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Emerging Markets in an UPSIDE DOWN WORLD

Challenging Perceptions in Asset Allocation and Investment

JEROME BOOTH

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Foreword by Nigel Lawson

Jerome Booth was a key member of the 1999 buyout team that turned the Ashmore group into a highly successful investment manager specialising in emerging markets. Having made his fortune, he has now left Ashmore to devote his time to building up a portfolio of business start-ups, philanthropy (particularly in the area of music, his great love) and writing this admirable book.

The heart of the book is the case he makes for investing much more heavily than is customary at the present time in emerging markets, and is directed in particular – although not exclusively – to the institutional investor. It is, of course, widely recognised nowadays that for the foreseeable future the growth prospects of much of the developing world are very much greater than those of the developed world. At the very least, they still have a great deal of catching up to do; and the combination of globalisation and the change from top-down planned economies to largely market economies is enabling them to do so.

Yet despite this, Booth observes, a typical Western pension fund might have around 5% of its portfolio invested in emerging markets and 95% in developed world markets. In his judgement, the emerging market proportion should be more like 50% than 5%. So why have Western institutional investors, as he sees it, got it so wrong?

There are a number of reasons, but the most important is the assumption that the emerging world is a much riskier place to invest in. Booth's thesis is that, if anything, the reverse is the case. The disastrous banking meltdown of 2008, following the excessive accumulation of debt of all kinds, sovereign and private alike, within what he likes to call the Highly Indebted Developed Countries, has created a risk of default, inflation (the alternative means of default) and sub-normal growth from which the much less indebted emerging world is largely free. At the very least, in his own words, 'All countries are risky: the emerging markets are those where this is priced in'. In the HIDC, in his judgement, it is not.

You do not have to share his notably downbeat assessment of the likely economic prospect for the developed world at the present time to be persuaded that the conventional assessment of the relative riskiness of investing in emerging markets, as compared with investing in the Western world, is mistaken.

But although the case for investing in emerging markets is at the heart of this book, there is a great deal more to it than that. It is in fact a rare combination of investment expertise and financial sophistication, informed by a thoughtful analysis of the economic and political context in which investment decisions have to be made. In particular, he offers a good account of the causes of the Western world's banking disaster, stressing in particular both the nonsenses produced by the combinaton of the rational expectations hypothesis and the efficient markets theory, and the extent to which banking and finance fell victim to the principal/agent problem (where the client or investor, as principal, is dependent on an agent whose interests and incentives may be very different from those of the principal).

Jerome Booth has written an original, challenging, stimulating and largely convincing book.

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