Pittsburgh Post-Gazette
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$1.00 THURSDAY, JUNE 27, 2013 VOL. 86, NO. 331 6/27/13 • FINAL.

MARKET PULSE

DOW JONES	S&P 500	NASDAQ	CRUDE OIL	NATURAL GAS	GASOLINE PRICES
14,910.14 (+149.83)	1,603.26 (+15.23)	3,376.22 (+28.34)	$95.52 (+$0.02)	$ 3.74 ($0.00)	$3.560 (-$0.001)

P.J. DiNuzzo,
President, Founder, Chief Investment Officer, of DiNuzzo Index Advisors, Inc.

Consider emerging markets in diversifying your portfolio

By Tim Grant
Pittsburgh Post-Gazette

Stocks and bonds issued by companies operating in foreign countries experiencing rapid social and economic growth were so hot a few years ago that Wall Street had begun to describe them as "Super-Goldilocks" investments with tremendous upside potential and little risk.

But the trend for emerging market investments has shifted since the beginning of this year, and the returns got even worse following word from the Federal Reserve last week that it plans to scale back on the $85 billion monthly bond buying program that has been stimulating the economy.

The most widely used benchmark index that tracks emerging market equity investments — MSCI Emerging Markets — is down 14.7 percent in 2013, compared with a positive year-to-date return of 14 percent for the Dow Jones industrial average and an 12.5 percent return for the S&P 500.

"Many U.S. investors have a home bias," said Bob Hapanowicz, president of H&A Wealth Advisors, Downtown. "They tend to stay within familiar boundaries and invest at home. It's important that investors understand the risks and potential rewards of investing in frontier economies.

"The reason you should look at investing in emerging markets is to increase the diversification in your portfolio, potentially increase your return and lower your overall risk."

SEE EMERGING, PAGE C-2

Tim Grant,
Staff Writer for Pittsburgh Post-Gazette

Long term, emerging markets can offer strong returns

EMERGING, FROM PAGE C-1

There has been considerable debate in recent years about how economic events in the U.S. affect other countries. One theory had been that smaller emerging economies would be able to keep growing regardless of whether larger established economies suffered a decline. But the recent sharp sell-off in emerging market stocks and bonds was a strong indication of how closely connected world markets remain.

"Emerging markets are two times more sensitive to economic news," said Andrei Voicu, chief investment officer at Fragasso Financial Advisors, Downtown.

"Long-term we expect emerging markets to perform well relative to developed markets," he said. "Not only because their economies grow faster but because emerging markets offer more value at these price levels."

But not all emerging markets are created equal, and the issues they face can vary widely. The methods of buying and selling investments also vary.

The most conservative way to buy a stake in emerging markets is to invest in the largest nations in this asset class — Brazil, Russia, India and China. At the more aggressive end would be frontier markets like Pakistan, Nigeria and Bangladesh. In between are mid-tier economies such as Mexico, Korea, Turkey and Indonesia.

Most investors get into emerging markets through mutual funds with an allocation to stocks of foreign companies. But a number of exchange traded funds also track emerging markets. Investors also can buy individual stocks of companies, although this method usually requires the help of a professional money manager and carries more risk.

Financial advisers typically recommend that 5 percent to 15 percent of an investment portfolio be allocated to emerging market stocks or mutual funds.

P.J. DiNuzzo, president and chief investment officer of DiNuzzo Index Advisors in Beaver, said emerging market stocks and mutual funds will likely be the most volatile asset class in the average portfolio. He advises clients to have 10 percent of their stock portfolio in emerging markets.

"Emerging markets in all probability will be the highest performing investment in your portfolio over the next 10 to 20 years," Mr. DiNuzzo said. "But due to their higher volatility, you only want to allocate 10 percent of your stock exposure to this asset class.

"When developed markets catch a cold, emerging markets catch pneumonia. So you don't want to over-allocate due to the volatility."

Still, over the long haul, emerging market investments have outperformed U.S. investments.

From January 1989 to May 2013, the S&P 500 index has averaged an annual return of 9.6 percent. Emerging market large capitalization stocks have averaged an annual 11.8 percent return during the same time frame, according to Austin, Texas-based Dimensional Fund Advisors, the largest index fund manager in the U.S. with $300 billion in assets under management.

"Emerging market economies have higher growth rates," Mr. Hapanowicz said. "They are younger, smaller and going through positive change.

"It used to be 20 years ago, the U.S. market dwarfed all international markets in capitalization. Now the U.S. capitalization is less than 50 percent of world capitalization. Emerging markets are expected to take share away from the rest of the developed world.

"The U.S. share will shrink. The rest of the developed world will grow. That is why you want to buy emerging market stocks and mutual funds."

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