did find another investment that held a big stake in Hon Hai – along with dozens of other Taiwanese companies with the same kind of potential. If you think that sounds like a great investment, we believe it will be.

Back in 1851, in an editorial in the *Terre Haute Express* newspaper, Editor John B.L. Soule exclaimed: "Go West, young man, and grow up with the country!" Fourteen years later, the more-famous Horace Greeley employed part of that comment on the editorial page of his *New York Tribune*, granting the quote immortality.

If either of those great newspapermen were around today, they'd undoubtedly have a variation of that advice for today's investors, stating: "Go Global, young investors, and grow up with the world!"

As we've made very clear, going global is the key to future wealth.

But knowing where that growth will be – and identifying ways to profit from that growth – is the challenge.

Growth? Profits? Investment Returns? A good night's sleep? For American investors, there's now a better way to achieve all four: Invest globally.

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