

>: Building Your ETF Portfolio, BRIC by BRIC

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By now, in the search for portfolio opportunities globally, you've likely heard the term "**BRIC**" used to describe the fast-growing markets in **Brazil, Russia, India, and China**.

As stock markets around the world have shown a nice recovery in the past several months, including the United States, it's still useful to look at some big-picture, longer-term trends.

Based on demographics on population trends, China and India (often referred to as "**ChIndia**") appear to offer some of the most attractive opportunities, while Brazil and then Russia also merit long-term consideration as commodity-driven countries.

Let's explore these Exchange-Traded Fund (ETF) ideas further.

The Emerging Economic Dominance of China, India

This is hardly a new idea, in that the billions of individuals who are moving up thanks to the outsourcing trends from the United States and other relatively higher-cost labor pools (what I call "labor arbitrage" from big corporations looking to lower their costs with cheaper labor in these huge, upwardly mobile populations) will help to drive economic growth at a much faster pace than we can expect domestically.

ChIndia's massive populations present the enticing prospect of *billions of people entering the middle and lower-middle classes for the first time*, and global corporations feeding off *the prospect of a surge in consumer spending* as these personal income levels rise dramatically in coming years.

At the same time, I prefer the BRIC ETFs as a way to play these global trends, as the the individually listed companies may be more-volatile and less-certain due to the accounting and shareholder rights for these stocks, which are not on the same level as our own current rules here in the United States.

Stocks from these countries have declined dramatically since late 2007, as global growth prospects cooled. But China's annual growth rate went from dropping 9% or 10% to being a positive 5% or 6% currently. So, you'll still see plenty more growth there than in the United States going forward.

For the purposes of today's discussion, we will use the following ETFs as proxies for China and India: **FXI** (the iShares Xinhua China 25 Index) and **PIN** (PowerShares India). The **SPY** and **QQQ** ETFs are used to track the S&P 500 Index and Nasdaq-100 Index, respectively, in the United States.

When the market bottom started to form in March, these two "fallen dragons" began to show impressive outperformance. The resurgence of China began on March 1, several days before the markets bottomed in the U.S. around March 9. India's surge in performance began around March 23, when it began to diverge from the U.S. indices ... the PIN basically matched the FXI performance over this time frame.

The outperformance of these two emerging giants would seem to show that they are leading the anticipated world economic "recovery" ... or what may be called a stabilization phase, in my view, after the dark days of the fall of 2008.

Continued strength by FXI and PIN would bode well for a continued market rally here.

Hard Commodities Will Experience a Continued Resurgence in Popularity

With the possible exception of oil (because gasoline literally could become worthless due to technology and, quite honestly, I hope it does in order to stabilize world politics, among other reasons), commodities are poised to gain value in the coming years, or at least hold value in relation to many broader stock market indices.

The main reason for this is the total devaluation of paper money by governments worldwide. Because the dollar and every other currency in the world is printed on a piece of paper, *actual commodities will gain in relative value* (and I'm not just talking about gold). Once again, the possible exception is crude oil, but I may be wrong there.

The other main reason is basically "it is what it is" -- meaning, these are actual, tangible products that have an inherent value and multiple uses. For example, if society completely denigrates to Stone-Age economics, lumber (wood) will still have a value in order to build shelters (obviously an extreme example).

Who does this benefit? Resource-rich countries like Brazil, Canada, Russia, Argentina, et al. And savvy ETF (and ETF *option*) players, as well.

Does This Theory Hold Water? You Bet it Does...

bear position on right now, helping us benefit from the 14% decline in the Russian ETF in the last week.

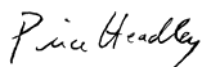
You also want to look for divergences in relative performance. For example, in FXI vs. RSX recently -- China (FXI) remains strong from a relative performance analysis while Russia (RSX) is breaking down.

For those individual investors who want some BRIC exposure without having to pick one of the four major countries, you can also consider buying a BRIC ETF that tracks all of these global economies, such as the Claymore/BNY BRIC ETF (EEB).

Here, you get a mix of these countries, with the EEB's latest list of top 10 holdings (from Yahoo! Finance) showing heavier exposure to Brazil and China.

TOP 10 HOLDINGS (57.30% OF TOTAL ASSETS)		
Company	Symbol	% Assets
Bank Bradesco ADR	N/A	3.96
Brazilian Petroleum Corporation	N/A	9.35
Brazilian Petroleum Corporation ADR	N/A	8.44
CHINA LIFE INS CO	LFC	3.84
CHINA MOBILE LIMITED	CHL	8.04
CNOOC LTD ADS	CEO	3.81
Companhia Vale Do Rio Doce ADR	N/A	4.82
Itau Unibanco Holding S.A. ADR	N/A	5.32
PETROCHINA CO ADS	PTR	3.48
Vale (ADR)	N/A	6.24

Regardless of which BRIC exposure you decide to start building, I'm confident that investors who can handle a bit more volatility will see greater longer-term growth by including a solid BRIC foundation.



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