HORIZON RESEARCH GROUP

MSCI Emerging Markets

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Since its inception date of April 7, 2003, the iShares MSCI Emerging Markets ETF (EEM) has had an annualized rate of return of 14.69%, a remarkable number. Even more remarkable is that the three-year standard deviation was 19.68%. That standard deviation is not very different from that of a developed nation. Furthermore, it has had only one year of single-digit one-year returns since its inception, so it has this same property as the developed nations. In other words, it is more likely to produce a double-digit single-year return.

The index has a standard deviation consistent with developed markets and a 14.69% rate of return from the inception date, which is more than twice the rate of return of developed markets. That is why so much money is going into it and the main factor that people are considering. It is superior, from an investor's point of view, from an academic's point of view, and from a statistician's point of view. They believe it to be a superior rate of return for a comparable standard deviation.

The fund, EEM, has total net assets of $31 billion. Vanguard's FTSE Emerging Markets Index (VWO), which is a different index orchestrator of almost the same index, has $62.4 billion in it simply because it has a lower fee.

Are these really superior growth vehicles? Looking inside, one will find the Industrial and Commercial Bank of China and China Mobile. Are these really growth companies? Is it conceivable that the Industrial Bank of China will grow at 15% a year? Is it readily conceivable that China Mobile is going to grow at 15% a year, when everybody, really, in China already has a mobile telephone? Even the Chinese government does not want China Mobile to dominate the market the way it does now, and it has taken steps to prevent China Mobile from gaining market share.

Similarly, are companies like Samsung and Taiwan Semiconductor emerging market investments? Are they not really developed market investments, since their products are sold in developed markets. Why, therefore, should their rates of return be any different than those of developed markets? For the period subsequent to the end of 2007, the rate of return of the emerging markets has not been significantly different from that of the developed markets. These are facts that investors should examine.