Investing: Emerging markets grow up
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Emerging markets have a reputation as the bad boys of investment. They can be volatile and self-destructive, yet there is something seductive about their rough, unfinished quality and growth potential that keeps investors coming back.

But a lot of these markets have shown during the last few turbulent weeks that they are not kids anymore. They have avoided significantly greater falls or wilder swings than Western markets have experienced, a display of maturity that would have been unimaginable a decade ago.

If certain markets — places like Singapore, Hong Kong, South Korea, Brazil and Chile — have evolved to the point that they are more emerged than emerging, it could make them more appealing, even if they are less exciting.

Specialists in international investing attribute the newfound stability in what might be called post-emerging markets to a leveling up of economic conditions fostered by the rapid expansion of trade known as globalization. Markets in the developing world started from a lower base, so they have been able to advance farther and faster.

"Most of these countries are in very good shape economically," said Arjun Divecha, manager of the G.M.O. Emerging Market fund. "They have massive foreign reserves and trade surpluses. Interest rates are pretty low, and indebtedness at the national and corporate levels is pretty low."
Governments in many countries and regions on the cusp of developed status are doing what may be the best thing they can for their economies: nothing, or at least a lot less.

"Intervention has diminished a fair amount, and capitalism is being allowed to prevail," Divecha said. "Vulnerability to a crisis has gone down, and the probability of a crisis spilling over from one country to the next is much lower."

Thomas Mengel, manager of the Ivy International Core Equity fund, likewise finds that "a lot of these emerging countries are in a much healthier financial position than they have ever been." They have become less dependent on foreign investment, and their economies are far more diversified, which makes them all the more attractive, he said.

As the markets continue to mature, the valuation discount with developed markets will shrink, enhancing returns, he predicted. "Over the next five years or so, as these countries continue to get more resilient, we'll see more expansion" in price-earnings multiples, he said, although he cautioned that "short term, things can always change."

What has changed in the last month is that stocks in post- emerging markets have become cheaper. The latest pullback has left "a lot of interesting stuff out there to look at," Mengel said. The stocks he finds most interesting include Samsung Electronics and Kookmin Bank in South Korea. He also highlighted companies in markets that have yet to reach the post-emergence stage, like Sina, the mainland China Internet portal, and a couple of Indian technology businesses, Satyam and Infosys.

Other beneficiaries of the blossoming of once emerging economies are Western corporations doing brisk business there. Among Mengel's favorites are Vossloh, a German company doing work on the Chinese rail system; Nestlé, the Swiss food producer; and the German conglomerate Siemens.

One consequence of post-emergence for portfolio managers is that it permits close comparisons between leading companies in those economies and their counterparts in the West and Japan, said Arjun Jayaraman, a fund manager at Causeway Capital Management, a firm specializing in non-U.S. stock markets. Often, he said, the companies in the newly mature markets look much the better.

Two examples are Samsung Electronics and another South Korean company, Pohang Iron and Steel, or Posco. Both "are world-class companies," Jayaraman said. "Samsung trades at a cheaper valuation than most Japanese companies and is a better company in many respects. It's a cheap way to get Asian technology exposure." Samsung offers better value than Sony, he said. The same goes for Posco when he compares it with Nippon Steel and the German steel producer ThyssenKrupp.

Post-emerging-market stocks are not always the best options, though. Auto makers like Hyundai have come a long way, he said, but he still prefers Toyota, saying it makes cars better than Sony makes consumer electronics.

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