

TW Notes on
Rucker Sharma Break out Nations

In 1600 China & India combined
for about $\frac{1}{2}$ of global GDP

From then to now the average term
a stock is held by an American
investor fell from 16 yrs to 4 yrs.

The myth of the long run
"The longest period that reveals clear
patterns in the global economic cycle
is... around a decade" p 2
most CEOs limit their strategic vision
to 3-5 + at most 7 yrs.

Big institutional investor base judgments
on 1, 3, + 5 yr periods

EM. Maria "Miracle of 2003"
"An unappreciated & warning point in the
course of the world" p 3 good fortune
spread to almost all EMs
"for ~~as~~ fact is, most emerging
growth spent low

"while central banks can print all the
money they want, they can't decide
where it goes" p 5

In 1970 81 of debt to 81 GDP to 5 in 2000
Obama hasn't realized that EMs
also see a new normal

World Bank upper middle income > 4K
structural inflation from wage demands
signal of growth slowdown

macro mania - obsession with
global macro trends - all that's needed
to evaluate particular investment class

Results in increasingly synchronized
movements in asset prices
herd behavior

Since 1960, only 4 companies have
remained in Dow Jones 30

P&G, GE, ATT, & Du Pont

India or Italy to become next

Brazil or next China

Economic regimes are in constant flux
"it is typical for people to cling to
dated ideas and rules for too long,
particularly notions that minimize
or explain away potential risks" p 2

His approach is to monitor a
wide range of things including the
size of second chain

If shadow banks are included
China's debt to GDP ratio rises to 200%
"off the charts for a developing country"

Stb market flat late 06 p 2
to late 08 p 27

"There is no magic in the reforms" p 29
He argues the repressed consumer is a myth

India - How the population
boom became a competitive edge
democratic dividend

Consulting jobs - treat with
detached amusement demography

"Brazil weathered the 2008 crisis
with relatively little damage" p 59

Hyper capitalism peaked in '74
at 2,100%

full blown welfare state without
high income $\approx 12K$

Why Brazil are heads at risk slow speed
too little investment poor infrastructure
dependent on high commodity prices

In India they see stark mkt reaction
on new budgets

"The impact of the vocal investor
class on critical national decisions
is tough to quantify, but I think
it's profound"

"The rise of leaders like Lula - who
campaign as radicals and rule as
moderates - reflects how the global
market culture effectively narrows
policy choices" p 7

CNBC editor ②

Mexico Tycoon economy

Behavior of stock mkt ~~has~~ decreased
from economy. main reason that,
drive the local economic overheat led
"Russia is an oil state that has
lost its way"

Following the tycoon "is a classic
mistake to make in emerging markets"

In 2008 over "The Kremlin
was basically unaware that many
Russian corporations were deeply
in debt" p 92

missing a financial ruble

Czech + Poland strong strong
Hungary former under Soviet
strong ideological discipline in C + E
started post USSR doing well
Conflict between H + global mkt from 2000
Govt sub to mortgages

Ave cost of factory works in China
\$450 m. up from less than 200 in '03
about 2x Thai, 3x Phil + 4x Indonesia

Indonesia came through GFC
largely unscathed
now by far the best-run large
commodity economy" (139)

2nd for len post crisis debt post
than any other large EM

Only SEA country with I/Y > '98
public debt / Y 97% in '98 32%
now 27%

55% of X commodities
Risks and corporate caution
"efficient corruption"

In 60s Philippines 2nd highest per capita
Y in Asia
Political instability - Thai also but
govt made better economic choices
remittances 10% of Y

Country risk pay Thai 70%, Indonesia 50%
Thai ag 40% of work force Phil 33%
70% of Y

"It's all about balance, a strength
taken too far is a liability" 144

X/Y 20% in '80 to 72% now

~ for Malaysia borders hit
than Phil + Indonesia X/Y < 30%

Malaysian growth of low quality
excessive G & fortunate circumstances

"... Malaysia's turn inward like sprenzi
from a misreading of the role that
"evil" speculation played in the crisis of 1998"
foreign p 149

"The first to flee are most often the
well-positioned insiders"

"A rule of the road: watch the
locals, they are always the first
to know" p 149

In crisis money flows in
3 phases, large local investors
- back channels E+D

2 foreign creditors ST bank loans

3 last to go, foreign investors in
local stock mkt

but easiest to spot

addition to central planning
famous for grand schemes
that don't work; but have
cleaned up banks

He goes to Seoul to take the pulse
of the global economy

good, fast data

"... the KOSPI index... provides
a highly accurate picture of
global trends" 153

" South Korea and Taiwan are the
of gold medalists in the global
economic race " p 153

C14 75% in 70s now 53%

still digging out from credit card crisis
household debt 14 146%

" A rule of the road: don't get
hung up on rules "

Germany of Asia

In '03 2/3 X to advanced economies

now 2/3 to developing

Xed more to China than US

X/4 53% ↑ 20 from 2000

98 Japan kept companies apart
in K ~40 of big corps went away

" My sense is that what matters
is not so much like the political
system or the motivations and
vision of the leaders "

Korea - strong corporate model, family owned
but publicly traded & professionally managed
K for 30 companies of 70%
K did not due to concern about family run firms
One of the last largest conglomerates born from
Dachwong Korean banks

⑦

The boundaries of the 4th world
are defined not by poverty but the
val of law ~ 50% development a country
~ 35 constantly changing frontiers
~ 100 off investor money

macro money in EM, on last decade
Middle East not isolated from global
mkt

Saudi Arabia only open to investor from Gulf
spectacular bubble in '05 mkt rates
become 7 China & India

"When a bubble pops in the Gulf it does
not make a sound" 189 1/5 9 Saudi
day trading, 1/20 in US in tech

"Vietnam is a glaring example of a stable
command capitalist system led by mass
richer just don't get the basic of
economic reform" 199

Saudi mkt still ↓ 50% from peak

Arthur Miller "An era can be said to
end when its basic illusions are
exhausted"

hope
Current illusion - Commodity com ~ to tech
"Commodity com is driven by fear and a total
lack of faith in human progress" 224
only with investor (8)

"The most dangerous herd behavior" 225

"in recent years investors have been treating all rich assets as the same animal" 228

not just globalization but many things
feeling bubbles not growth

think China - commodity connection
will fall apart soon

won't face a lot of food shortages
last decade but performance stocks were
material and energy

China's coming slowdown will bring
transformation, next decade

US strength in technology

Three coming of EMs 1 mid 80s
to crisis, 2 global boom of 2009

3 now "new era" defined by moderate
growth, the return of the boom-but business
cycle, and the brake up of herd
behavior" 243

"The growth game is all about expectations"
Best chance of breakout 20-25% 244

Korea + Czech 10-15 Turkey + possibly Poland

5-10 not likely Thailand but what

under 5 Indonesia, Philippines, Sri Lanka
Nigeria and several in East Africa

only after 2000 that EMs started to
converge with advanced ⑨

Unleash vice of emerging powers will help
revive the self-confidence of the West
Chinese more realistic about their factors
than foreigners

German x14 24% in 95 45% in 2011
from 1861 to 1982 US in recession
≈ 1/3 of time, since only 11%

3 optimum ~~are~~ 6-10 yr periods are 3

The 2 recessions ↓ 17% for 2 Q,
are 7% for 5 Q

QE has done more harm than good
mainly going into speculation

"Volatility may be scary, but it's not necessarily
bad for long-term growth" 251

Advancing hard landing for reform
Japan biggest bubble in history burst
with no pain

Lack of urgency in many EMs

Brief conflict of interest

2008 undermined credibility of most economic
role models

"Creating the right conditions for rapid growth
is more art than science." 254

Head of EM equities and global ~~markets~~ ^{macro}
at Morgan Stanley Investment Management