A comparison of some emerging markets economics essay

Economics

In financial world Emerging Markets have shown a significant role for last couples of years. The term " emerging market" was first invented in 1981 by a former World Bank employee named Antoine W. Van Agtmael. An emerging market economy can be defined as an economy with a per capita income in the low to medium range.(Heakel) Emerging market nations are characterized by speedy economic progression and/or a passage of noteworthy monetary reforms. (Heakel) Emerging markets can be characterized by increased foreign direct inflows a booming middle class and increased consumer spending. (Heakel) Typically, emerging market countries face a heightened amount of economic exposure and political risk. Brazil is becoming one of the most developed and the richest country on earth. According to nominal Gross Domestic Product Brazil is the sixth largest country and expected in 2012 it will become fifth. Brazil economy is one of the fastest-growing in the world with an average annual GDP growth rate of over 5 percent. It currency real is weak so it risks losing a position in the ranking. Its economy is largest in Latin American nations. Brazil has free markets economy and it is second largest country in the western hemisphere. Emerging market managers have given idea that their investments in the direction of Brazil. I examined, it is the largest percentage of a particular fund’s country allocation. It has been the best nation for last five years by some of the best emerging market investment managers. According to last couple of years, Brazil has achieved an influential status as a nation with tremendous economic growth and an abundance of investment opportunity. Brazil set for the host nation of the Football World Cup 2014 and the Olympic Games of 2016, it is clear that they have the world’s attention as an economic power. Brazil's economic growth can be seen through a nation's GDP. Exhibit 1 shows Brazil's GDP progression in terms of its growth percentage. Brazil's GDP growth percentage hit highest point in 2010 but after that it decline in 2008 & 2009 due to recession. In 2010, GDP Growth Rate of Brazil was high due to the consumer spending and investment. On this graph data tell that the economy has fluctuate over the times. Brazil's economic growth lies in its exports and its trade balance surplus. Some of their main exports include iron ore, iron, petroleum and other raw materials. As of March 2011, Brazil has nearly $200 billion in total exports and a $20 billion dollar trade balance surplus.(Exhibit 2) Foreign Direct Investment has been a main driver for the emerging market of Brazil. It is essential for one to have an idea of the entire scope of FDI as well as the underlying reasons. Exhibit 3 shows Brazil's total foreign direct investment inflows in U. S dollars. It is clear that Brazil is highly dependent on foreign direct investments from the Euro Zone. According to the Vienna Institute for International Economic Studies, there were a total of 1279 foreign investment projects in Brazil between 2003 and 2009. (Hunya, and Stollinger) 548 of those foreign investment projects stemmed from nations in the EURO 15. (Hunya, and Stollinger) One of the overarching reasons for investment cited by firms was the potential for growth in Brazil's domestic market. (Hunya, and Stollinger) However, China has become a major investor in FDI inflows within Brazil. In the first half of 2010, China invested 20 billion dollars of FDI inflows in Brazil. (Hunya, and Stollinger) China was motivated to invest in key natural resources that Brazil possessed. (Hunya, and Stollinger) China invested heavily in ongoing development projects in Brazil that is aimed to boost the nation’s weak infrastructure. (Hunya, and Stollinger) In addition, China purchased huge investments in Brazil’s electric power grid. (Hunya, and Stollinger) China also plans to expand their agricultural base using Brazil’s land. (Hunya, and Stollinger) Other countries have invested 30 billion dollars in FDI inflows in 2010. (Brazil: Country Profile) When one considers the positive signs in the Brazilian domestic economy, it is no surprise that mutual fund investors find this emerging market attractive. Brazil has a booming middle class. Recently, President Obama noted that 30 million Brazilians have been added to the Brazilian middle class in the past 10 years. (Martin) After all, Brazil implemented successful anti-poverty programs that have lifted individuals out of poverty to become part of the middle class. The average wages of Brazilian citizens from all age groups have increased in recent years.

Consumer Lifestyles:

Therefore, consumers have had an increased amount of disposable income to spend and invest in the Brazilian economy. This has led to an increased amount of consumer spending across all broad categories in recent years. Young females in Brazil are joining the workforce and declaring their financial freedom. They have become a unique consumer sector as they have taken advantage of career opportunities and have spearheaded consumer demand in household items. In addition, young Brazilians have spearheaded an increase in the purchase of Internet access, DVD players, game consoles and telephones. E-commerce has become a trend in Brazil. From 2005 to 2009, e-commerce sales increased by 255%. In addition, there has been a rise in consumer credit. According to Euromonitor Passport, credit card usage increased by 106% from 2005 to 2009 and banks lent to consumers at increasing rates, which led to a rise in the number of mortgages Exhibit 4 illustrates the wage increases of Brazilian citizens from various age groups from 2005-2009. Exhibit 5 illustrates the increased consumer lending by Brazilian banks as well as a successive increase in the number of mortgages. Exhibit 6 illustrates the increased luxury item purchases by Brazilian households from 2005-2009.

Indonesia:

Indonesia is one of the largest economies in South Asia and is one of the emerging market economies of the world. Government plays a significant role in Indonesia market economy by owning more than 164 enterprises and administers prices on several basic goods, including fuel, rice, and electricity. Many analysts, understandably, still have uncertainties about investing in Indonesia. The country has been here before. In the late 1980s and 1990s, the country was an emerging markets favorite among global investors. But that was crushed by the 1997 Asian financial crisis, which saw the country's banking system fall into crisis right along with its neighbors. Indonesia defaulted on its debt, and the economy contracted by 13 percent. Since 2004, the national economy has recovered and undergone another period of rapid economic growth. Things certainly changed, though. Even during the global recession in 2009, Indonesia's economy still grew by 4. 5 percent, aided by strong domestic demand. Its sovereign bonds were upgraded to one step below investment grade, and an upgrade to investment grade looks almost certain. Some investors are worried that much of Indonesia's good fortune today relys too much on one commodity – coal. Indonesia is the world’s biggest exporter of thermal coal. However, that really shouldn’t be much of a concern. Demand for this commodity remains very high thanks to continued high oil prices, renewed safety concerns about nuclear power and other factors. None of these factors look likely to change in the near future. The strongest stockmarket in the Asia-Pacific region in the global rally has not been, as you might expect China – but Indonesia. The economy of indonesia is a area of a billion people and 17, 000 islands has sustained to grow right through the worst of the world recession, it is benefiting from a most influential mixture of certain factors:• No bad debt problem. A legacy of the misery experienced in the 1997/98 Asian crisis, when the economy contracted by 14%, has been moderate lending and investment policies by Indonesian banks, and moderate attitudes towards borrowing by Indonesian companies and consumers. So, no sub-prime or similar refuse to destroy the credit system.• Abundant natural resources. Indonesia is the world's largest exporter of steam coal, has the greatest verified reserves of natural gas in the Asia-Pacific, and is the major producer of palm oil. It also has huge resources of gold, nickel and copper.• Political progress. The re-election as president in July of Susilo Bambang Yudhoyono (whom everyone calls " SBY") has strengthened his position to improve governance – in particular, to control the corruption that infests all levels of society. Indonesia has had a solid long-term record of economic expansion and rising living standards for decades, but has never achieved the spectacular growth rates seen in China and other Asian " tigers." More recently the grow of fundamentalism in what is the world's most admired Muslim nation has produced terrorism by Islamic militants and localised attacks on Christian churches and mosques of minority sects.

China:

The People's Republic of China (PRC) is the world's second largest economy by nominal GDP and by purchasing power parity after the United States It is the world's fastest-growing major economy, with growth rates averaging 10% over the past 30 years. China is also the largest exporter and second largest importer of goods in the world. On a per capita income basis, China ranked 90th by nominal GDP and 91st by GDP (PPP) in 2011, according to the International Monetary Fund (IMF). The provinces in the coastal regions of China tend to be more industrialized, while regions in the hinterland are less developed. As China's economic importance has grown, so has attention to the structure and health of the economy. As an emerging and developing economy that derives mostly from the export-oriented manufacturing sector, Chinese economy at the present is dominated by the Purchasing Managers Index (PMI). China's most recent economic figures show policymakers' efforts to reign in the property market without devastating the country's economic recovery are achieving mixed results. Industrial production, a measure of activity in the country's large manufacturing sector, rose by 13. 9% year-on-year in August, up from 13. 4% in July, while retail sales also jumped by 18. 4%, compared to 17. 9% in July. At the same time, however, new RMB loans totaled 545 billion yuan ($81 billion), inflation climbed to a 22-month high of 3. 5%, and housing prices in 70 large and medium–size cities increased by 9. 3%. Despite the rising prices, global markets interpreted the figures overall as positive, in part because flooding across the country pushed food prices up by 7. 5%, causing overall inflation numbers to increase, and the 9. 3% growth in real estate prices, while high, is the lowest year-on-year monthly growth rate so far this year. China is now the most attractive place in the world for investing in renewable energy products, according to global accounting firm Ernst & Young. After sharing the title with the United States last year, China took sole ownership of the top spot after a year of heavy investment in renewable energy production, while the United States failed to pass new alternative energy legislation. By 2020, China plans to increase its nonfossil–fuel energy production to 15% of the country's total production. China's support for renewable energy technology, however, may be illegal under its WTO commitments, according to the United Steelworkers Union in the US. The trade union filed a petition in September with the Obama administration complaining that China's policies on renewable energy, including cheap land grants and low interest bank loans, gave Chinese companies an unfair advantage. The administration will have 45 days to decide whether or not to pursue a case at the WTO. Chinese state-owned multinationals Sinochem Group is looking for potential partners to bid for Canadian fertilizer company Potash Corporation, according to Chinese domestic media reports. In August the world's largest mining company, BHP Billiton, made an unsolicited bid for Potash, the world's largest fertilizer company, and in September successfully wooed investors to raise the necessary funds for the purchase. China has the world's largest agricultural sector and is the world's largest consumer of potassium fertilizers. Editorials in state-run publications have warned of the price-controlling powers the acquisition could potentially give to BHP. The management of Potash is also fighting against the acquisition by BHP and may seek investments from China to block the hostile takeover. Such investments would face political obstacles, however, especially if the counterbid involves a Chinese state-owned company. If BHP's bid is successful, Chinese regulators could potentially stop the acquisition through the country's anti-monopoly law. Yangzijiang Shipbuilding Holdings on September 8 became the first mainland Chinese company to list in Taiwan. Yangzijiang, China's fourth largest ship-builder, raised $112 million through the listing. In terms of voting power, each share in Taiwan is worth one half of the value of a share on the Singapore stock market, where the company is also listed. The listing follows a June trade and investment agreement between Taiwan and China, the provisions of which took effect in September. The agreement also reduces tariffs and investment barriers. Relations between Taiwan and China have warmed since Taiwanese president Ma Ying-jeou took office in 2008, replacing his pro-independence predecessor. China claims Taiwan as one of its own provinces and has threatened to invade if the island formally declares independence. The China Insurance Regulatory Commission published new rules in September allowing insurance companies to invest in private equity and real estate. According to the statement published on the regulator's website, insurance companies can invest up to 5% of their assets in private equity and 10% in real estate. Those investments face limitations, however, with insurance companies banned from investing in residential properties and from developing property directly. Their investments in private equity funds and real estate investment products are also capped at 4% and 3% respectively. The policy change will free up funding sources for the country's private sector while expanding the limited investment options for insurance companies.

Thailand:

Thailand is a fully industrialized country by economy. It is dependent on export, with exports Thailand economy for more than two thirds of its gross domestic product (GDP). In 2011, the current market price of Thailand GDP is THB 10. 54 trillion. (USD345. 65 billion approx.) With the growth rate of 0. 1 percent, it is greatly lower than the expected growth rate of 3. 5 percent due to cruel damage from the historic flood the Kingdom face up to mainly in the last quarter of the year. In 2012, the economy of Thailand is expected to grow by 5. 5-6. 0 percent. The service and industrial sectors serve as the two main sectors in the Thai gross GDP, with the past accounting for 39 percent thereof. Although often seen Thailand as an agricultural country, it has an agricultural sector which contributes only 8. 6 percent of the Gross Domestic Products. It is lower than the logistic & communication and trading sector which account for 9. 6 percent and 13. 2 percent of the GDP respectively. The mining & construction sector adds 4. 3 percent to the country’s GDP. Other service sectors which include the educational, hotel, restaurant and the financial sectors etc. account for 25 percent of the country's Gross Domestic Products. Thailand is a 2nd largest country after Indonesia in the southeast Asia by economy. However, in 2011 its GDP per capita remains very low at THB155, 926 (USD5, 394). It is slightly lower than China's GDP per capita in 2011. In Southeast Asia, the Thailand ranks midway in terms of its GDP per capita, after Singapore, Malaysia and Brunei. As of 24 August, 2012, it holds USD178 billion reserve money and international reserves which ranks 2nd in the Southeast Asia after Singapore. According to the Ease of Doing Business ranking 2012, Thailand ranks 17th in the world and 2nd in Southeast Asia - after Singapore. Concerning the development and social indicators, Thailand is recognized by the World Bank as " one of the great development success stories". It is now an upper-middle income country, despite a low per capita (GNI) of USD4, 451 and a bad 103rd rank in the Human Development Index (HDI). Within 22 years, the percentage of the population living below the national poverty line decreased dramatically from 42. 21 in 1988 to 7. 75 in 2010. As of the second quarter of the year 2012 (Q2/ 2012), its unemployment rate is 0. 85 percent, making Thailand the country of third lowest unemployment rate in the world – only after Monaco and Qatar. Recently, according to the authority, the inflation rate as of Q2/ 2012 remains controllable at 2. 5 percent with the policy interest rate of 3 percent.

STATEMENT OF PROBLEM:

" Are Emerging Market cheap? Is it wise to invest in emerging market stocks and get more return? Analyze Some Emerging markets of world economy and their impact on world...

I will focus on: The performance of Emerging Market in the world Economy. It is easy to invest in Emerging Market. Comparing the performance and the progress of the above mentioned Markets.

SIGNIFICANCE OF THE STUDY.

The importance of this study is witnessed by the fact that people know about Emerging Market, as a sole barometer of Some Emerging Market economy.

Not many people are familiar with Emerging markets and its performance, growth potentials and their impact on global economy. This thesis will help all those researchers who want to work on this topic and would be a guide to many of the finance students. This thesis will serve the following aspects: Help investors to invest in diversified portfolios consisting of global securities. Facilitate the brokers to begin ties with the stock brokers of Asian and Foreign. Help the local investor to visualize the performance of the native stock market and then take the step of investing in the market. Helpful to the students of Investment securities by having a global perspective in investment.

SCOPE AND DELIMITATION

I. SCOPE

The limitation of this research is only up to the regional stock markets of Indonesia, Thailand, China and Brazil. It would be a short thesis based on a study conducted during my academic calendar.

II. DELIMITATION

The finding of this report can be impacted if there is any political, economic, or perhaps any law and order disturbance in the region. As the nature of the Emerging Market is very volatile, any change in the current economic or political condition would lead to changes in the overall market. There are no stringent barriers to protect the market from huge changes. This is an informative work which would be helpful in knowing the crust of the topic. No responsibly is taken in any changes of information. The research is limited for a short span of time and its applicability is also for limited time.

BASIC ASSUMPTION.

The external factors are not playing their roles in the changes of the market. The market is not changing. The number of products and the securities are fixed from the day this thesis has begun till its completion.

CHAPTER: TWO

RESEARCH--METHODOLOGY & PROCEDURES

RESEARCH DESIGN.

This research is a descriptive study in which I would be looking at the performance of the regional Emerging markets of World, Brazil, Indonesia, China and Thailand. I would be looking at the trends and at the same time the impact of any external factor on the Emerging market. The research will contribute to the building of knowledge to the people of unrelated field, who desire to have sources of raising income through investments in Emerging markets and also designed to facilitate the students who are into further research of this topic. It would help people know the mechanism of the Emerging markets because only the people linked with this market have this idea.

RESEARCH METHOD

The research method is based on both primary and secondary sources. For the primary data, I would be interviewing the respondents personally with the purpose of inquiring about the performance of Emerging market. Secondary method includes the already available data on the internet and also on news papers and magazines etc usually for Brazil, Indonesia, China and Thailand Markets. These methods would aid in providing reliable and timely information, so as to arrive at an accurate conclusion for a perception that is specific and complex in nature.

RESPONDENT OF THE STUDY.

I would try mailing my queries and questionnaires to some of the respondents at Brazil, Indonesia, China and Thailand. As it does not involve people on whom I may test any statistical inference, I would be concerned with the raw data I get.

INSTRUMENTS:

The data will be gathered through different sources in order to collect a sufficient data for making this project thesis more understanding, generalize and effective. The sources for data collection will be primary and secondary sources.

Primary:

Interviews with BrokersObservations

Secondary:

News papersWeb sitesMagazinesBooks

TREATMENT OF DATA:

The raw data found would be made sure to be true, directly quoted through the answers on the questionnaire, having no additions by own and having been financially realistic. As the data cannot be quantified, there will be no statistical tools.

CHAPTER: THREE

RELATED LITERATURE

FOREIGN LITERATURE

Following are some foreign literature that I have collected from resources such as internet, article or books written by foreign writer. It would be very much clear after reading these articles that not only is the economy heading towards globalization in goods industry, same is the case in service industry and especially Emerging Markets. Going global has led many markets to develop new derivative products.

ARTICLE 1

BY WILLIAM GAMBLE

China and Emerging Market Investing: Real BasisAn article in The Economist citing two recent papers confirmed what I have been saying for years about the Chinese economy. My premise is that without proper rules, the Chinese system allocates capital inefficiently and does not provide adequate information to the markets. This is especially true today as a result of the stimulus package, which has allowed banks to allocate hundreds of billions of dollar to inefficient state owned firms, while starving China's 40 million more efficient small and medium-size private firms or so enterprises, which employ at least 75% of its workers and produce 68% of industrial output. The first paper was produced for the Hong Kong Monetary Authority and written by Giovanni Ferri, of Italy's University of Bari, and Li-Gang Liu of BBVA. Its finding was that Chinese state owned banks profits were the " product of subsidized financing by state banks, which lets them borrow much more cheaply". The result was that capital would be allocated inefficiently and that there would be future losses. Of course I do not think that the losses are in the future. They have happened steadily since 1995 and have risen with each cycle. Since the collection and bankruptcy system are inadequate, these loans are still on the books. We are finally beginning to see the effects of this latest crop of defaults in the system since despite banks having 30% more loans paying interest, most banks' earnings are down this year. The other paper from TJ Wong and Danqing Young, of the Chinese University of Hong Kong, and Xianjie He, of Shanghai University of Finance and Economics, shows that there were not " correlations between the share price and the shift in reported value of investment instruments, goodwill and the impairment of assets", nor did an improvement in accounting practices show up as a closer correlation between earnings and the performance of the share price. In other words, investors " have little faith in the numbers." Although not specifically answered by the papers, in my view the investors' lack of faith is justified because there are insufficient economic incentives or disincentives or legal disincentives within the system to provide accurate, complete or timely information. So investors ignore the information. What basis, then, do they invest on? I believe that a popular new book (" Animal Spirits", by Nobel Laureate George Akerlof of the University of California, Berkeley, and Robert Shiller of Yale) answers this question. In the book, the authors describe why investors sometimes invest irrationally. They list five classes: 1) Confidence: basically expectations whether rational or not, positive or negative. 2) Fairness: does the investor think that the system is fair. 3) Fraud: this is not only about bad faith, but the level at which the system can deliver a credible legal disincentive. 4) Money illusion: people do react to inflation especially if it is low economists. 5) " Stories" People believe irrational but plausible tales like US housing always increases and China is recession proof. I believe that the combination of many of these factors affects the way investors in China and many emerging markets invest. For example, one story is the assumption that emerging markets will grow much faster than developed markets. Over the past fifty years this assumption has not been correct. Emerging markets have enjoyed periods of rapid periods of growth, but usually in response to reversible reform. Without sufficient credible legal disincentives and enormous conflicts, emerging markets are more subject to fraud and the waxing and waning confidence helps explain the volatility of these markets.

Investment in Brazil Warms Up For World Cup

The 2014 World Cup means big business for Brazilian investments, employment and the economy generally. Latest figures point to economic growth in excess of US$70 billion. As well as one of the world's most important sporting festivals, the World Cup is a huge money-making machine. 2014 Brazil will be no exception as can be seen from the expected earnings just announced by the Brazilian Ministry of Sport.

Overall, the Brazilian economy is predicted to grow by US$70 billion. This growth will mostly come from public and private investment in Brazil in areas such as infrastructure and services. Consumption by visitors to the World Cup is also expected to bring a major boost to Brazil's already buoyant economy. Employment will see huge growth over the next three years as investment in Brazil builds infrastructure and stadiums for the matches. Some 330, 000 permanent jobs are expected to be created throughout Brazil where unemployment is currently at a record low of 6. 2%. This job creation will inevitably lead to more middle class wealth and in turn, generate further income for other sectors of the economy. Tourism will be one of the sectors most benefitted by the football tournament. Over 600, 000 foreigners will travel to Brazil to watch the games, bolstering the fast-growing Brazilian tourist industry. Foreign visitors will generate US$2. 5 billion in extra income for Brazil. Along with earnings from foreign visitors, the Brazilians themselves will be adding to the country's coffers when they travel around Brazil to see the games. The Ministry of Sport estimates that the World Cup will generate US$3. 5 billion in earnings from the 3 million Brazilians who go along to watch. Adding up the InvestmentBrazil, along with preparations for the World Cup and Olympics, is also making huge investment in real estate and hydropower. The 2 million homes being built in the Minha Casa Minha Vida programme represent the biggest Brazilian property investment ever. These plus two of the world's largest hydropower plants do not leave a lot of leeway for more construction financed by public investment in Brazil. Costs for materials and labour have risen sharply since Brazil was awarded the World Cup and the budgets for several stadiums are now considerably higher. The Sports Minister believes the construction of Brazil's new stadiums will come out at around US$7, 000 a seat, 17% higher than originally expected. Despite the additional costs - common to preparations for all major sporting events - the overall figures look hugely positive to Brazil, set to reap huge benefits from the 2014 World Cup. Without a doubt, the next three years are full of opportunity for Brazil and Brazilian investment. About Obelisk International: Obelisk International offers select investment opportunities in Brazil in a range of sectors such as residential real estate, construction and social housing. Obelisk gives investors security, profitability and diversity thanks to a combination of close attention to our clients' investment requirements and high quality in-house research and analysis.

India Or China: Which Emerging Market Has the Greatest Potential?

Emerging markets have presented a tremendous opportunity for investors, both small at the retail level and large at the institutional level. Both have huge populations and with a growing middle class, which will translate into demand at some point in the future. But until then, both offer great manufacturing costs, allowing developed nations to find great value in what these two countries have to offer. The result? Tremendous wealth is being pumped into these markets

But not all emerging markets are equal. In fact, India and China are extremely different from economic points of view and also offer different benefits to investors. Here are some of the key differences investors should consider before making a decision over which emerging market they want to invest in.- Earning population base. When it comes to developing a nation for the long-term, the size of its income-earning population base is important, as an older population base will be more draining on that nation's economy. In the case of India vs. China, the Indian economy will be better able to withstand an aging population. Over the next decade, China is expected to add 36 million workers to its economy whereas India is expected to add 136 million to its work force.- Growth rates. One of the fundamental ways that an investor can determine how well a given economy has done is to look back at its GDP growth rates. Over the past 20 years, India's Gross Domestic Product (GDP) growth rates have only exceed China's a total 3 times, and even then they were by relatively narrow margins. In terms of historic GDP growth rates, China seems to have the upper hand. In addition to historic rates of growth, China's economy is closely monitored by its Government, allowing applicable force and control to be applied to keep the economy in check. To some, this involvement could be seen as a pitfall, however China's economic history speaks for itself and it considered a good thing.- References. Like anything, it helps to see what others think about the economy in question. And what better reference to have in your corner than a billionaire investor like Warren Buffett. In this case, Warren Buffett has publicly made reference to opportunities in China. This certainly provides a bit of an advantage in China's court. These are just two of the things that investors should be looking at if they are wondering whether to invest in India or China. While both economies have a tremendous amount of value to offer investors over the long term, many investors may find that they should invest in one over the other. And if this is the case, the above provides a good starting point.

Hedge Fund Strategy - Emerging Markets Fund

An emerging market hedge fund is a hedge fund that specializes its investments in the securities of emerging market countries. Although there is no exact definition of " emerging market countries," these countries are in the process of developing. They typically have per-capita incomes on the lower to middle end of the world range, and are in the process of moving from a closed market to an open market. As a result, emerging market countries include a wide range of nations. China and Russia, two of the world's economic powerhouses, are lumped in the emerging market category with Peru, a much smaller country with fewer resources, because all have recently embarked on economic development and reform programs, and have thus " emerged" onto the global financial scene. In fact, while only around 20% of the world’s nations are considered emerging market countries, these countries constitute approximately 80% of the global population. Although emerging market stocks have been available for some time through emerging market mutual funds, earlier this decade, institutional investors such as pension funds and endowments started looking for alternative investment options and began pouring money into emerging market hedge funds as well. Emerging market hedge funds offer one significant advantage over emerging market mutual funds. While mutual funds typically invest only in stocks and bonds, hedge funds can offer exposure to more sophisticated investments, including commodities, real estate, currencies and derivatives (which are contracts to buy or sell another security at a specified price, and include futures and options). Emerging market hedge funds can also use leverage, which is essentially investing with borrowed money. These strategies could significantly increase return potential. Along with the increase return potential, however, comes increased risk potential. Emerging market hedge funds have all the generic hedge fund risks: For example, hedge funds are typically not as liquid as mutual funds, meaning it is more difficult to sell shares; the strategies they use could lead to significant losses; and they can have high fees. Additionally, investing in the emerging markets has some unique risks, including a lack of transparency, which makes it hard to evaluate investment opportunities; relative illiquidity; and extreme volatility. In fact, any downturn in these countries' securities could be self-propagating: If hedge fund investors, faced with a downturn in one emerging market country demand their money back, hedge funds could be forced to sell holdings in unaffected markets to meet redemption requests, leading to a steep slide in regions that weren't originally affected. One final downside to emerging market hedge funds is that they, like all hedge funds, are not currently regulated by the U. S. Securities and Exchange Commission (SEC), a financial industry oversight entity. As a result, they are typically open only to a limited range of investors. Specifically, U. S. laws require that hedge fund investors be " accredited," which means they must earn a minimum annual income, have a net worth of more than $1 million, and possess significant investment knowledge. In summary, emerging market hedge funds may be a good choice for investors who want more access to the emerging markets than emerging market mutual funds can offer—if they can meet the suitability requirements and are willing to accept the increased risk.