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Personal Wealth
Management



GHP
Global Markets

A World of Opportunity, Despite Weak Markets in 2014

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Every four years the U.S. Department of Energy conducts its “Residential Energy Consumption Survey”. The most recent published results are from 2009, but they give us tremendous insight into the American standard of living. Out of 113.6 million households in the United States, 113.4 million have a refrigerator (99.8%). Similarly, more than 99% have an oven or stove and 96% have a microwave oven. Washing Machines can be found in 82% of American homes and Dryers in 79.4%. Surprisingly more homes have air conditioning (87%) than Washers or Dryers, but central air is only available in 63.3% American households. Of course, televisions are also nearly ubiquitous (98.8%). Electricity can be found in nearly 100% of American homes and per capita electricity consumption in the United States is 13,246 Kwh according to the World Bank (a 1.5% total increase over ten years).

Meanwhile, per capita electricity consumption in Indonesia grew by 63% over the past decade, but still only amounts to 679 Kwh. Indians consumed 684 Kwh in 2011, up from 392 in 2001 (a 75% increase). Peruvians increased electricity use by 77% since 2001, but their 1,228 Kwh per capita consumption is still just 59% of Mexico’s level (2091 Kwh) or 22% of Spain’s (5529 Kwh). China increased per capita electricity consumption by a whopping 206% from 2001 to 2011 to 3,297 Kwh. (www.worldbank.org)

In China’s cities approximately 95% of households now own a refrigerator, up from only 10% in 2004. Despite this phenomenal growth, less than 25% of meat remains properly cooled due to inadequate refrigerated transport and warehousing. For fruits and vegetables, only 5% of supply is distributed

through a “cold chain.” By comparison, 70% of the American food supply enters the cold chain during transportation, warehousing, or retail. Chinese consumers now own refrigerators, but they still need to build refrigerated slaughterhouses, distribution centers, trucks and grocery stores. (New York Times Magazine, “What Do Chinese Dumplings Have to Do With Global Warming; July 25, 2014)

We remain invested in global stock markets because we want to tap the vast opportunities still available around the world. Markets are weak this year as investors worry about the potential for rising interest rates in the United States, economic stagnation in Europe, conflicts in the Middle East and Ukraine, and slowing economic growth in China. All of which are valid concerns. In the coming years, however, billions of consumers around the world will purchase their first refrigerator, automobile, mobile phone, or other home appliance. Others will buy, remodel or expand their homes, or shop in supermarkets rather than street vendors or small bodegas. Many will finance these purchases with their newly established bank accounts, home mortgages, or credit cards.

Another reason we invest abroad is to tap innovations from increasingly diffuse sources. High technology goods comprise 45% of Singapore’s manufactured exports, 44% of Malaysia’s and 26% of South Korea’s versus 18% of U.S. manufactured exports. (www.worldbank.org) Samsung – a South Korean firm - sells more smartphones than Apple (although it reaps a much smaller share of the profits). South Korea also boasts the fastest average internet connections in the world and the highest broadband internet penetration. (www.akamai.com) It is no accident that many Korean firms are leaders in mobile devices, online gaming and smartphone apps.

Technology is allowing developing countries to leapfrog the industrialized world in a variety of pioneering areas, many of which will ultimately become commonplace for Americans as well. Kenya is the world leader in mobile payments with 83% of its 31 million mobile phone subscribers utilizing mobile payment services. Kenyans storing money on their cell phones to pay for groceries, electric bills and other services amounts to \$24 billion, or more than half of Kenya’s GDP. By comparison, a much smaller proportion of Kenyans maintain traditional bank accounts. (Communications Authority of Kenya; The Economist, September 20th-26th)

Stock market investing can often try our patience as markets remain moribund for extended periods of time. Global markets performed decently in 2013, but well behind the U.S. and this year they remain largely flat. Nonetheless, we will maintain our international allocations to capture some of the world’s long-term opportunities. This year investors focused on conflict and stagnation, at some point, however, they will once again wake up to opportunity. The unpredictability of these psychological, financial and economic shifts is why we continue to believe in a diversified approach to portfolio management.