

## *Global Investing...ONE WORLD?*

*The Case For Global Portfolios*

**CFA Societies of Vancouver & Victoria**

**July 6, 2006**

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**#5036**

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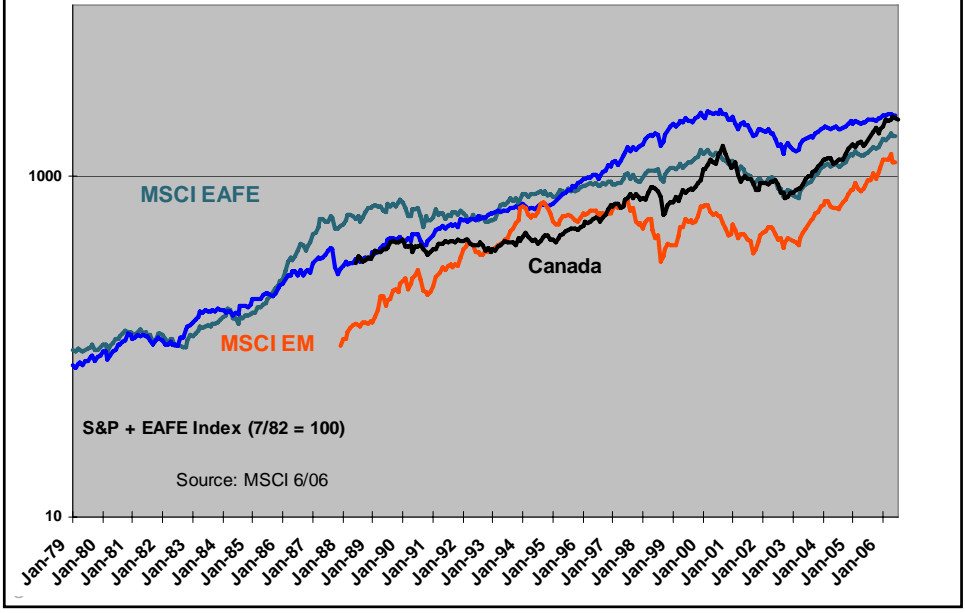


LAFFER  
ASSOCIATES

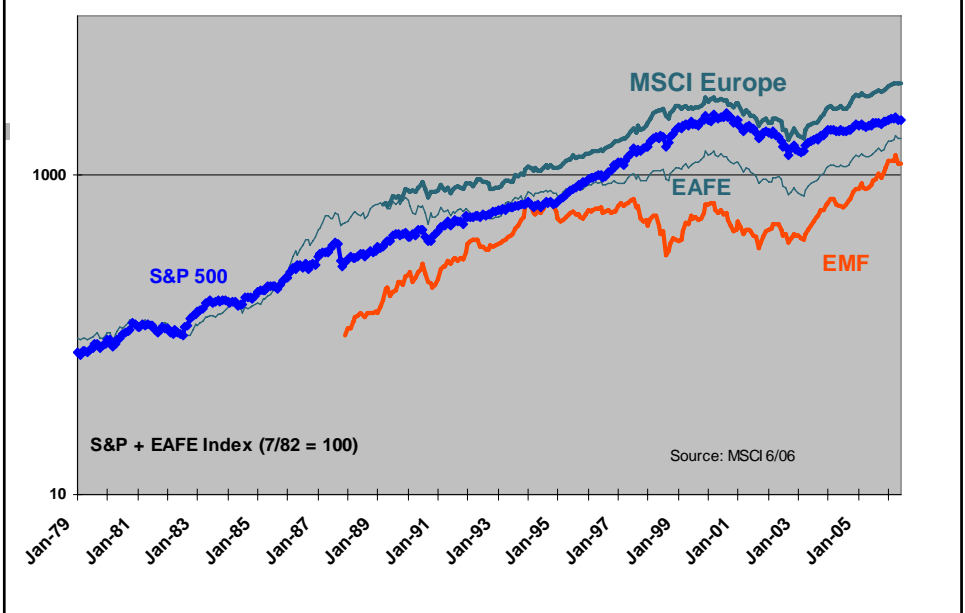
### Why Global?

- #1 "Performance is Poor"
- #2 "North American Companies are Better Values"
- #3 "Global is Too Risky"
- #4 "Diversification is Fading"
- #5 "Opportunities?"

# #1 "Performance" Non-North American performance has lagged

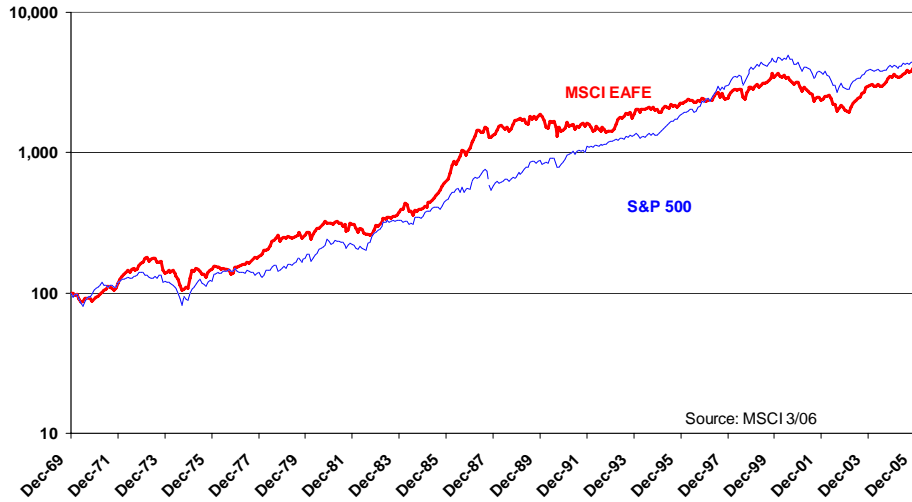


# #1 "Performance" Non-U.S. performance hurt by Japan...



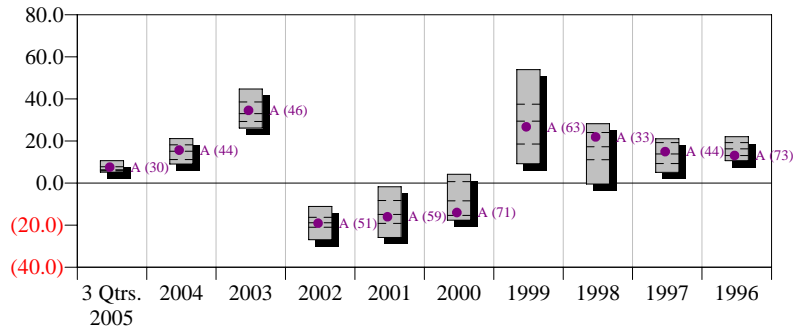
# #1 "Performance"

## EAFE & S&P Index Levels



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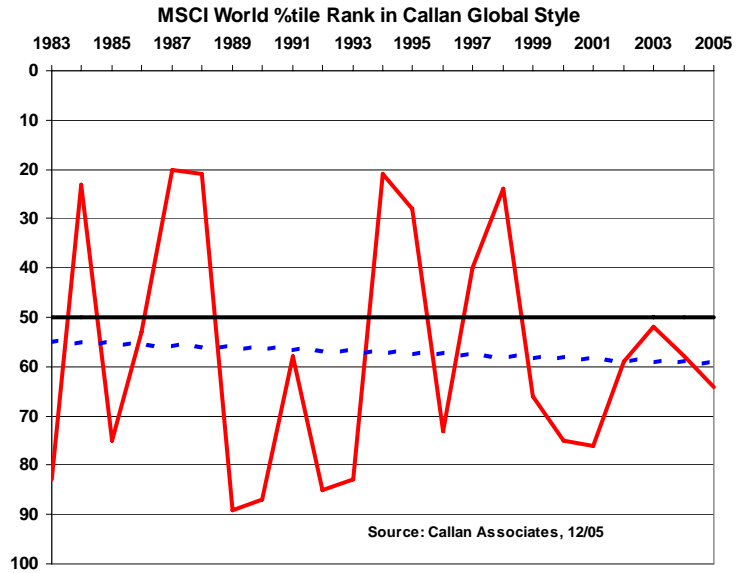
## Returns for Calendar Years 10 Years Ended September 30, 2005 Group: CAI Global Equity Style



10th Percentile	10.64	21.13	44.70	(11.04)	(1.71)	4.23	53.97	28.22	21.08	22.04
25th Percentile	7.81	18.23	38.57	(16.20)	(8.24)	0.75	37.53	24.09	19.24	19.25
Median	6.35	15.16	33.01	(18.82)	(14.83)	(8.38)	29.46	17.27	13.84	16.31
75th Percentile	5.83	11.23	29.31	(20.93)	(19.11)	(15.37)	18.59	11.09	9.33	13.11
90th Percentile	5.20	9.06	26.19	(26.90)	(25.74)	(17.59)	9.22	(0.39)	5.13	10.68
Member Count	20	20	23	26	29	29	36	44	50	56
MSCI:AC World Free	● A 7.68	15.75	34.63	(18.98)	(15.91)	(13.93)	26.80	21.97	15.00	13.20

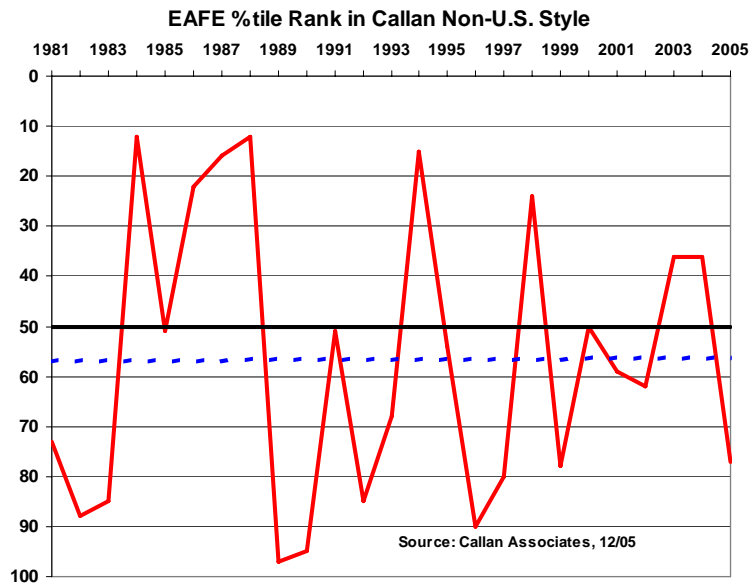
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## #1 "Performance" Global beats MSCI World



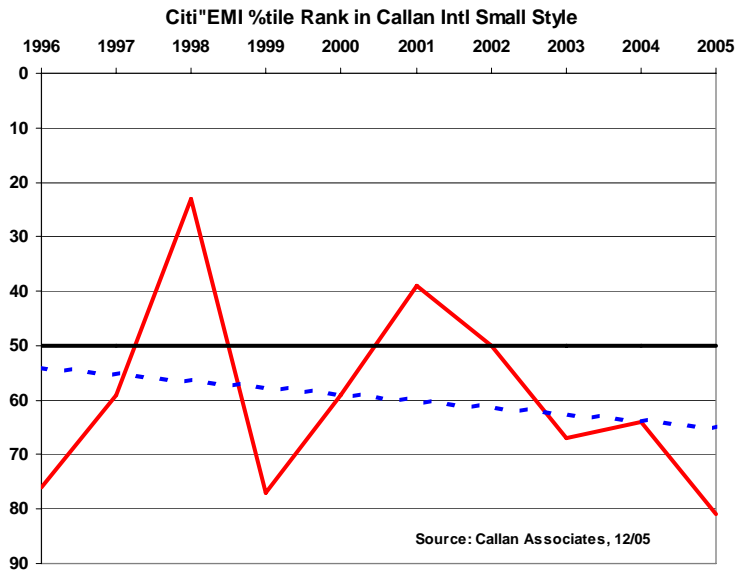
7

## #1 "Performance" Non-U.S. beats EAFE



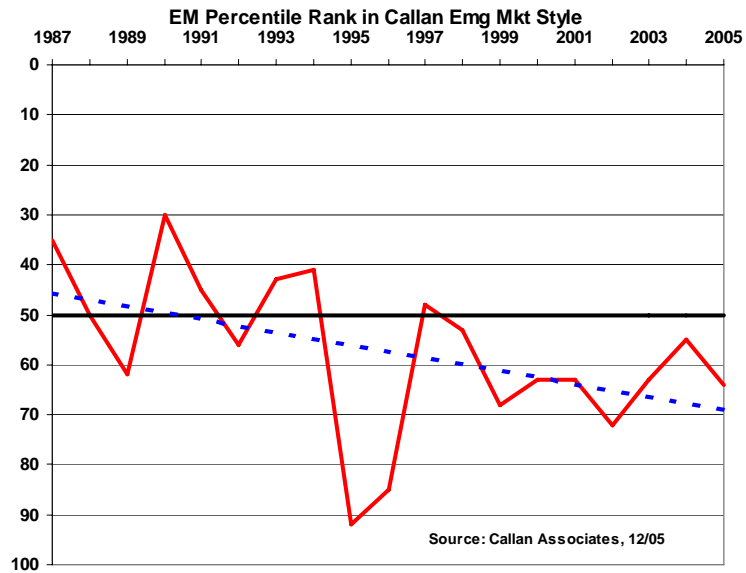
8

## #1 "Performance" International Small Cap beats Citi-EMI

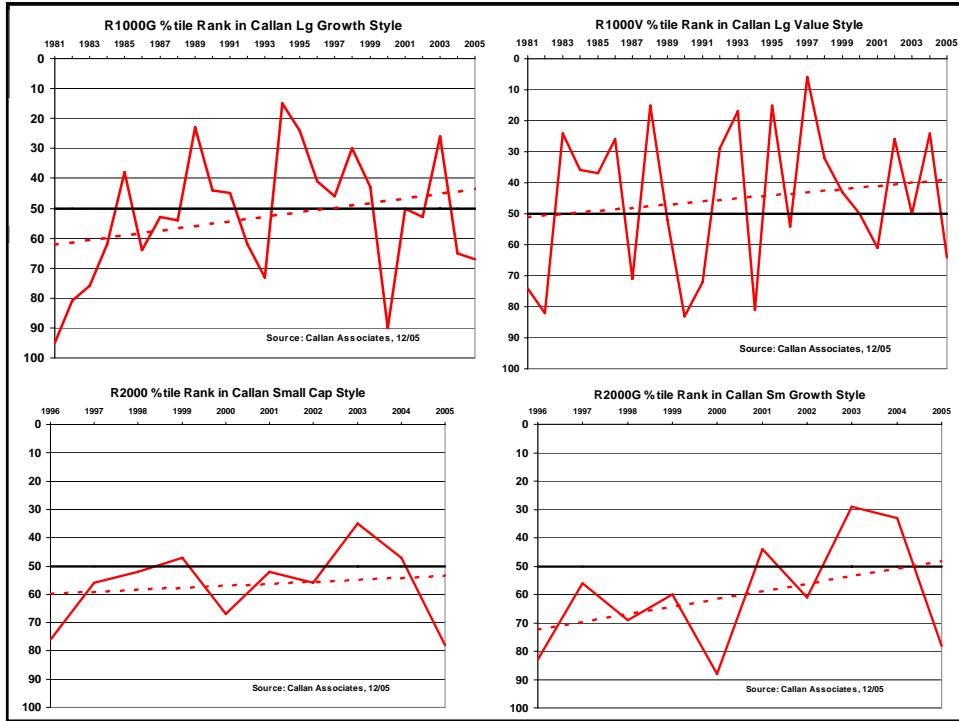


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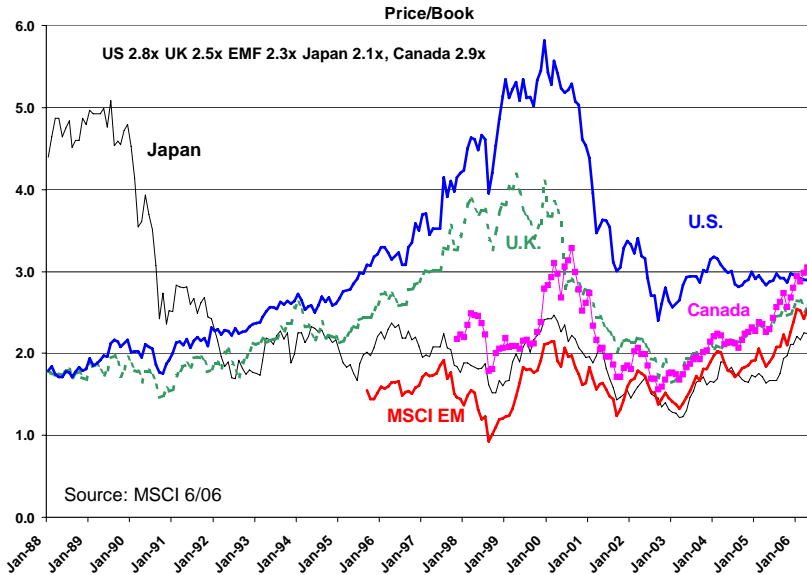
## #1 "Performance" Active Emerging Markets beats MSCI EM



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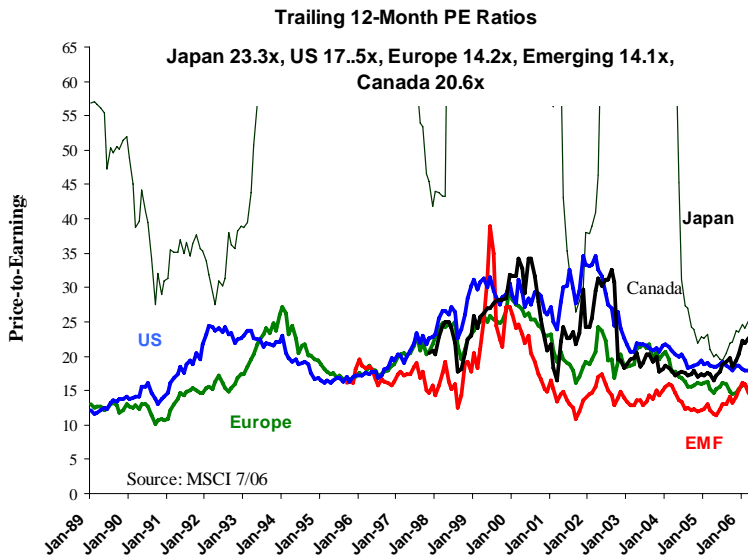


## #2 "N. American Companies are Better Values" Not on Price/Book....



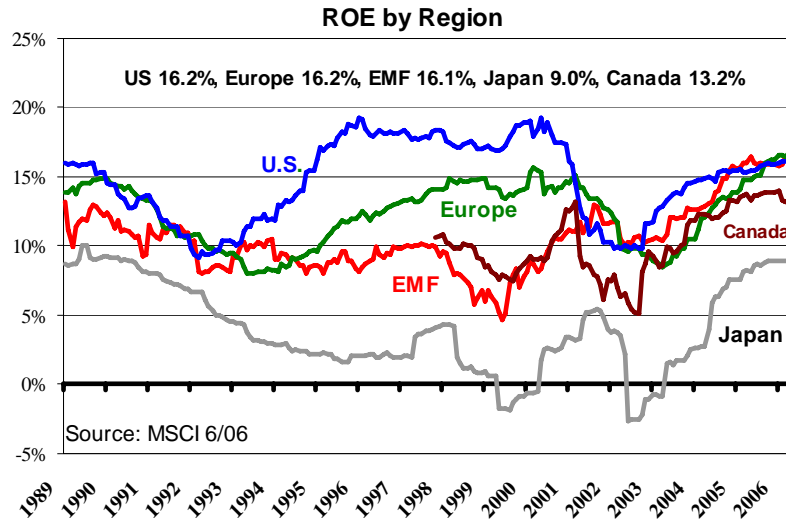
13

## #2 "N. American Companies are Better Values" Not on PE....



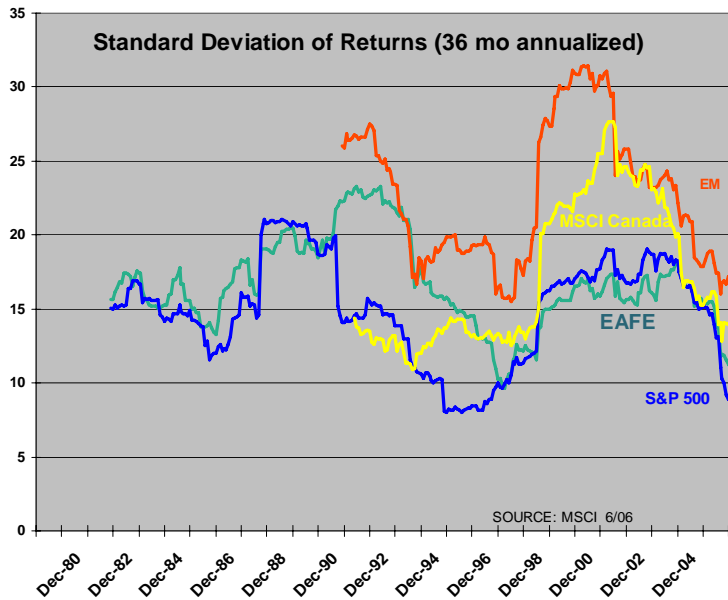
14

## #2 "N. American Companies are Better Values" Not on ROE...



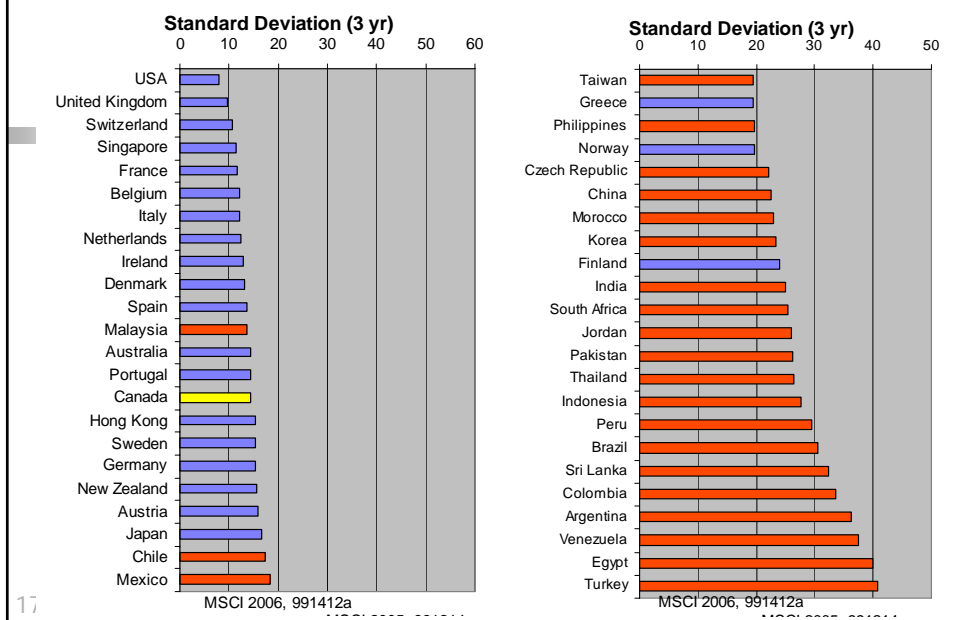
15

## #3 "Global is Too Risky" Not really....

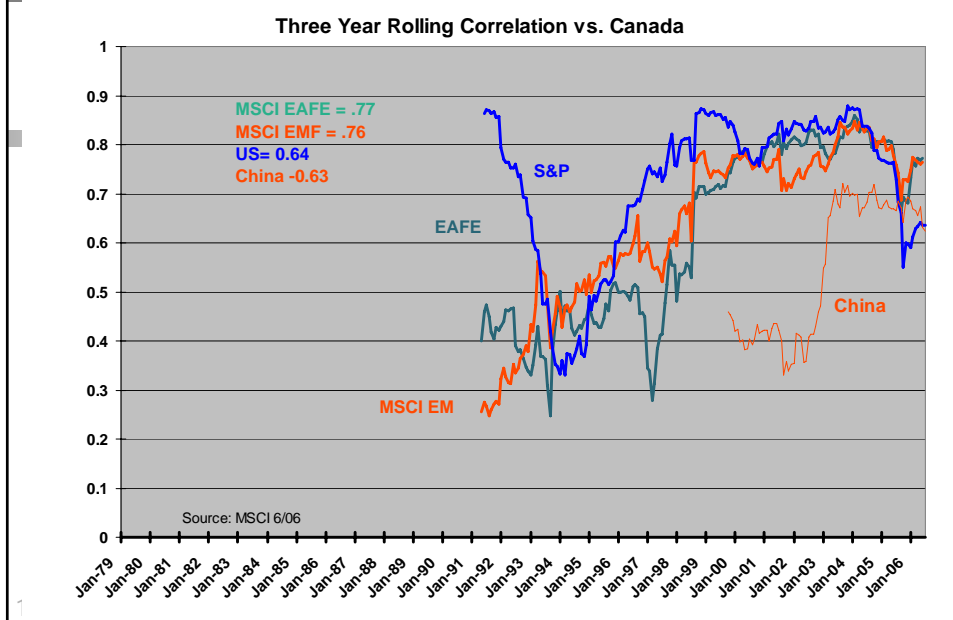


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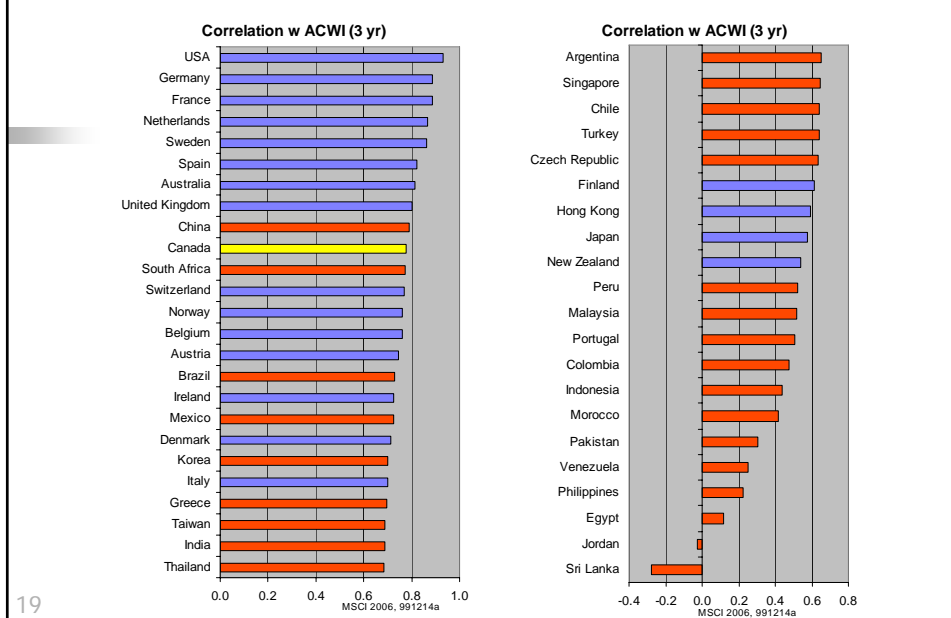
### #3 "International is Too Risky" Not really...



### #4 "Diversification Benefits are Fading" Until recently...



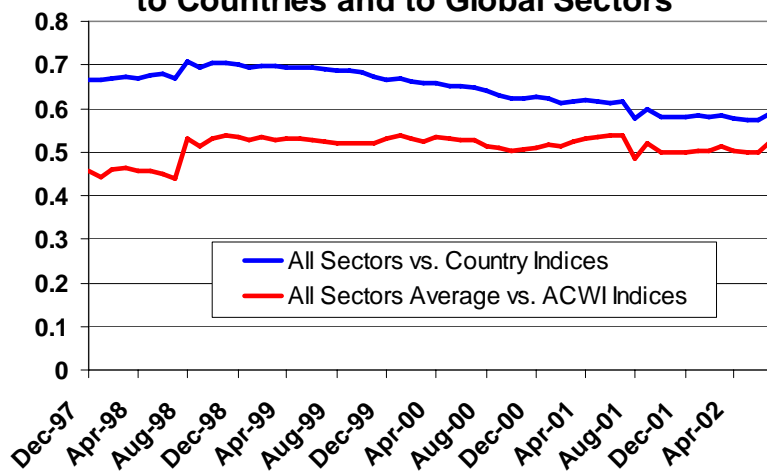
## #4 "Diversification Benefits are Fading" Still low for Emerging Markets...



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## #4 "Diversification Benefits are Fading" Countries matter less...Sectors more

### 2002 Correlation of Country Sectors to Countries and to Global Sectors

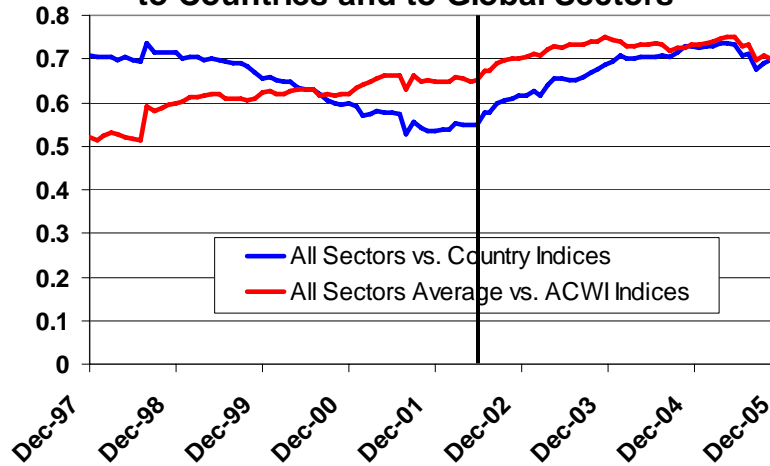


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## #4 "Diversification Benefits are Fading" Countries & Sectors are equal

2005

### Correlation of Country Sectors to Countries and to Global Sectors



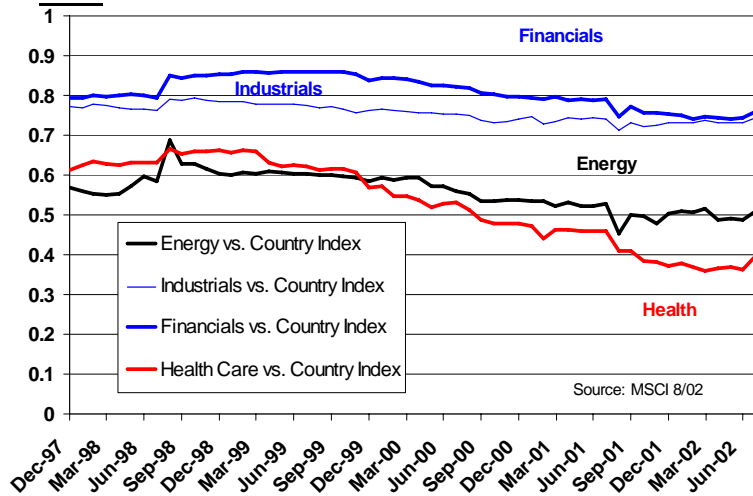
21

Source: MSCI, Nicholas Applegate 2005, for US, UK, JP, DE, FR, CA, IT, SZ, NL

## #4 "Diversification Benefits are Fading" Countries matter less...?

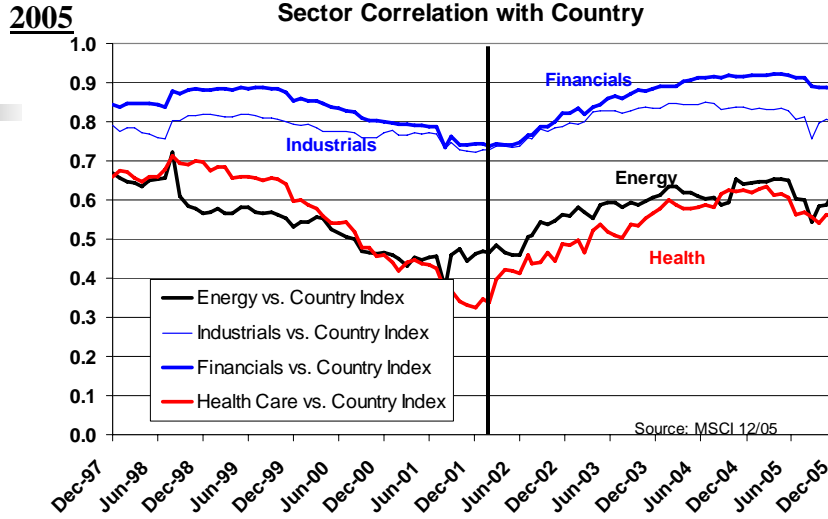
2002

### Sector Correlation with Country



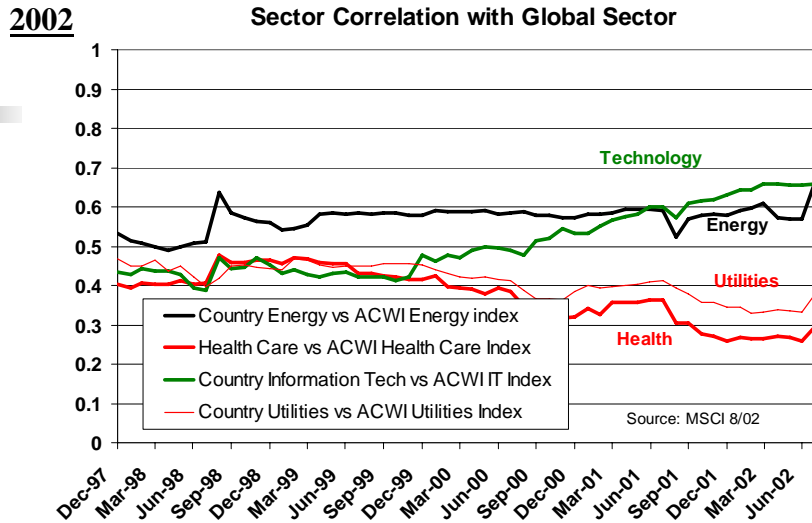
22

## #4 "Diversification Benefits are Fading" Countries matter less...Not really



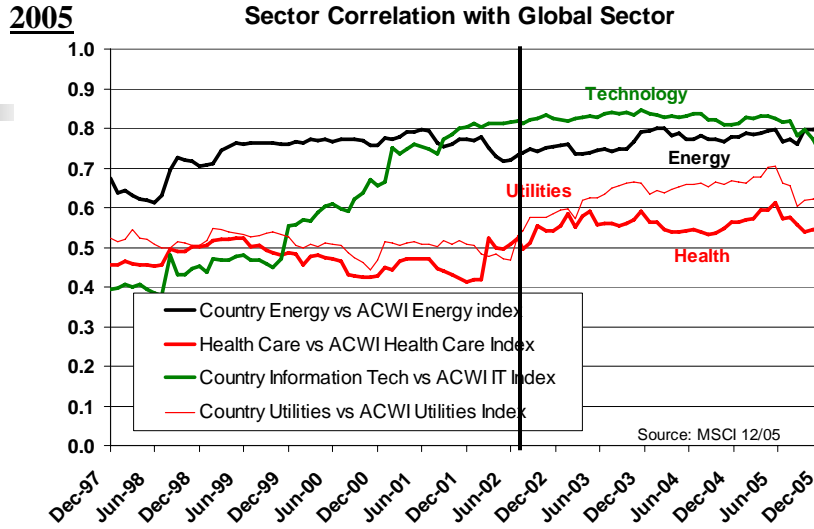
23

## #4 "Diversification Benefits are Fading" But Global Industries matter more?



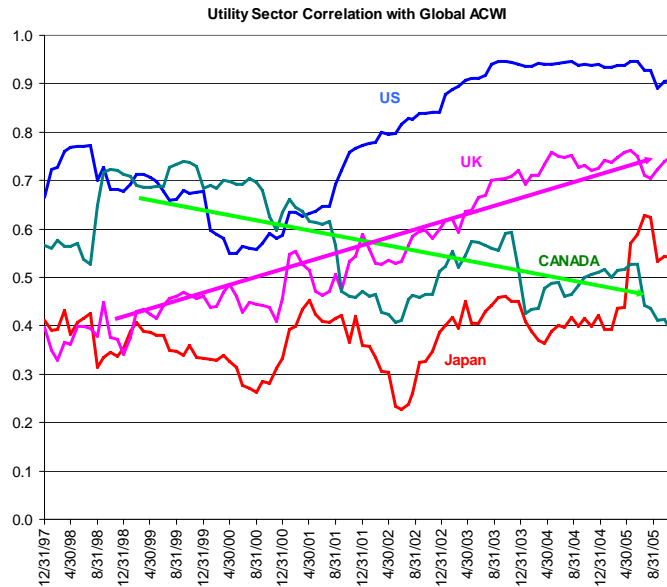
24

## #4 "Diversification Benefits are Fading" But Global Industries matter more...Yes



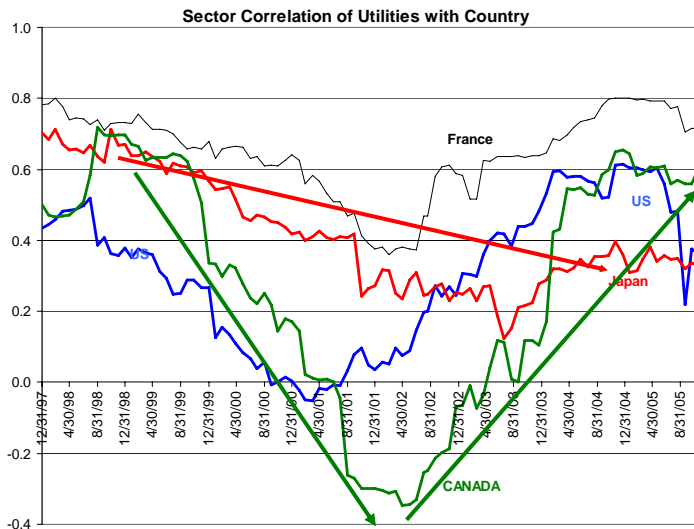
25

## #4 "Diversification Benefits are Fading" Utility: Sector matters more... but not in Canada



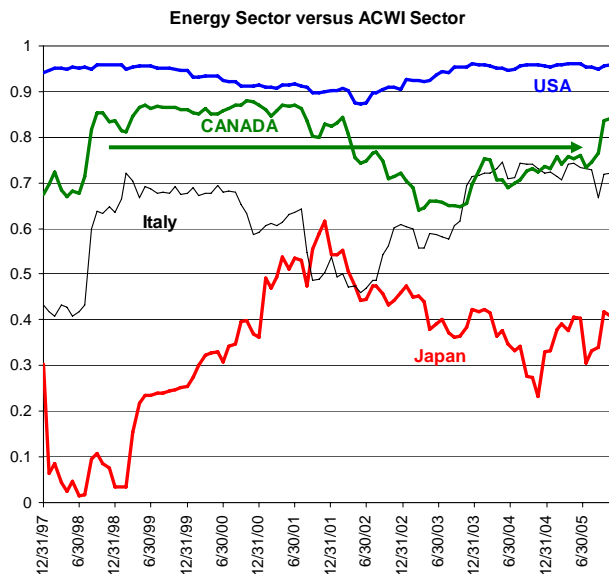
26

## #4 "Diversification Benefits are Fading" Utility: Countries matter more...but not in Japan



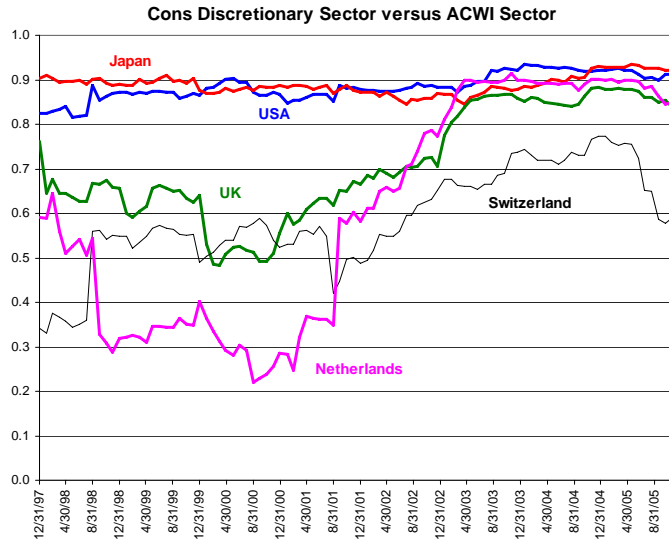
27

## #4 "Diversification Benefits are Fading" Energy: Sector matters more... Yes



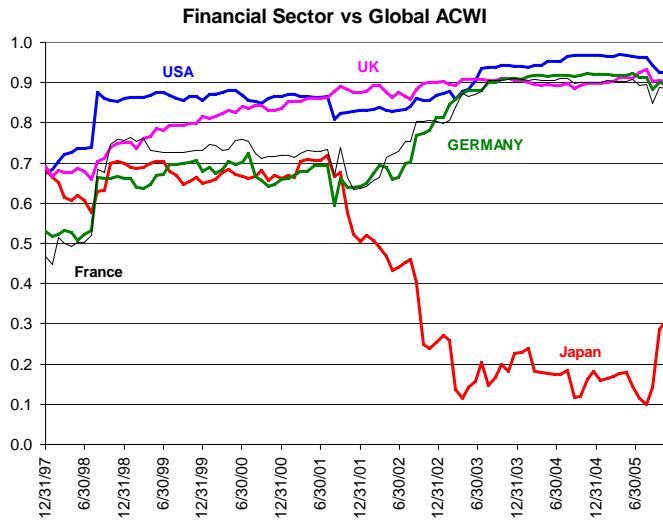
28

## #4 "Diversification Benefits are Fading" Cons Disc: Sector matters more... Yes



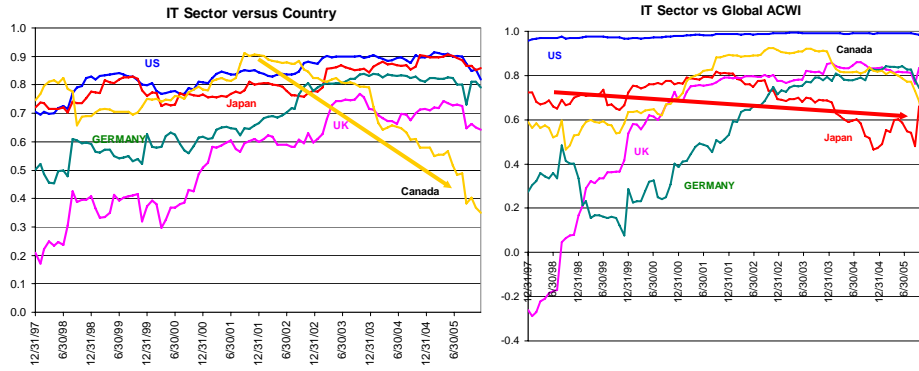
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## #4 "Diversification Benefits are Fading" Financial: Sector matters more... but not in Japan



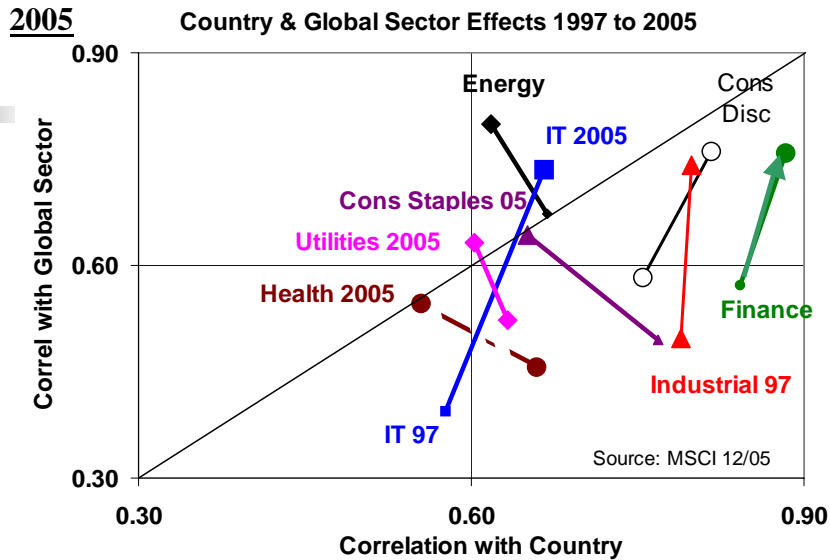
30

#4 "Diversification Benefits are Fading"  
 IT: Countries matter more...but not in Canada  
 Sector matters more... but not in Japan



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#4 "Diversification Benefits are Fading"  
 Energy and IT are especially Global

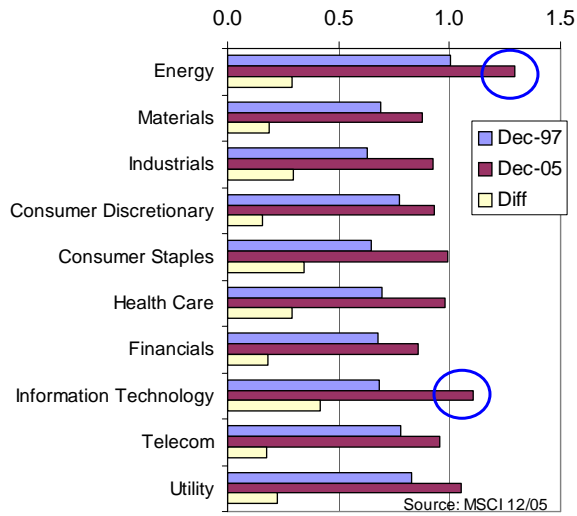


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## #4 "Diversification Benefits are Fading" Energy and IT are very Global

**2005**

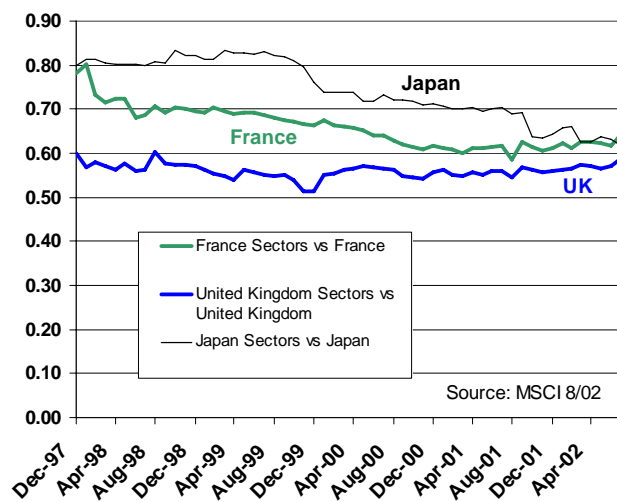
Ratio of Global / Country Correlation



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## #4 "Diversification Benefits are Fading" Country matters less?

**2002** Country Sector Correlation with Country

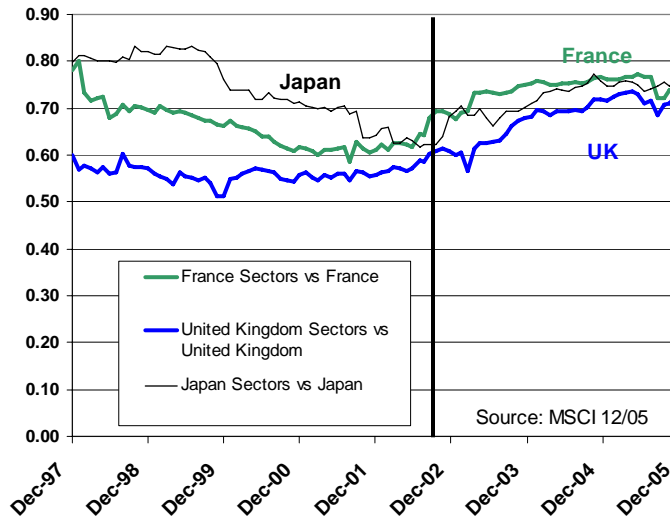


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## #4 "Diversification Benefits are Fading" Country matters less... not really

**2005**

### Country Sector Correlation with Country

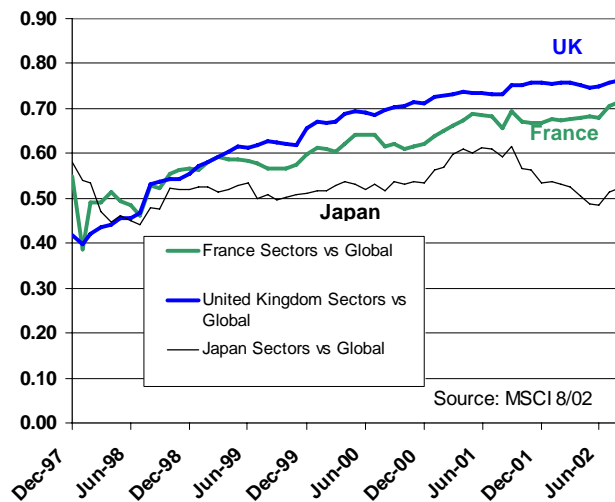


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## #4 "Diversification Benefits are Fading" UK is global.... Japan is local...?

**2002**

### Country Sector Correlation with Global Sector

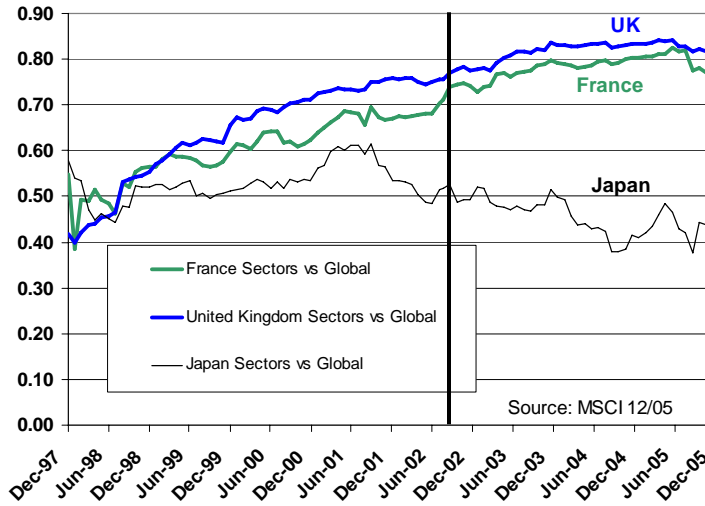


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## #4 "Diversification Benefits are Fading" UK is global... Japan is local - Yes

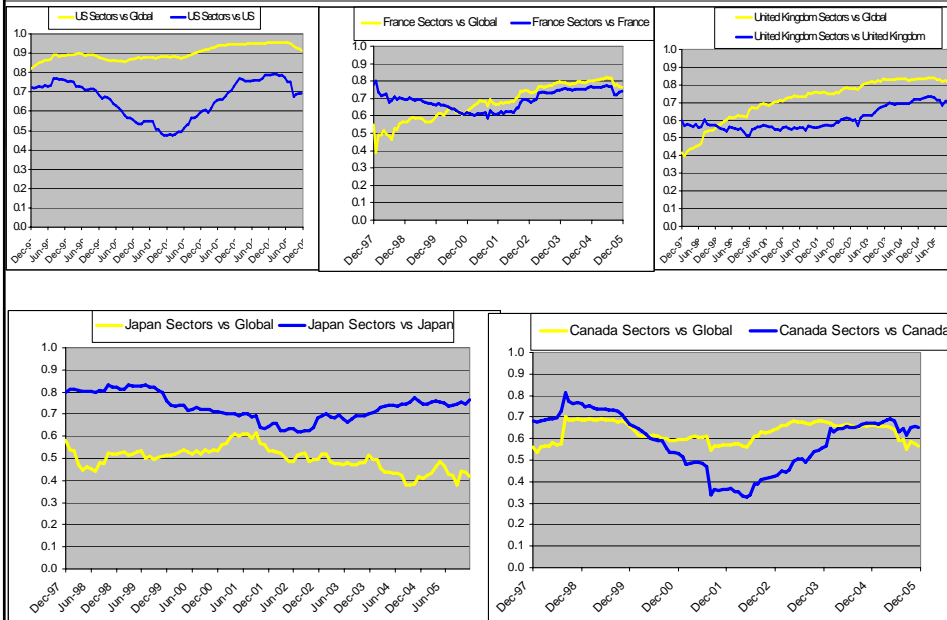
2005

Country Sector Correlation with Global Sector

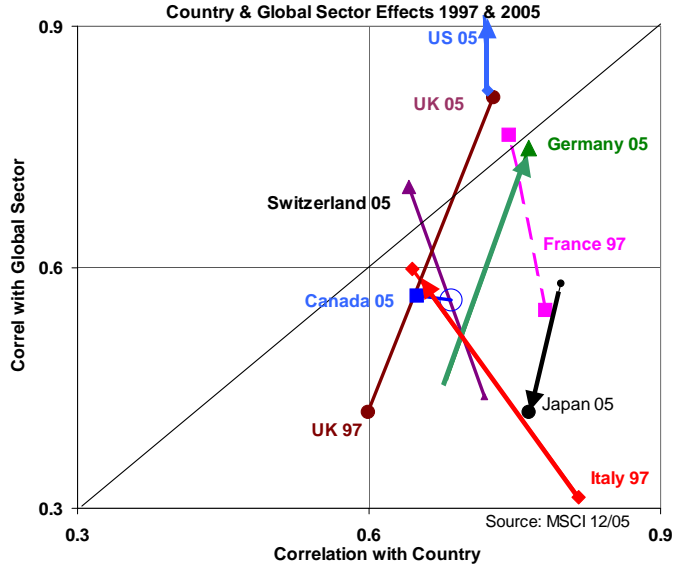


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## #4 "Diversification Benefits are Fading" but Canada's sectors are more unique



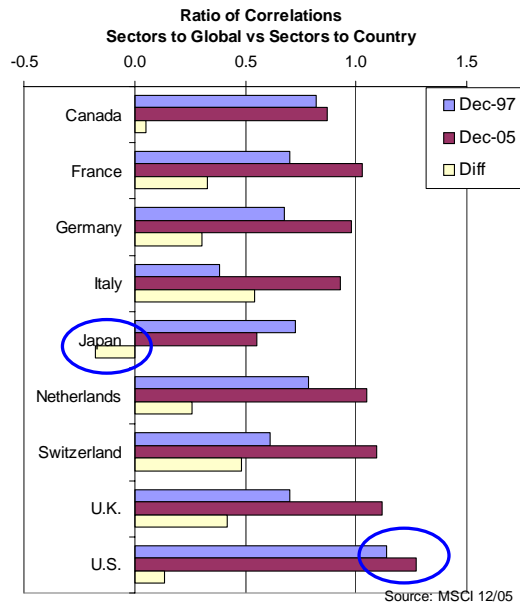
## #4 "Diversification Benefits are Fading" Industries in the US & UK are most Global



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## #4 "Diversification Benefits are Fading" Industries in the US & UK are most Global

2005



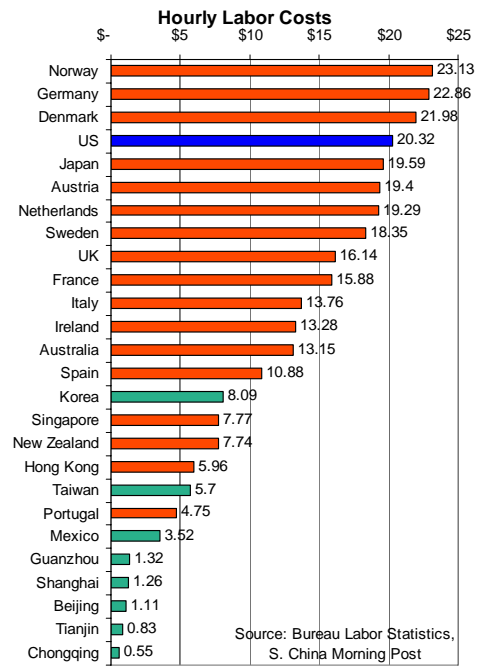
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## #5 "Opportunities?"

Hourly Labor Costs:

Mexico = 1/6 U.S.

China = 1/6 Mexico



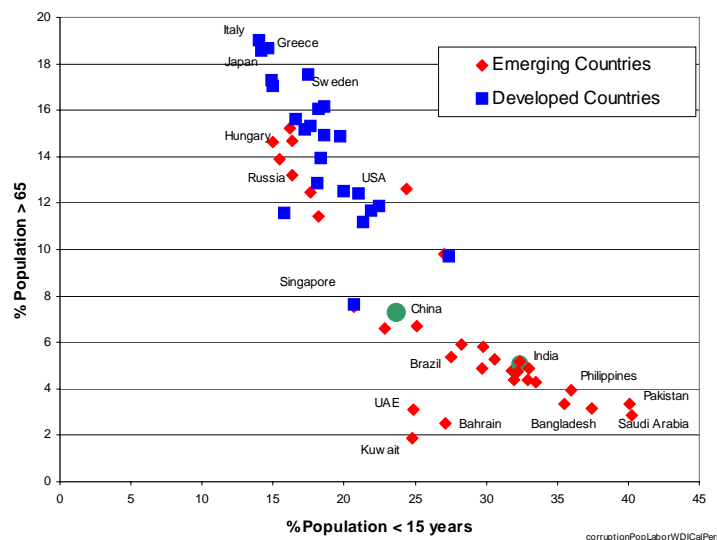
41

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## #5 "Opportunities?"

- Demographics are a strong positive

Population: Young & Old

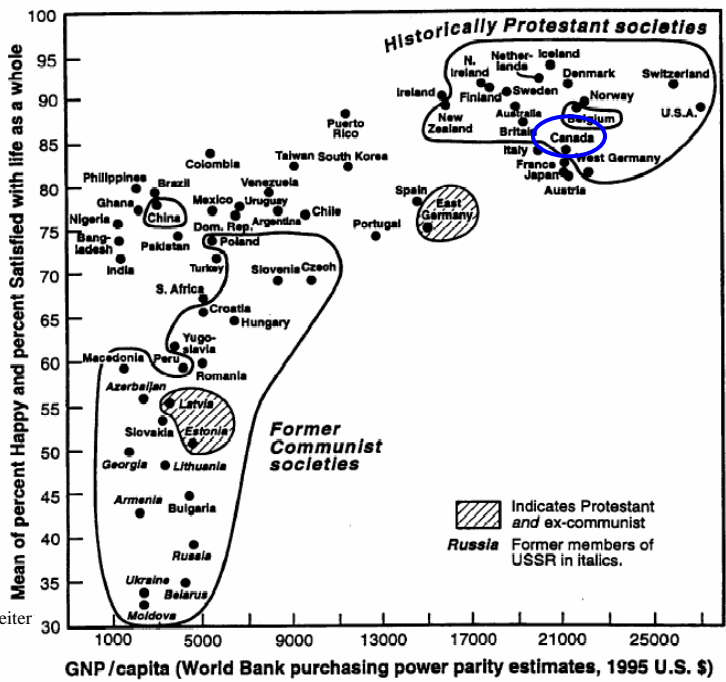


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"Opportunities?"

Happiness is related to Income

Source: Genes, Culture, Democracy and Happiness, Ronald Inglehart & Hans-Deiter Klingman, 2001



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"Opportunities?"

Trust is related to income... and cultural history

Democracy & Trust, Mark Warren, 1999

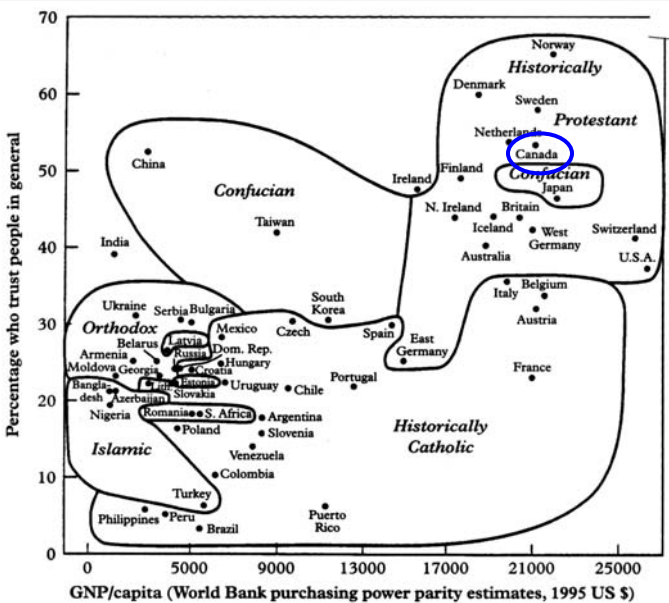
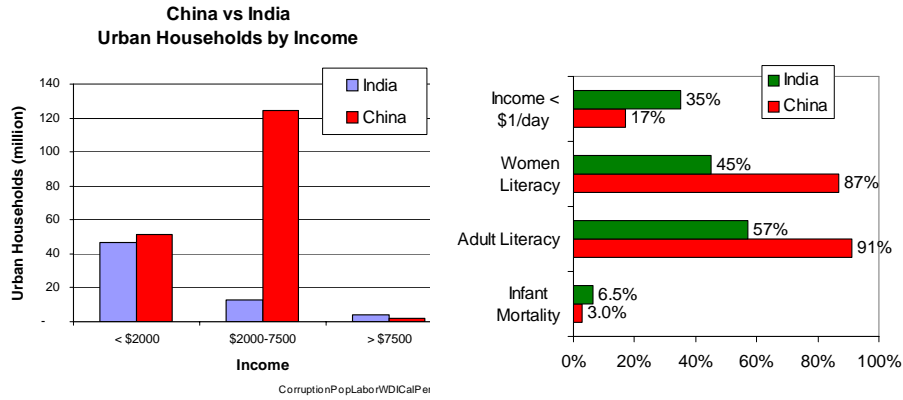


Figure 4.1 Interpersonal trust by cultural tradition and level of economic development and religious tradition. Trust by GNP/capita:  $r = 0.63$   $p < 0.000$

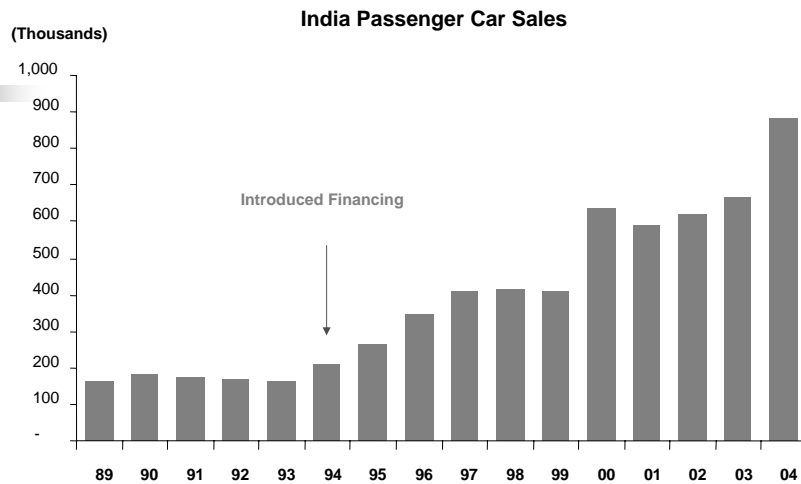
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## #5 "Opportunities?" Middle Class Markets are Developing



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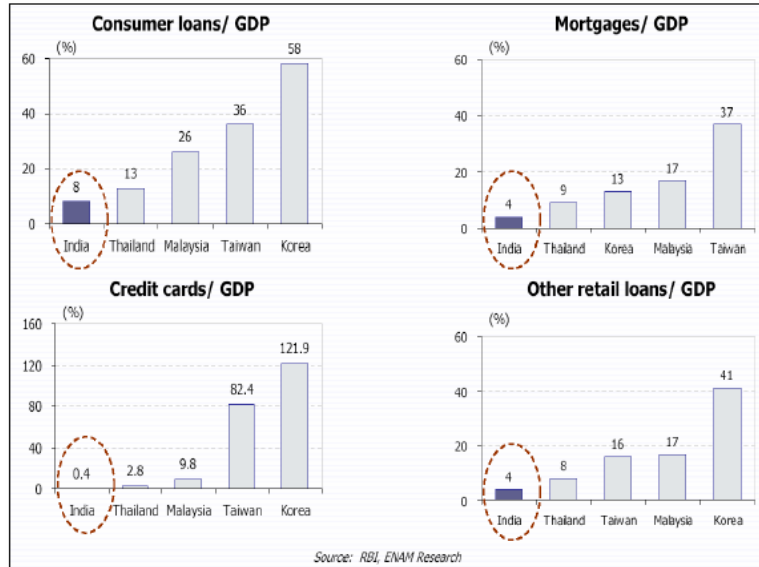
## #5 "Opportunities?" Autos: Financing Increases Sales



Source: Citigroup India  
As of 30-Nov-04

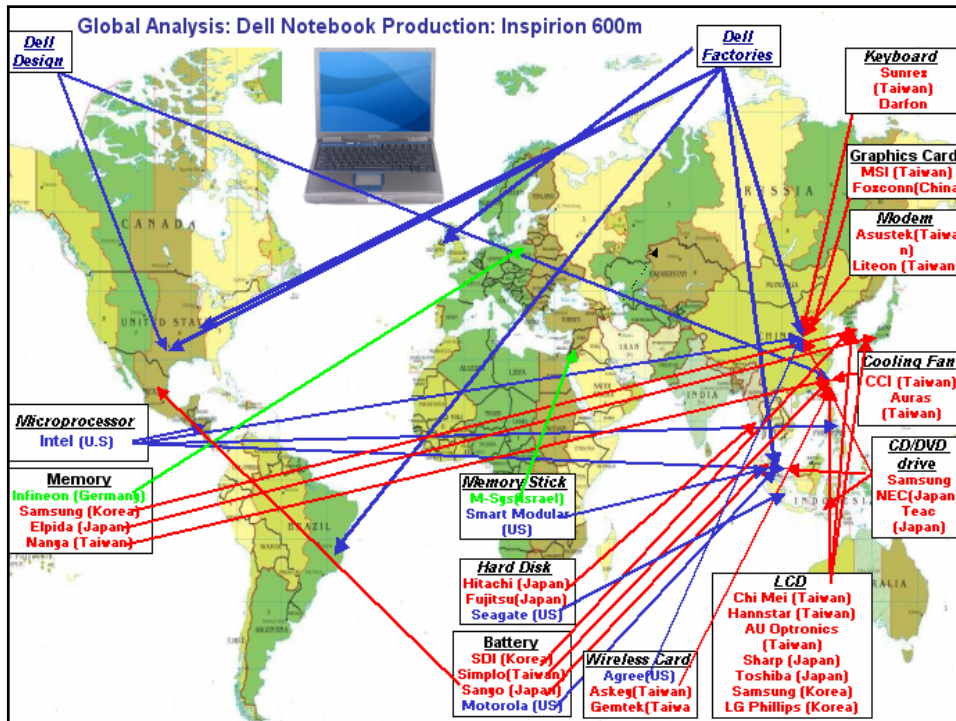
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# #5 "Opportunities?"



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GaveKal Research



## #5 "Opportunities?"

Dell Inspiron 600m





	China	India	Indonesia	Japan	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand	Germany	Ireland	Israel	Brazil	Costa Rica	Mexico	US	
Battery					1	2			1							1	5	
Carry Bag	4																4	
CD/DVD drive	3		2			2	1										8	
Cooling Fan									2								2	
Design									1							1	2	
Factory	1					1			1		1		1	1		2	7	
Graphics Card	2																2	
Hard Disk Drive								1		2							3	
Keyboard	2																2	
LCD Display				2	2				2								6	
Memory				1	1				1		1						4	
Memory Stick						1							1				2	
Microprocessor	1					1	1								1		4	
Modem	3																3	
Power Cord	1	1				1											3	
Pwr Adaptor	3									1							4	
Wireless Card	1								2								3	
	21	1	2	3	4	8	2	1	10	3	1	1	1	1	1	1	3	64

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Source: The World is Flat, Thomas Friedman, 2005

## #5 "Opportunities?"

### The Global Cell-phone Food Chain

Handset	Chip Design	Chip Manufacturers	Phone Assembly	Retailers	Operators
<b>Nokia</b> 	RF Micro (US)	Texas Inst. (US)	Elcoteq (Finland)	Best Buy (US)	Verizon
	ST Micro (US)				Cingular ATT Wireless
<b>Motorola</b> 	Texas Inst. (US)	TSMC (US)	Compal (Taiwan)	Circuit City (US)	Sprint/Nextel
	Motorola (US)				T Mobile
<b>Samsung</b> 	Silicon Labs (US)	Motorola (US)	BENQ (Taiwan)	Radio Shack (US)	Vodafone
	Qualcomm (US)	United Micro Elec. (Taiwan)			China Mobile
<b>Sony/Eriksson</b> 	Samsung (Korea)	IBM (Taiwan)	Samsung (Korea)	Carphone Warehouse (Europe)	SK Telecom
	DIAG SEMI (Finland)	Samsung (Korea)	Flextronix (Singapore)		NTT Dokomo Japan
	ARM (UK)				Hutchison

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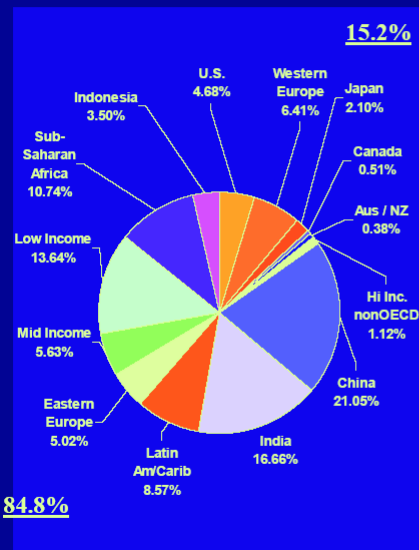
## #5 "Opportunities?" Autos: The "Best of the Best"



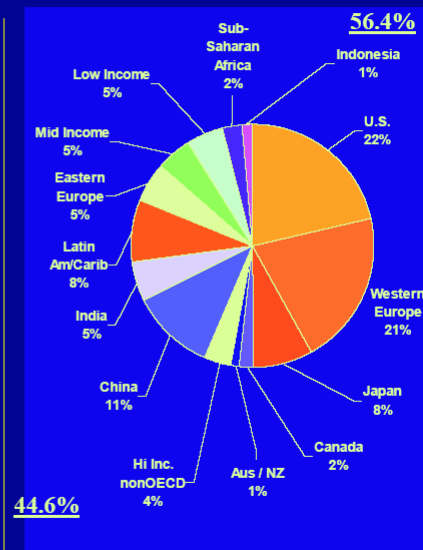
U.S. – 2		EAFE – 16		Global – 34	
Ford	BMW	Fuji Heavy	Tofas	Astra	
GM	DaimlerChrysler	Honda	Hyundai	Tata	
	Fiat	Isuzu	Marutiud yog	Kia	
	Peugeot	Mitsubishi	Mahindra	Yulon	
	Porsche	Nissan	Denway	Qingling	
	Renault	Suzuki	Perusahaan	Brilliance	
	Salvador Caetano	Mazda	DRB-Hicom	Oriental Holdgs	
	Volkswagen	Toyota	Berhard	Tang Chong	
			China Motor		

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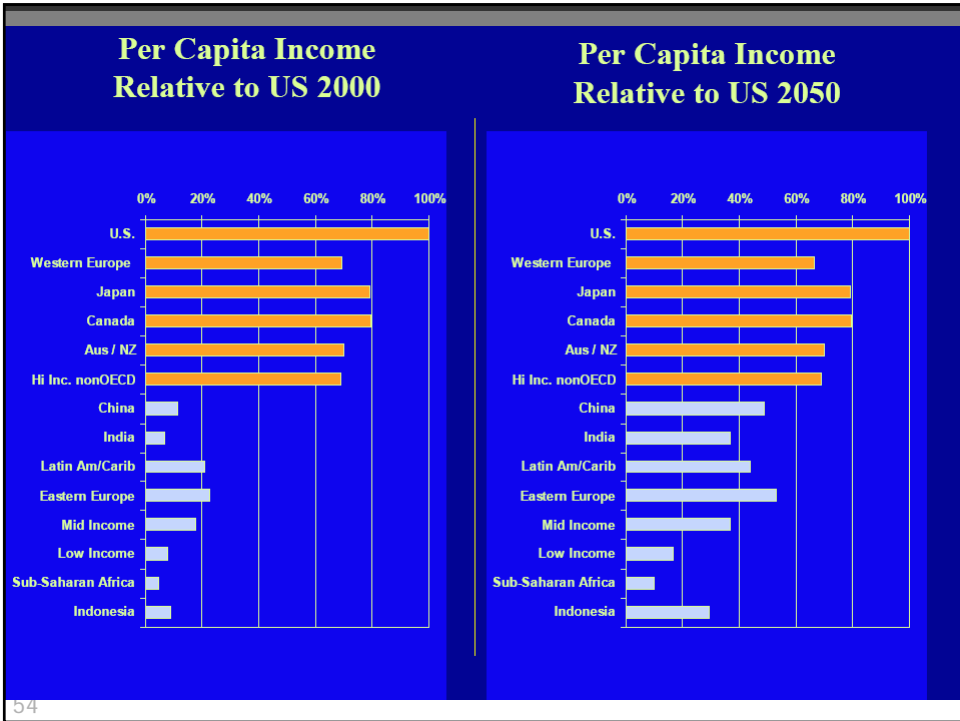
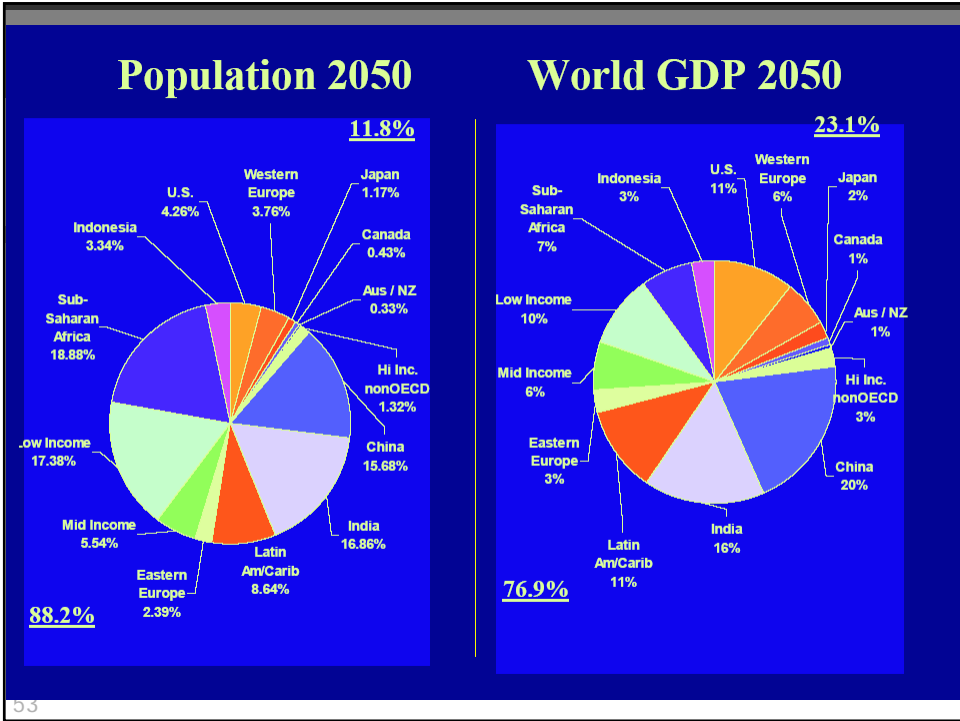
### Population 2000

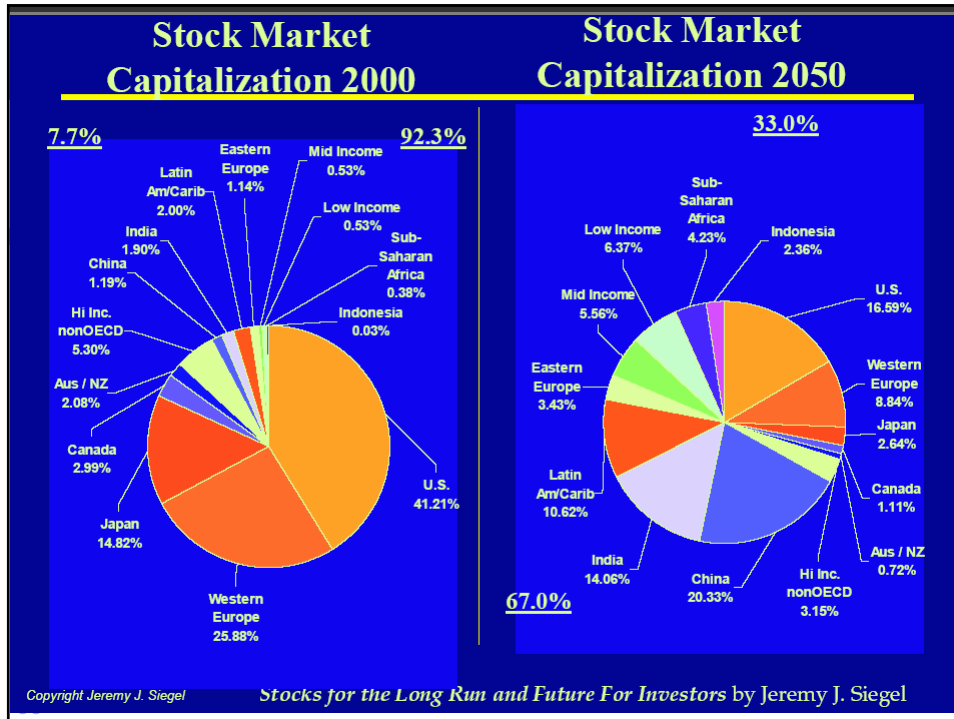


### World GDP 2000



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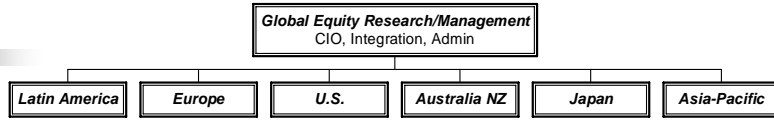
### #5 "Opportunities?" Opportunities By Sector

# of Companies

	U.S.	Europe	Asia	Emerging Markets
Information Tech	83	35	57	80
Hardware & Equipment	31	14	30	52
Software & Services	32	15	18	14
Semi's & Equipment	20	6	9	14
Energy	30	17	8	31
Healthcare	53	36	24	19
Pharmaceuticals	7	13	11	16
Biotechnology	10	3	1	0
Equipment & Services	36	20	12	3
Consumer Discretionary	97	109	87	93
Materials	26	51	63	107
<b>Total</b>	<b>425</b>	<b>319</b>	<b>320</b>	<b>429</b>

Source: Morgan Stanley; FactSet As of 30-Sep-04

### Traditional Structure: 6 Regions



### Global Structure: 8 Sectors

