

San Antonio Business Journal - March 7, 2005

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EXCLUSIVE REPORTS

From the March 4, 2005 print edition

U.S. Global's new fund seeks to tap into emerging growth

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Locally based [U.S. Global Investors Inc.](#) has launched an emerging-markets fund for investors seeking a hedge against less-than-robust U.S. investment options.

The fund, called the Global Emerging Markets Fund, is a mutual fund that will invest in the stocks, and at times bonds, in emerging foreign markets. So far, more than \$5 million in seed money has been invested in the fund.

Frank Holmes, U.S. Global's CEO, chairman and chief investment officer, says emerging economies are now offering enticing returns, which is the driving reason behind why U.S. Global has decided to launch the new fund.

"Lower price-to-earning ratios and a declining dollar are driving the performance of investments in emerging markets," he says. "Growth rates of emerging economies are twice that of America. ... So, when you put those factors together, they (emerging markets) look attractive."

Beware of risks

Lew Campbell, local vice president and investment manager for San Francisco-based lender Wells Fargo, says there is room for caution on the emerging-markets front, however.

"So you're starting with something that's done extremely well in the last three years, which means you (the investor) don't want to go overboard," Campbell says. Two potential problems that an investor faces in this type of investment, Campbell adds, are "political risk and currency risk."

Joel Block, founder of Agoura Hills, Calif.-based Growth-Logic Inc., says these types of funds are highly risky because of fluctuations in the value of currency, political instability, an uncertain regulatory environment and potential terrorism that may occur in an overseas country. His company is an advisory firm that, among other things, helps businesses expand into foreign markets.

For example, he says, emerging markets like Mexico, China and Korea are starting to put regulations in place where they had none previously. Those new regulations mimic U.S. regulations in areas such as wages and environmental oversight.

As these regulations are put in place, he says, the investor will begin to see less return on his or her investment.

"So there are risks and sometimes domestic investors are not well-schooled in what these risks are and that makes these investments even more dangerous," Block says.

Rolf Gatlin, spokesman for U.S. Global, says there are always risk in investing "... and more so in emerging markets and in particular sectors." He adds, "But you can counter that risk through due diligence and diversifying throughout that market."

Investment cushion

Holmes says U.S. Global has chosen London-based [Charlemagne Capital](#) to manage the day-to-day investment operations of the Global Emerging Markets Fund because of its expertise in emerging markets. U.S. Global will manage the marketing and customer relationships with U.S. investors.

Charlemagne Capital has managed U.S. Global's Eastern European Fund (EUROX) for eight years, Gatlin adds.

"What they do is travel to each one of the companies in the portfolio and ... do their due diligence and get really familiar with the companies," Gatlin says.

The Eastern European Fund is also a mutual fund that holds equities in foreign companies in countries such as Russia, Turkey, Hungary and Bulgaria.

If investors don't mind the risks, Campbell says, they should seek advisors who have expertise in dealing with emerging markets to help them decide where and in what industries and companies they may want to invest.

"Like always, the best route is to find a good financial advisor and they will steer them right," Campbell says.

Block agrees. "From an investor's perspective, all too often they don't understand how it works, and they're even less sophisticated about global investments than what happens domestically," he says.

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