

## The right time to invest in Emerging Markets hedge funds

With the strong correction in Emerging Markets (EM) and the decrease in capital flow in these markets, it is legitimate for international investors to question themselves whether or not timing is right to invest in EM hedge funds. The answer is: yes, for several reasons.

### Stable Macro

Globalization is in full speed meaning that 7 bn people around the world want to live like westerners. This situation is unique in men's history and is a deep energizer for all EM economies.

Most fundamental indicators are strong. Except for inflation, all macro indicators are positive in Emerging Markets: strong state budgets surplus, healthy currencies, fairly low interest rates, strong internal demand and exports especially for Russia and Brazil.

### Favourable Market environment

Valorisations are cheap, sometimes 50% cheaper than 6 months ago, for instance in China or India. This is a classical entry point.

Volatility is strong, which is a good factor for many hedge funds. Deep value managers are the ones loosing on current markets but traders, arbitrage, fixed income, distressed and other niche managers benefit from such market conditions.

Emerging markets are still inefficient which sources opportunities. As Steve Cohen mentioned in an interview on June 5th "There is a lot of opportunities for growth in Asia. The game is changing. Stock markets are starting to develop all over the world, and that creates opportunities. In Asia, the markets are more inefficient and consequently, you can do probably better over there in the sense that if you do good analysis, you create a better edge there than you can in the US."

Despite the liquidity issues in the markets, liquidity in EM has improved substantially. As Bruce Covner from Caxton mentioned in an interview on May 20th: "In the past decade, non-US markets have become more liquid, there are many more opportunities in emerging markets »

### Changes of strategies

In this new environment, EM hedge funds managers are the first to adapt. New strategies are implemented: long only managers start to use shorts; new strategies are emerging like distressed and relative value. Even star managers like Luis Bacon, founder of Moore Capital have shifted their focus. In an interview on June 3rd, he said " We've been pretty US and European-centric throughout most of Moore's history but our focus is shifting now because micro markets - and those can be anything from individual stock to commodities and emerging markets - are becoming more and more dominant. All emerging markets managers are more concerned with the search for alpha than ever. They have all integrated that market ride is not enough anymore to produce good returns."

### Emergence of an industry

As a consequence, the real start for the hedge fund industry in Emerging markets has come. Let's draw a parallel with the 2000 Internet Bubble Implosion. 2000-2003 has been one of the best periods of growth for the hedge fund industry simply because hedge funds were the only players to propose an antidote to the Markets slide. Let's bet that EM hedge fund managers will experience the same for 2008 - 2010.

### Search for the best

It is now time to seriously look at the right managers in Emerging Markets; the markets are becoming mature for them.

**Pierre Lavaud**  
CEO  
[www.jetfin.com](http://www.jetfin.com)  
Geneva