

Global Thinking about Assets

By Bradley Elliott and Benjamin Sawyer

Should you be buying Chinese stocks, starting a subsidiary in Russia or selling your company to that interesting man from Germany who called you out of the blue?

Investors have been showered with advice that economic opportunities outside the US have been profitable, can often act as a portfolio stabilizer by offsetting US equity price movements and are growing rapidly. A number of our business owner clients have contemplated deploying their skills in other markets. And some have been approached by strangers dangling foreign deals.

These opportunities are intriguing but present challenges very different from those in our local market. We find it helpful to group these into four categories: currency, volatility, culture and flexibility. They apply whether you are an investor in securities or dealing in active businesses.

1. Currency: Exchange rates go through both short-term ups and downs and long-term cycles. So transacting any substantial sum requires consultation with a trading desk to make near-term timing decisions. More fundamentally, the long cycles are really long. The "trade weighted value of the dollar", which looks at the value of the dollar in terms of the basket of currencies we trade the most, has fallen to a level it last had in the early 1990s and before that, about 15 years earlier. This has important implications. For example, it can pay to hedge foreign exchange movements as many people misread such long cycles. Also, returns on foreign investments for the last few years have been flattered by the fall of the dollar. We believe that, on average, the dollar is near bottom and the exchange rate will switch from being a tailwind to a headwind in earning money from non-dollar assets within the next couple of years. At the same time, some other currencies (perhaps that of China) may continue to appreciate against the dollar for much longer.

2. Volatility: Our economy is very flexible and, though it may seem improbable right now, quite stable in its long-run growth. This is also true for the Western European core of the EU (Britain, France, Germany, and the Netherlands) but not of the newer ex-communists members. It is less true of Japan and not at all true of the so-called BRIC nations (Brazil, Russia, India, China) let alone places like Vietnam or the Emirates. The major economic variables – GDP growth, employment, inflation, productivity – are very volatile and this is mirrored in the movement of the values of stocks and bonds and in company valuations. The long term trend of value growth in many of these economies appears very strong. However an investor needs a long time horizon and

strong faith in the underlying economic rationale for the investment to reap these benefits. All the more so as this underlying volatility is sometimes compounded by currency volatility. Is it worth it? Very definitely, but only as part of a comprehensive plan which allows for the volatility.

3. Culture: In the U.S., we operate within a well-defined framework of commercial rights, laws and regulations which makes timely enforcement of contracts reasonably straightforward to achieve. Moreover our accounting standards, Enron et al notwithstanding, provide good disclosure of the real situation of most businesses most of the time. It's not like that in many other places! It is in Western Europe and some other countries. It is not in the BRIC nations, in Eastern Europe and most other small and rapidly growing markets. Bribery, extortion, manipulation of the legal system, corruption of government agents are all common. As the oil industry reveals, even the largest corporations can be shaken down. In the case of Japan and some other countries, there is often ownership or other ties between companies which are simply opaque to outsiders and which cause these companies to act in ways that can harm outside investors. Personal due diligence, manager due diligence, consideration of political stability and good mental gaming of who might have the upper hand in any negotiation are essential components of investment in many foreign places. You need the assistance of seasoned hands.

4. Flexibility: Invest in many of the most attractive markets and you will be surprised. They may be good surprises but things will not go according to plan. Rather like rebuilding your home, you will, most likely, be over time and over budget. As an investor you may have to hold a position much longer than you anticipated, to get the payoff that you want. So, you need a formal business or personal financial plan which allows for the unexpected. That means that you need to have a cushion of cash and you always need both a "plan B" and a lot of patience.

Don't be put off by this catalog of issues. In the last 10 years the BRIC economies grew at an average 7% rate versus 3% in the US. There is great economic opportunity, provided these markets are approached with focused, professional diligence and care.

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Greetings from the Mile High City!

As our City proudly hosts the Democratic National Convention this week, the international spotlight that is being cast on Denver complements our position as a premier city for growing your business via international trade.

Denver's unique geographic location near the center of the continental United States and midway between Europe and the Pacific Rim offers unparalleled access to the world. Situated between Canada and Mexico, Denver is strategically positioned to capitalize on trade opportunities throughout North America. Our central location allows communications with both Asia and Europe during the same business day, and Denver is the largest U.S. city to offer one-bounce satellite uplinks that provide real-time, connections to six out of seven continents in a single business day.


For those times when only a face-to-face meeting will do, **Denver International Airport** offers many international nonstop flights, which currently include daily routes to the United Kingdom, Germany, Mexico and Canada.

Additionally, Denver is home to **32 foreign consulates**. Six of these consular missions are staffed by career diplomats from the countries of Guatemala, Japan, Mexico, Peru, Canada and the United Kingdom. The consulates provide information and service regarding international trade promotion, tourism and cultural exchange.

The Mile High City's newly expanded **Foreign Trade Zones** allow manufacturers using imported parts and materials in their products to expedite customs and reduce or eliminate some fees and tariffs. Denver's General Purpose Zone has three locations, allowing manufacturers to easily connect with Denver International Airport and the state's major railway corridors.

We invite you to contact the Denver Office of Economic Development at www.milehigh.com to learn about international business opportunities. We look forward to helping you grow your business domestically and internationally.

Sincerely,



John W. Hickenlooper
Mayor

Growing International Business in Denver



Offering a full array of business services, the Denver Office of Economic Development is committed to helping business grow.

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Contact us to learn more about how the City assists Denver businesses with growth and expansion.

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