

## Jerome Booth to Czech investors: Don't shun emerging markets

**Prague, Feb. 19** – *Most of what you heard about investing in emerging markets is wrong. On top of that, a lot of finance theory is wrong as well. This is the food for thought that noted British economist Jerome Booth served at this year's 13<sup>th</sup> annual CFA Forecasting Dinner.*

The event was again held under the patronage of Czech National Bank governor Miroslav Singer in the bank's historic premises. This year, over 250 executives and experts from local financial institutions participated.

*„Milton Friedman said that if a theory has neither realistic assumptions nor testable results then it is not usable. Yet most of finance theory falls under this category. Starting from some misleading theoretical simplifications in the 1950s we now have a system of asset allocation which is not fit for purpose. The inappropriate use of finance theory has caused massive distortions in asset allocation affecting hundreds of millions of people,“* Jerome Booth told the audience.

He was referring to, among other things, the difference between uncertainty and risk. Finance mostly deals with measurable risk, e.g. the volatility of asset prices. Uncertainty, however, is not measurable. Investors then make decisions misguided by a narrow view of risk.

According to Booth, one of those decisions is underweighting emerging markets. *„In the future, most cars will not only be produced, but also used in emerging markets, just as many other goods will be. Because I will be buying those goods in retirement, I invest in emerging markets,“* says Booth, criticizing passive index investing with the same breath.

He recently published his [book](#) entitled *Emerging Markets in an Upside Down World* and in 1999 he helped establish Ashmore Group, a leading asset manager specializing in emerging markets debt and equities.

These assets are volatile but they offer true diversification, Booth says. More so than traditional developed markets of Europe and North America with their debt burdens.

### **Singer: cheap oil a „positive shock“**

As in the past, ČNB governor Miroslav Singer also delivered a speech to the audience. Not very surprisingly, he focused mostly on the effects of the bank's foreign exchange intervention.

*„The ČNB will not discontinue the use of the exchange rate as a monetary policy instrument before the second half of 2016. Low oil prices are a positive cost shock which will boost the Czech economy in 2015,“* Singer said.

*„In line with its previous communication, the Bank will not respond to the first-round effects of this shock on the price level. However, the Bank stands ready to move the level of the exchange rate commitment if there were to be a long-term increase in deflation pressures capable of causing a slump in domestic demand, renewed risks of deflation in the Czech economy and a systematic decrease in inflation expectations,“* he added.

*„In all our events we try to provide our members as well as the broader financial community interesting and inspiring ideas. I believe we’ve succeeded again,”* said Marek Jindra, CFA, CFA Society Czech Republic president.

*„Governor Singer pointed out the positive impact of foreign exchange intervention. Jerome Booth, on the other hand, was more skeptical toward non-conventional policies of central banks. As an organization, we’re not taking sides. We do however think that financial markets could not operate without a certain diversity of opinions,”* he added.

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## Selected photos from the event:

Jerome Booth



Marek Jindra presents an award to Miroslav Singer for his address



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