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Global investing: Sounds lucrative, but it can be costly to venture out blindly

Synopsis
Global investing is extremely complicated, difficult. In fact, it can be downright dangerous because of a million factors affecting companies and markets at lightning fast speed.

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Co-founders, First Global

Shankar Sharma heads the global strategy group at First Global. Referred to as 'The Alchemist of Dalal Street' by Forbes magazine, he is known for rightly predicting the 2000 dotcom bust, the 2008 market crash, the Indian market bull run since 2009, the oil price crash in 2008 and the oil bull market in 2016. A Dean's List alumni from Asian Institute of Management, Manila, Sharma had a successful stint with Citibank, before founding his own venture, First Global (www.firstglobalsec.com) in 1990. He is very active on social media and can be followed at Twitter (https://bit.ly/3fIPN68), Facebook (https://bit.ly/3kkHQYf), LinkedIn (https://bit.ly/3fFwt9A), Instagram (https://bit.ly/3gO1klC) and Youtube (https://bit.ly/3ih1z9h). Devina Mehra, Co-founder and Chairperson of First Global, is an IIM-A gold medalist. She, too, had a seven-year-long stint at Citibank before launching India's leading institutional brokerage firm. She spearheaded First Global's globalisation over two decades ago, making First Global the first Asian (ex-Japan) firm to become a member of the London

First things first. Why must you invest globally?

The short answer: For protection and growth of your wealth. For example, over the past 10 years, the Indian market has delivered almost zero returns in dollar terms as against MSCI World, which is up 2.5 times!

So, being invested only in India has made you substantially poorer in relative, dollar terms.

And this is even without factoring in the risk of possible one-time large-scale economic crises or recessions - the sort seen by the Asian tigers in the late 90s and by Japan through several decades.

In such cases, investors who had exposure only to their home markets saw massive wealth destruction.

What this means is that you must avoid single country, single currency, single asset risks (SCCARs) at all costs.

Stock Exchange and then the NASD. Some of her major calls were identifying the cashflow turnaround in Amazon at a price of $11 and highlighting the accounting shenanigans in Worldcom and Enron well ahead of the scandals. Her twitter handle is @devinamehra. Both of them have been quoted widely on Global as well as Indian markets by global financial media like Wall Street Journal, Barron's, Business Week, Fortune, Forbes, CNBC, Financial Times etc

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Therefore, the only way you can protect and grow your wealth as an Indian is to diversify globally.

Which brings us to the second question: How do you do **global investing** the right way?

Global investing is extremely complicated, difficult. In fact, it can be downright dangerous because of a million factors affecting companies and markets at lightning fast speed.

Just think of how difficult it is to even keep track of all the factors impacting Indian companies, and multiply that complexity level by one million times!

For example, there are hundreds of companies across the world that do business in literally hundreds of countries, with subsidiaries that could be well in excess of a hundred; each with different levels of complexity.

Recently, a very well-regarded UK fund manager lost a huge amount of money on a company called **Wirecard**, when a fraud was discovered. A similar thing happened with Chinese company Luckin Coffee.

Begin to see the picture?

So are ETFs and feeder funds into, say the **Nasdaq**, the answer? Unfortunately, it’s a clear no.

By entering the equity market in another single other country, you are not getting rid of SCCARs – the only difference now is that instead of one country, you have exposure to two countries – still only in equities. Hence, the risk still remains almost as high.

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The other very real issue: feeder funds/ ETFs just put you into another country/asset class, which is the most popular at that point in time

And, usually, that ends badly. Almost every year a different market or asset class does well.

Take a look at the table below, which can be an eye opener. See how rapidly global leadership keeps on changing year to year.

Denmark was the best performing market in 2015. 2016 belonged to Brazil. And see where it is now. 2019 belonged to Russia! Brazil did very well too. In 2020, Russia, Brazil (and India) are now right at the bottom! Nasdaq keeps on going in and out of the list of top performers!

Yearly Global Market Performance

	CY 2015 (%)		CY 2016 (%)		CY 2017 (%)
Denmark	14.80	Brazil	69.10	Turkey	37.40
US-Nasdaq	8.40	Russia	52.00	South Korea	36.90
Japan	8.00	Thailand	20.50	India	36.20
China	4.70	Indonesia	17.90	Hong Kong	35.00
Belgium	1.10	Taiwan	12.80	S.Africa	32.60
Italy	1.10	US- S&P 500	9.50	US- Nasdaq	31.50
US- S&P 500	-0.70	S.Africa	8.10	Italy	29.50
Germany	-1.70	Amsterdam	6.10	Amsterdam	28.50
Switzerland	-1.90	Australian	5.90	Denmark	28.40
France	-2.50	US- Nasdaq	5.90	Germany	28.20
Msci World	-2.70	Msci World	5.30	Singapore	27.90
Russia	-4.30	Japan	3.80	Belgium	25.70
South Korea	-5.20	Germany	3.30	Taiwan	25.60
Amsterdam	-6.50	France	1.80	Thailand	25.10
Hong Kong	-7.10	South Korea	1.20	Brazil	24.70
Philippines	-8.40	Hong Kong	0.30	France	24.50
India	-9.30	India	-0.70	Philippines	24.00
UK	-10.10	Singapore	-2.10	Japan	23.40
Australian	-12.60	UK	-4.10	Spain	22.40
Taiwan	-13.90	Spain	-4.90	Malaysia	20.90
Mexico	-14.70	Denmark	-5.00	Indonesia	20.60
Spain	-16.60	Belgium	-5.40	Msci World	20.10
Singapore	-19.90	Philippines	-6.80	US- S&P 500	19.40
Indonesia	-21.20	Malaysia	-6.90	Switzerland	19.20
Thailand	-21.60	Switzerland	-9.30	UK	17.90
Malaysia	-21.80	Turkey	-9.90	Australian	15.90
S.Africa	-22.30	Mexico	-11.40	China	13.60
Turkey	-33.00	Italy	-13.20	Mexico	13.40
Brazil	-42.00	China	-18.00	Russia	0.50

Source: *Text to come*

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Yearly Global Market Performance

CY 2018 (%)		CY 2019 (%)		CY 2020 (%)	
US-Nasdaq	-1.10	Russia	44.90	US-Nasdaq	16.30
Brazil	-1.80	US- S&P 500	37.90	Denmark	13.20
India	-3.00	US- S&P 500	28.80	Taiwan	-2.00
US- S&P 500	-6.20	Switzerland	28.10	Switzerland	-3.30
Russia	-7.50	Brazil	26.90	China	-3.60
Malaysia	-7.60	Taiwan	25.90	US- S&P 500	-4.00
Indonesia	-8.30	Italy	25.70	Japan	-4.90
Japan	-10.40	MSCI World	25.20	MSCI World	-6.70
MSCI World	-10.40	France	23.90	Germany	-6.80
Thailand	-10.80	Denmark	23.50	Amsterdam	-7.30
Switzerland	-11.20	Germany	23.00	South Korea	-7.40
Taiwan	-11.20	Amsterdam	21.50	Malaysia	-9.80
Singapore	-11.60	China	20.80	Turkey	-11.60
Hong Kong	-13.80	Japan	19.80	Hong Kong	-12.90
Amsterdam	-14.70	Belgium	19.60	Australian	-13.40
France	-15.20	Australian	18.10	Belgium	-15.80
Mexico	-15.50	UK	16.70	France	-17.30
Australian	-16.10	India	11.90	Italy	-17.30
Philippines	-17.00	S.Africa	11.90	Thailand	-17.80
UK	-17.50	Turkey	11.50	Philippines	-18.90
Denmark	-17.60	Thailand	9.70	India	-20.20
Spain	-19.00	Hong Kong	9.70	S.Africa	-20.60
Italy	-20.20	Spain	9.60	Russia	-21.60
South Korea	-20.40	Mexico	8.90	Singapore	-22.50
Germany	-22.20	Philippines	8.20	UK	-23.70
Belgium	-22.30	Singapore	6.50	Spain	-24.20
S.Africa	-23.40	Indonesia	4.40	Indonesia	-24.30
China	-28.70	South Korea	3.80	Mexico	-29.00
Turkey	-43.40	Malaysia	-5.00	Brazil	-39.50

Source: *Text to come*

ETMarkets.com

If you look at history of how fund products are made and marketed, they come only when a theme has become ultra-popular. For example, the maximum number of tech funds in India came out during the tech boom of early 2000!

Similarly, Emerging Market funds became the rage towards the end of the emerging market boom of 2004-07. Both of these hotly marketed themes ended badly within one or two years!

The problem, in short, is that fund houses are always forcing you to chase the currently popular market. And in investing, what's popular is usually already obsolete.

As the lay investor, by the time you hear of and are convinced of a particular investment story in a certain market, the story is most likely over.

What is required is an investment strategy that is truly global, truly across countries/markets and asset classes.

Plus, asset allocation itself has to be both tactical and dynamic. What that means is that your fund manager should be able to tactically move into newer asset classes, countries, sectors and companies.

Calendar 2020 has been a great learning laboratory: one has had to deftly move from equities to investment grade debt, US treasuries, back to equity, gold, oil, etc! All in just three months!

If your asset manager does not have the skills to do that, you will see significant losses. Without any doubt.

There is absolutely no doubt that every investor must diversify globally. But the key learning we have in our 25 years of doing global investing and managing global assets across the world is: be very, very careful, and do proper, deep analysis before you venture out.

Ask very tough questions of whoever is advising you on global investing. There are plenty of amateurs, pretending to be experts.

Catch the debate around the article here:

Why since 2015. Let us do since 2004.India has outperformed Warren Buffett in usd terms over 2004 to 2020 https://t.co/ZK1OYTntxu
— Samir Arora (@Iamsamirarora) 1594891439000

*(**Shankar Sharma** and **Devina Mehra** are Founders of **First Global**, a Global Investment Management & Securities House.)*

(Disclaimer: The opinions expressed in this column are that of the writer. The facts and opinions expressed here do not reflect the views of www.economictimes.com.)

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