NEW YORK UNIVERSITY
STERN SCHOOL OF BUSINESS

C15.0023.01

EMERGING FINANCIAL MARKETS

MARTIN J. SIEGEL
FALL SEMESTER 2005

COURSE DESCRIPTION:

This course provides a theoretical framework coupled with a “hands on” approach relating to investments and overall exposure to emerging market economies. The perspective is that of the investment manager, responsible for investment portfolios, who is considering an investment in the emerging markets as an asset class: balancing risk and total returns. We discuss several outstanding problems of emerging market investment, including political risk, currency risk and speculative craze. The course will cover a broad base of products in emerging markets including equities, foreign exchange, derivatives and fixed income. We will discuss country selection, security selection and portfolio diversification along with a variety of trading strategies. Included will be indexing, closed and open ended funds and convergence trading. We shall also examine the problems faced in executing these trading strategies. It is anticipated that after completing the course, students will be able to evaluate the risks associated with an emerging market exposure while at the same time understanding the benefits gained by diversification and higher returns.

Prerequisite:
C15.0001 and Senior Standing

Course Organization:
Class participation and attendance will count for 20%, and the mid-term exam for 40% of the final grade. If you cannot attend a lecture I expect an e-mail notification prior to class. The mid-term will be a take home examination. The questions will be given out at the end of class 6. Answers will be turned in at class 7. The remainder of the grade (40%) will be a final examination. Reading preparation, attendance and class discussions are an integral part of this course. It is most important that students keep up to date with the readings for the course as exam questions will be taken from the readings in the syllabus and from non-graded problem sets and assignments that may be distributed during the semester.

It is anticipated that there will be guest lecturers for certain classes, subject of course to any changes that may occur in their schedule.
GROUP PROJECT

The group project is an important part of the course. You will need to form groups of 7 students. Each group will act as an Emerging Market Investment Advisor. Your task is to:

- Identify an investment opportunity in a developing market. This could be in the asset class of your choice: Equity or Debt.
- Develop a coherent and concise investment proposal.
- Present your proposal to the rest of the class.

You should think of your presentation as if it were given to the risk management committee of a leading Wall Street Firm. Your presentation should demonstrate the merits of the investment that you propose and highlight the potential risks. You should also provide such details as the time horizon, the expected return, the exit strategy, and a discussion of how you intend to manage the investment. You should also discuss any special circumstances, legal or political, that should be considered by the committee. Your presentation will include a written report of between 10 to 20 pages, double spaced, and an oral presentation of 10 to 15 minutes.

FORMAT OF THE LECTURES
Each 3 hour session will be broken up into two different presentations. Each one will run for approximately an hour and ten minutes with a ten minute break in between.

REQUIRED READING

Friedman, The Lexus and the Olive Tree. Farrar Straus 1999

Required reading assignments will be found in three different locations.

A Reading Package (RP) is available at the bookstore and, when necessary, Reserve Material (RM) will be placed in the library.

Required Readings on Blackboard.
Additional Required Readings posted on Blackboard. (BB)
Finally there are news articles that I think are relevant and are also required for the course. They are also posted on Blackboard under Media.

OPTIONAL READINGS
There are also many optional readings that have been posted to Blackboard. They can be found on pages 15 – 19 of this syllabus and they are on Blackboard. It is for those students who would like to get additional insights into the Emerging Market field. (some are technical in nature)
I repeat that they are optional and you will not be tested on their content.
SUGGESTED READINGS
The Wall Street Journal
The New York Times
The Financial Times
The Economist

MEMORANDUM TO THE CLASS

At the second class, would appreciate your submitting (typed) the following information:

- Educational Background, working experience along with your goals, ambitions and other relevant topics – who you are…and who do you wish to be
- Attach your photo.
- Your E Mail Address and phone number

Please note that I can be reached on E-mail: MISIEGEL@MSN.COM
That is preferable to using my mail at NYU as I do not check the NYU mailbox on a daily basis.

If necessary I can be reached at home: 845 786 5446

NOTES ON THE READING MATERIAL

I have always invited speakers, who are highly regarded working professionals in their field, to address a few of my classes. I feel that it was a wonderful way for the students to get different perspectives and viewpoints on the world of emerging markets. This has been borne out by the student’s comments at the end of the semester.

Unfortunately while the syllabus and reading lists for this class have to be submitted to the school bookstore far in advance of the semester, the travel schedules of the guest speakers are not set till much later.
In order to accommodate their travel schedules it may be necessary to change the sequence of some of the lectures. Since you are all MBA’s at Stern I am sure that this inconvenience will not deter you from finding the correct readings for each lecture.
PHASE 1    AN INTRODUCTION TO THE EMERGING MARKETPLACE

CLASS 1 - Tuesday September 6

WELCOME TO MY WORLD – THE EMERGING MARKET STORY

(RP) Papaioannou and Tsetekos: Emerging Market Portfolios –Ch. 2
Patterns of Development in Emerging Capital Markets

CLASS 2 – Thursday September 8

INVESTMENT OPPORTUNITIES IN EMERGING MARKETS

(RP) Smith, Walter: Risks and Rewards in Emerging Market Investments

(BB) Morgan Stanley: The Morgan Stanley Emerging Market Fund

THE BENEFITS OF DIVERSIFICATION

(note: The diversification argument is a key reason to investing in Emerging Markets. I assume you are all familiar with MPT so we will probably not be discussing this during the class)

RP) Malkiel & Mei: Global Bargain Hunting
How Diversification can Reduce Risk

(BB) Salomon Brothers: Reasons for Global Investing
CLASS 3 – Tuesday September 13

Part 1

EMERGING MARKETS- SPECULATIVE BOOM OR LONG TERM INVESTMENT

GUEST SPEAKER: TBA

  (BB)  Pension Funds Weigh the Risks of EM Investing: FT 9/03
  (BB)  Country Risk: Russia and Yukos: FT 7/03
  (BB)  Investing in Russia is not always Easy.: Economist 11/03
  (BB)  An EM Problem: Contagion : wsj: 10/02

CLASS 4 – Thursday September 15

THE PROBLEMS WITH EMERGING MARKET INVESTING

  (RP Papaioannou and Tsetkos: Emerging Market Portfolios Chapter 3
Bruce: A Survey and Synthesis of Problems and Opportunities
in Emerging Capital Markets.

  (RP)  HBS: Hong Kong’s Financial Crisis 1997- 1998
  (BB)  CSFB Others Face Harrowing Escape
  (BB)  A Night of Horror Unfolds in Jakarta
  (BB)  Siegel: Regent Hotel ((Indonesia) Notice to Guests May 1998
CLASS 5 - Tuesday September 20

ACTIVE MANAGEMENT OF THE EQUITY PORTFOLIO

GUEST SPEAKER TBA

CREATING AN ACTIVELY MANAGED EQUITY PORTFOLIO

(BB) NYT: Krystof, Wyatt: Who Went Under in the World's Sea of Cash

(BB) Siegel: Business Plan – November 18, 1998
   (my proposal to manage equity money in Emerging Markets)

   (my report to the Risk Mgt. Committee after a trip to Asia)

(BB): Anna Quindlen: Thoughts on Life

Class 6 – Thursday September 22

ACTIVE MANAGEMENT OF THE EQUITY PORTFOLIO

TOP DOWN / BOTTOM UP

(RP) Van Agtmael: The Worlds Emerging Stock Markets Chapter 4
    Portfolio Management in Emerging Markets

(BB) Van Agtmael: Active Management of an Equity Portfolio
    (a presentation to my class in November 2000)

(BB) In EM following an Index Might not be as Good as Active Management: FT 8/03

(BB) The Dangers of Selling Short
(CC)
PHASE II

EMERGING MARKETS – EQUITY INVESTMENTS

CLASS 7 AND 8 – Tuesday September 27 and Thursday September 29

Part 1

ACTIVE MANAGEMENT OF THE EQUITY PORTFOLIO

1. ADRS, GDRS, OR LOCAL SHARES- DOES IT MATTER

(RP) Lopian: The Reality of Deposit Receipts

(BB) Siegel: Additional Thoughts on ADRS
    notes from my files

(BB) Siegel notes: Investing in markets when the local market is
closed to foreign investors:

    Daewoo Securities: Guaranteed Equity Linked Notes
    Flemming: Indian Participation Note
    BZW: Foreign Premium or Local Discount: Why pay less?
    Siegel: Notes on a swap in Singapore Airlines

(BB)  ADRS can Add 10% to Stock Values: FT 10/03
(BB)  ADRs and GDRs – Does it Matter: FT 7/03

(BB) Using ADRs to Circumvent Currency Controls FT 8/03

(BB) If a Market “Opens” the Premium may Disappear: WSJ 7/03
CLASS 9 – Tuesday October 4

(Start of the Rosh Hashanna Holiday – There will be no class today but you will be responsible for the readings below).

THE INDEX APPROACH TO EMERGING MARKETS

(BB) Morgan Stanley Introduction to the M.S.C.I.

(BB) Morgan Stanley Equity Index Methodology Overview

(BB) Goldman Sachs The New MSCI Indexes: Highlights and Implications

(BB) Efficient Markets and Indexing: FT 8/03

(BB) Can Portfolio Managers Outperform an Index: FT 7/03

(BB) Will Active Managers Invest Passively: Economist 5/03

Class 10 – Thursday October 6

THE USE OF CLOSED END AND OPEN ENDED FUNDS


(BB) ETF’s – A Primer

(BB) Redemptions at Putnam Fund may effect Emerging Markets: FT 8/3

(BB) Navigating Routes to Foreign Markets NYT 1/-04
CLASS 11 – Tuesday October 11

THAILAND EQUITY TRADE

Handout: The Thailand Equity Trade

CLASS 12 – Thursday October 13

A TRADING STRATEGY IN EMERGING EQUITIES

(BB) Siegel: A Convergence Trade through the Swap Format

(evening is the beginning of Yom Kippur)
EMERGING MARKET DERIVATIVES

GUEST SPEAKER: TBA

(RP) Emerging Markets Portfolios Chapter 11: Derivatives in Emerging Markets

(RP) HBS: Introduction to Derivative Instruments

CLASS 14 – Thursday October 20

MID TERM WILL BE HANDED OUT TO THE CLASS...............}

EMERGING MARKET CURRENCIES

(RP) Fong: Currency Risk Management in Emerging Markets

(RP) HBS: The 1994-95 Mexican Peso Crisis


(BB) Fear of Floating: Economist 8/03

(BB) McCurrencies and the PPP

(BB) Personal Investing: CDs Now Offered in Foreign Currencies NYT 7/03

for those looking for more details and a more technical analysis to currencies the following articles are optional and found in the readings on the blackboard web site.

(BB) Goldman: Ch 2: The Global Flow of Funds

(BB) Goldman: Ch 11: Currency Options and Volatility


(BB) JP Morgan: Introduction to Hedging Emerging Market Currency Risk
PHASE III - EMERGING MARKETS – INVESTING IN THE DEBT MARKET

CLASS 15 Tuesday October 25

MID TERM TO BE HANDED IN BY THE CLASS

EMERGING MARKET DEBT AND THE BRADY BONDS

GUEST SPEAKER T.B.A.

(RP) Luis: Emerging Fixed Income and Local Currency
     An Investment Management View

(BB) JP Morgan Brady Valuation Tutorial
     Session 1. Introduction to Stripped Yield

(BB) JP Morgan
     Introduction to the Emerging Bond Index
     7/95

(BB) JP Morgan
     Introduction to the Emerging Bond Index Plus (EMBI+)

CLASS 16 – Thursday October 27

DOLLAR BONDS, SWAP ARRANGEMENTS, RELATIVE VALUE AND THE REPO

(BB) Morgan Stanley: Emerging Market Repo

(BB) Can an Individual do a Repo? JP Morgan

(BB) EM Local Currency and Bonds: Ft 6/03
PHASE IV:  THE DANGERS WE FACE IN EMERGING MARKETS

CLASS 17 – Tuesday November 1

THE CRISIS IN SOUTH EAST ASIA AND LATIN AMERICA
WHAT WENT WRONG – A LOOK AT HISTORY

GUEST SPEAKER       TBA

(RP) Goldstein: The Asian Financial Crisis: Causes, Cures
       Ch 2: Origins of the Crisis

(BB) NYT: Kristof and Sanger: How U.S. Wooed Asia to Let Cash
       Flow In

(BB) Kristof and WuDunn: Of World Markets, None is an Island

(BB) Kristof: World Ills and Obvious, the Cures Much Less So

(BB) Dornbush: A Primer in Emerging Market Crisis

CLASS 18 – Thursday November 3

ELECTRONIC GLOBALIZATION – THE NEXT STEP?

Friedman: The Lexus and the Olive Tree

(BB) Friedman: `Small and Smaller NYT 4/7/04

(BB) Friedman It’s a Flat World After All NYT 4/4/05
CLASS 19  Tuesday November 8

GUEST SPEAKERS:  TBA

AN EMERGING, EMERGING MARKET – VIETNAM

MAKING DIRECT INVESTMENTS (VENTURE CAPITAL)
DECISIONS IN VIETNAM


PHASE V -  CONVERGENCE, RELATIVE VALUE AND SWAPS

CLASS 20 – Thursday November 10

THE HEDGE FUND

(BB)  NYT: Lewis: How the Eggheads Cracked

(BB) Muehring: Institutional Investor: John Merriwether by the Numbers

(BB) When Genius Failed

CLASS 21- Tuesday November 15

LONG TERM CAPITAL MANAGEMENT – A CASE STUDY

GUEST SPEAKER  TBA

(RP) HBS. - Long Term Capital Management – A

(RP) HBS- Long Term Capital Markets- Presentation C

(BB) Bob Rubin discusses Russia and LTCM........
Class 22 – Thursday November 17

THE OUTLOOK FOR THE EMERGING MARKET DEBT AND F/X MARKET

GUEST SPEAKER: TBA

WHAT IS DEFAULT AND CAN YOU PROTECT AGAINST IT

(BB) Salomon The Risks of Sovereign Lending: Lessons from History
GROUP PRESENTATIONS BEGIN

CLASS 23 – Tuesday November 22

GROUP 1 AND 2

THURSDAY NOVEMBER 24TH ...... THANKSGIVING

CLASS 24 – Tuesday November 29

GROUP 3 AND 4

CLASS 25 – Thursday December 1

GROUP 5 AND 6

CLASS 26 – Tuesday December 6

GROUP 7 AND 8

CLASS 27 – Thursday December 8

GROUP 9 AND 10

CLASS 28 – Tuesday December 13

WHERE DO WE GO FROM HERE

a wrap up of the semester by Professor Siegel
BLACKBOARD OPTIONAL READINGS – SUMMER 2005

Class 1 - Part 1
Welcome to My World
Goldman Sachs: Equities Division – Job Opportunities
(different positions in the equity department defined)

Class 2 – Investment Opportunities in Emerging Markets
International Portfolio Investments – Chapter 11

Class 3 Emerging Markets: Speculative Boom or Long Term Investment
Patel: Stock Market Crisis in Developed and Emerging Markets
(a more detailed analysis of EM Crisis for those who want to look deeper into it)

Class 4 The Problems with Emerging Market Investing
FT: The New Language of Emerging Markets: November 9, 2000
(a really good article discussing how different it is to do business
in different parts of the world)
FT: Survey: Global Custody: In for the Long Term: Emerging Markets

Class 5 Why Diversify with Equity
FT: The Logic that Lies behind Overseas Diversification 5/28/01
FT: Insights from PortfolioTheory 6/4/01
FT: An Open and Shut Case for Portfolio Diversification 7/16/01
WSJ: Are Markets Efficient 12/28/00

Class 6 Active Management of the Equity Portfolio: Top Down/Bottom up
Emerging Markets Quarterly: What Matters for Emerging Equity Market Investments
(a report that is a bit out of date (1997) but has a good technical discussion on
asset pricing theory and risk measurements)
FT: How to read those annual reports
(a brush up for those who may have forgotten)
FT – Developing a Strategy for the not so global Village
NYT: 1/24/99 – Did Active Managers Really outperform during a global crisis
(note..this reading appears in the optional reading section on blackboard under the
heading where to find “unopenable” readings- u figure it out mjs)
How Others Actively Manage International Money

NYT: Investing: Julius Baer International Equity Fund 7/1/01
NYT: Putnam International Voyager Fund:

Class 7 and 8 Active Management of the Portfolio: ADR’s, GDR’s, Locals
FT: ADR’s a hit among the acquiring classes 4/16/01
FT: Spain Faces court case on “golden shares”
FT: ADRS mistake cost buyers $6 Million 6/8/01
FT: Regulatory Fears put brake on Indian ADR plan
NYT: NASDAQ debut of Chinese Stocks dampens Fever

Class 9
Global Finance
The Index Approach to Emerging Market Investing
FT: Morgan Stanley Redraws the World
FT: Indexing in Well Served-Up Slices
   (finding index info on the web)
FT: Index-Based Investing: An Industry enjoying life in the Fast Track
   (‘a once derided form of investment management has gained
    acceptance and achieved enormous growth in recent years’)
NYTimes
NYTimes
Number Crunchers Throw Asia Into a Tizzy: 8/99
   (chaos when Morgan rebalances the index)
The Index Monster in your Closet 10/99
   (‘closet indexing’ in portfolio management)
FT
FT
Mastering Investment: Indexing
   (a detailed description on index construction – for those
    who want to delve deeper into it)

Class 10
The use of Funds as an Investment Strategy
FT: Sectors gain as Country Funds Lose Appeal
   (ramifications of the Euro)
FT: Mutual Funds: Poor Returns that Disguise a Bonus for Investors 6/18/01
   (mutual funds offer returns that are lower than indexed funds...yet
    they remain very popular...why?)
FT: Home Economics Rule Overseas Funds 6/27/01
   (“Investor Irrationality...Foreign fund investors attitudes...are driven not
    by the foreign market but by the U.S. market...”).
FT: ETFs Continue to Grow – The Basket Approach
Are “socially responsible” funds gaining acceptance?
FT  Getting to grips with some Ethical Issues: 7/11/01
FT  UK Names Fail FTSE Good Ethics Test

Class 13  Emerging Markets Derivatives
LatinFinance:  Lingua Franca: - How to Speak like a Derivatives Native
Sassoon:     Investment in HSI Options:
             (what options are and how they work – a very good primer)
FT   Derivatives: The Use and Abuse of Derivatives: 5/14/01

Class 14  Emerging Market Currencies
for those looking for more details and a more technical analysis to currencies
Goldman Sachs  The Global Flow of Funds: Chapter 2
                (a look at Balance of Payments)
Goldman Sachs  Currency Options and Volatility Ch 11
The E.M. Group  Assessing E.M. Currency Risk
                (economic models and risk indicators)
JP Morgan      Introduction to hedging EM currency risk
FT:            A Hard currency – what are the benefits

Class 15  Emerging Market Debt and the Brady Bonds
Brady Bonds:
JP Morgan Tutorial:  Session 2: - Duration
JP Morgan Tutorial:  Session 3: The Rolling Interest Guarantee

Bonds – in general
FT:  Principles of Bond Portfolio Management
     (discusses the differences between bonds and equities ..and shows how investors select)
Salomon:  Understanding Duration and Volatility
          (a 1985 paper with an in depth discussion)

Class 16  Local Bonds, Swaps, Relative Value and the Repo
JP Morgan  Tutorial on setting up a bond swap
Siegel    A Total Return Swap Term Sheet for Mexican Cetes
Class 18  Globalization- The Lexus and the Olive Tree
Business Week: Global Capitalism: Can it be made to work better’
( “the truth is that market liberalization by itself does not lift all boats, and in
some cases, has caused severe damage”….. an interesting article)
Friedman: Altered States, NY Times June 27, 2000
(more views of T.F.
(a long, but excellent discussion of globalisation)
Economic Globalization: The Joys of Global Investment
(“by the turn of the century ..the developing world…will account for over 60%
of everything the world produces”…..)
Debating Globalization: Jihad vs. McWorld

Class 20  The Hedge Fund
FT: Why Risk Management is not a Rocket Science 6/00
The Case of the Rogue Economists

UBS Investing in Hedge Funds: The Basics Revisited

Class 22  What is Default and can you Protect against it
FT: Mastering Risk: Lenders and borrowers demand a creditable system 5/00
WSJ Capital: A Default in Slow Motion 11/01
I.M.F. On the Need for an International Lender of the Last Resort 1/99
Latin Finance Vaulting the Sovereign Ceiling
(should corporations be rated higher than the sovereign ?)
Warburg Asian Bonds: Debt by Name, Equity by Nature
(in credit crunches debt can behave like equity)

Technical Analysis
Merrill Credit Default Swaps
CSFB Implied Default Probabilities: A New Approach to Risky Debt
PROFESSIONAL EXPERIENCE

STERN SCHOOL – NEW YORK UNIVERSITY

- Adjunct Professor of Finance and International Business in the Graduate School of Business at NYU. The course is “Emerging Financial Markets“ and is listed as B40.3380 in the MBA program and C15.0023 in the undergraduate school.

LONG TERM CAPITAL MANAGEMENT, L.P.
November 1998

- Researched and traded relative value equity investments in Europe, Asia and Latin America. Traveled globally, most recently to South East Asia, to identify and evaluate potentially undervalued equity and fixed income investment opportunities in emerging markets.

- Analyzed and traded all emerging market debt in a relative value framework. The primary focus was Latin American Brady Bonds, with the major emphasis on Brazil, Argentina and Mexico.

- Conceived strategies for equity pairs trading. Created the ISDA swap agreements. Negotiated the cost structure with the broker dealers and had responsibility for trading these positions: included were voting and non-voting shares, ordinary and preference shares, holding company stub trades, and domestic and foreign registered securities.

SMITH NEW COURT SECURITIES

- Restructured Smith New Court’s Latin American equity department.

- Directed all research, sales and trading in Latin American equities.

- Selected the portfolio, managed, and traded a proprietary book in Latin American equities.
SAVOMON BROTHERS
Vice President and Manager of the International Equities Department

- Created and built the international equity arbitrage department. Head Trader and manager of a team of five traders and nine sales and research salespeople.

- Created and traded the first International Equity Index for the Wells Fargo Bank in 1975

- Co-Director of the first Institutional Emerging Equity Conference in 1981. Co-sponsored by Salomon Brothers and the International Finance Committee of the World Bank

- Developed and managed the Salomon Brothers- Russell International Equity Index

- Advised the countries of Brazil and Colombia in formulating their laws governing foreign equity investments.

- Built a $100 million Latin American equity proprietary book in 1989. That trading book increased from $100 million to $340 million over a period of two and a half years, producing a compound annual return in excess of 60%.

DONALDSON, LUFTIN AND JENERETTE
Vice President.

- Hired to start an international equity trading department for DLJ. Responsible for trading and sales of all international equities.

BOBBIE BROOKS INC.
CEO AND COO of the Max Siegel division of this major publicly traded apparel manufacturer.

MAX SIEGEL ASSOCIATES
COO of the largest popular-priced children’s apparel manufacturer in the United States. The firm employed 1000 people in nine operating divisions with factories in nine states. In 1965 Max Siegel Associates was acquired by Bobbi Brooks Inc.

EDUCATION

MBA, COLUMBIA UNIVERSITY, 1970
Finance. Honors: Beta Gamma Sigma

BA, UNIVERSITY OF VERMONT, 1956 (Go Catamounts)
Economics. Honors: Economic Honorary Society