



**NEW YORK UNIVERSITY
STERN SCHOOL OF BUSINESS**

GB 3384.60

EMERGING FINANCIAL MARKETS

**MARTIN J. SIEGEL
SUMMER SEMESTER 2013**

COURSE DESCRIPTION:

The world is changing. Both public and private pools of capital look upon emerging markets as quite a different sort of opportunity today as compared to just five years ago. No longer are they merely a diversification play relative to developed markets nor are they primarily an export driven leveraged play on global growth. Today, global investors are increasingly looking upon the rapidly growing internal markets of the emerging economies as a long term structural investment opportunity in its own right, facilitated by favorable demographics, domestic institutional development, and increasingly market-oriented policy reforms.

The perspective in this course is that of an investment manager, specializing in emerging and frontier markets, responsible for optimizing performance of investment portfolios at a bank, pension, endowment or mutual fund. Investment opportunities in emerging financial markets around the world are examined with respect to performance optimization and global risk diversification, against a typical backdrop of high per capita income growth, low leverage, favorable demographics, accelerating urbanization, and improving transparency at both the macro-policy and corporate governance levels. Challenges considered include political risk, currency risk, asymmetric information, speculative pressure and market manipulation. Liquidity limitations, legal constraints and varying accounting rules and standards also pose challenges to emerging market investors. These unique challenges also provide unique opportunities that are not available in developed markets. Asset classes range from equities, currencies, bonds, and derivatives to real estate and private equity.

Class discussion and reading focus on both the theoretical background as well as practical knowledge necessary to successfully navigate the opportunities and pitfalls of emerging and frontier market investing. The course will also include a select group of guest speakers who will share their first hand knowledge and accounts of investing and operating in emerging markets

Prerequisite:

Foundations of Finance or the equivalent

Course Organization:

Class participation and attendance will count for 20% of the grade. If you cannot attend a lecture I expect an e-mail notification prior to class. Failure to do so may affect your grade.

The mid-term examination will count for 40% of your grade. The remainder of the grade (40%) will be a final examination. Reading preparation, attendance and class discussions are an integral part of this course. It is most important that students keep up to date with the readings for the course as exam questions will be taken from the readings in the syllabus and from non-graded problem sets and assignments that may be distributed during the semester.

It is anticipated that there will be guest lecturers for certain classes, subject of course to any changes that may occur in their schedule.

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FORMAT OF THE LECTURES

Each 3 hour session will be divided into two different presentations. Each one will run for approximately an hour and twenty minutes with a twenty minute break in between.

REQUIRED READING

Friedman, *The Lexus and the Olive Tree*. Farrar Straus 1999

Required reading assignments will be found in three different locations.

A Reading Package (RP) is required and is available at the bookstore

Additional Required Readings on Blackboard.

Additional Required Readings posted on Blackboard. **(BB)**.

OPTIONAL READINGS

There are news articles that I think are relevant for the course. They are also posted on Blackboard under **MEDIA**. Some are a bit outdated but still worth the read.

There are additional optional readings that have been posted to Blackboard.

It is for those students who would like to get additional insights into the Emerging Market field.

I repeat that they are optional and you will not be tested on their content.

SUGGESTED READINGS

The Wall Street Journal

The New York Times

The Financial Times

The Economist

WHO ARE YOU ?

At the second class, I would appreciate your submitting (typed) the following information:

Who are you? What are your goals, ambitions and other relevant topics ...and who do you wish to be, along with your educational background and work experience

Attach your photo.

Your E Mail Address and phone number

Please note that I can be reached on E-mail: MJSIEGEL@MSN.COM

That is preferable to using my mail at NYU as I do not check the NYU mailbox on a daily basis.

If necessary I can be reached at home: 845 786 5446

SUGGESTED OUTSIDE READINGS

I am often asked what books I have read that I thought were truly a worthwhile “read”. I would offer up the following two:

Reminiscences of a Stock Operator by Edwin Lefevre (in soft cover)

If you are or want to consider being a trader on Wall Street, this book written in 1923 is still considered the bible of stock trading, and a great book to read.

F.A. Hayak – The Road to Serfdom

Liars Poker – Michael Lewis

The days that Michael spent at Salomon Brothers before becoming a famous author.

Notebook computers:

Notebook computers are an interesting pedagogical issue. I recognize the perceived value of computerized, real-time note taking, but feel the cost in lost focus and poorer discussion outweighs that value. Accordingly, I will make my materials available well in advance of class on Blackboard, so you may print them out and use them for note taking. Please do not have your notebooks open while class is in session.

NOTES ON THE READING MATERIAL

I have always invited speakers, who are highly regarded working professionals in their field, to address a few of my classes. I feel that it was a wonderful way for the students to get different perspectives and viewpoints on the world of emerging markets. This has been borne out by the student's comments at the end of the semester.

Unfortunately while the syllabus and reading lists for this class have to be submitted to the school bookstore far in advance of the semester, the travel schedules of the guest speakers are not set till much later.

In order to accommodate their travel schedules it may be necessary to change the sequence of some of the lectures. Since you are all MBA's at Stern I am sure that this inconvenience will not deter you from finding the correct readings for each lecture.

COURSE OUTLINE

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PHASE 1 AN INTRODUCTION TO THE EMERGING MARKETPLACE

CLASS 1 – TUESDAY MAY 14

Part I

WELCOME TO MY WORLD – THE EMERGING MARKET STORY

(RP) Papaioannou and Tsetekos: Emerging Market Portfolios –Ch. 2
Patterns of Development in Emerging Capital Markets

Part 2

INVESTMENT OPPORTUNITIES IN EMERGING MARKETS

(RP) Smith, Walter: Risks and Rewards in Emerging Market Investments

(RP) Malkiel & Mei: Global Bargain Hunting
How Diversification can Reduce Risk

(BB) Salomon Brothers: Reasons for Global Investing

(BB) India and China are the only real BRICs in the wall FT 12/06

(BB) How Carlos Slim Makes Decisions FT 7/13/07

THE BENEFITS OF DIVERSIFICATION

(note: The diversification argument is a key factor when considering investments in Emerging Markets. I assume you are all familiar with MPT so we will not be discussing this during the class, but if you have questions please do not hesitate to ask

CLASS 2 – THURSDAY MAY 16

Part 1

THE PROBLEMS WITH EMERGING MARKET INVESTING

(RP Papaioannou and Tsetkos: Emerging Market Portfolios Chapter 3
Bruce: A Survey and Synthesis of Problems and Opportunities
in Emerging Capital Markets.

(RP) HBS: Hong Kong's Financial Crisis 1997- 1998

(BB) CSFB Others Face Harrowing Escape

(BB) A Night of Horror Unfolds in Jakarta

(BB) Investing in Saigon – Problems for a Portfolio Manager

(BB) A former student: A Real Estate Deal in Russia Turns Sour

Part 2

INDEXING AND THE USE OF CLOSED END AND OPEN ENDED FUNDS.

BB) Morgan Stanley Introduction to the M.S.C.I.

(BB Goldman Sachs The New MSCI Indexes: Highlights
and Implications

(BB) Efficient Markets and Indexing: FT 8/03

(BB) Can Portfolio Managers Outperform an Index: FT 7/03

(BB) Will Active Managers Invest Passively: Economist 5/0

(BB) Navigating Routes to Foreign Markets NYT 1-/04

THERE IS NO CLASS ON TUESDAY MAY 21

CLASS 3 THURSDAY MAY 23**PART 1**

**GUEST SPEAKER: JOYCE CHANG: Managing Director and Global Head
Of all Emerging Markets: J P Morgan**

EMERGING MARKETS- SPECULATIVE BOOM OR LONG TERM INVESTMENT

- (BB) Irreplaceable Exuberance NYTimes Editorial 8/30/05
- (BB) Pension Funds Weigh the Risks of EM Investing: FT 9/03
- (BB) Investing in Russia is not always Easy.: Economist 11/03
- (BB) An EM Problem: Contagion : July 2006

Part 2 THE EXCHANGE TRADED FUNDS (ETF'S)

- (BB) Investors Flock to Emerging Mkt ETFs FT 7/2/05
- (BB) A Comparison ETFs and Funds
- (BB) ETF's – A Primer
- (BB) International Funds continue to Grow 8/0

Class 4 – TUESDAY MAY 28

Part 1

GUEST SPEAKER: TBA

WHAT IS DEFAULT AND CAN YOU PROTECT AGAINST IT

(BB) Salomon The Risks of Sovereign Lending: Lessons from History

(BB) The Dream Machine: Financial Times 3/26/06

Part 2

THE EQUITY PORTFOLIO

1. ADRS, GDRS, OR LOCAL SHARES- DOES IT MATTER

(BB) Siegel: Additional Thoughts on ADRS
(notes from my files)

(BB) Siegel notes: How to invest in markets when the local market is closed to foreign investors:

Daewoo Securities: Guaranteed Equity Linked Notes

Flemming: Indian Participation Note

BZW: Foreign Premium or Local Discount: Why pay less?

Siegel: Notes on a swap in Singapore Airlines

(BB- ADRS can Add 10% to Stock Values: FT 10/03

(BB) ADRs and GDRs – Does it Matter: FT 7/03

(BB) Using ADRs to Circumvent Currency Controls FT 8/03

(BB) If a Market “Opens” the Premium may Disappear: WSJ 7/

Class 5 THURSDAY MAY 30

Part 1 GUEST SPEAKER : DON DEVIVO: Principal: Zesiger Capital

ACTIVE MANAGEMENT OF THE EQUITY PORTFOLIO

(BB) NYT: Krystof, Wyatt: Who Went Under in the World's Sea of _____ (Cash)

(BB) Siegel: Business Plan – November 18, 1998
(my proposal to manage equity money in Emerging Markets)

(BB) Siegel: Asian Trip – May 10, 1998
(my report to the Risk Mgt. Committee after a trip to Asia)

(BB): Anna Quindlen: Thoughts on Life

(BB) Steve Jobs Commencement Address: Stamford 2005

Part 2 ACTIVE MANAGEMENT OF THE EQUITY PORTFOLIO

TOP DOWN / BOTTOM UP

(RP) Van Agtmael: The Worlds Emerging Stock Markets Chapter 4
Portfolio Management in Emerging Markets

(BB) In EM following an Index Might not be as Good as Active Management: FT 8/03

(BB) The Dangers of Selling Short

(BB) What does Selling Short mean.
(CC)

CLASS 6 - TUESDAY JUNE 4

Part 1

THAILAND EQUITY TRADE

Handout: The Thailand Equity Trade

Part 2

A TRADING STRATEGY IN EMERGING EQUITIES

(BB) Siegel: A Convergence Trade through the Swap
Format

(RP) Case Study – The Royal Dutch / Shell Trade
HBS

CLASS 7 - Thursday June 7

Part 1

GUEST SPEAKER: TBA

A TECHNICAL VIEW OF EQUITY MARKETS

Part 2

MID TERM EXAMINATION

CLASS 8 - TUESDAY JUNE 11

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Part 1 EMERGING MARKET CURRENCIES

- (RP) Fong: Currency Risk Management in Emerging Markets
- (RP) HBS: The 1994-95 Mexican Peso Crisis
- (BB) Why Exchange Rates Matter: NYT 6/3/04
- (BB) Fear of Floating: Economist 8/03
- (BB) McCurrencies and the PPP
- (BB) Personal Investing: CDs Now Offered in Foreign Currencies NYT

Part 2 ELECTRONIC GLOBALIZATION – THE NEXT STEP ?

- Friedman: The Lexus and the Olive Tree
- (BB) Friedman: Small and Smaller NYT 4/7/04
- (BB) Friedman It's a Flat World After All NYT 4/4/05
- (BB) Tom Friedman's Commencement Address NYU - Summer 2005
- (BB) An Argument in favor of sweat shops...NYT OpEd 6/6/6
- (BB) A New Twist - Pay for your globalization WSJ 8/9/06
- (CC)Working for \$2.00 a day: NY 8/17/06

CLASS 9 - THURSDAY JUNE 13

Part 2 EMERGING MARKET DEBT AND THE BRADY BONDS

- (RP) Luis: Emerging Fixed Income and Local Currency
An Investment Management View
- (BB) The allure of emerging markets FT 7/27/06
- (BB) JP Morgan Brady Valuation Tutorial
Session 1. Introduction to Stripped Yield
- (BB) JP Morgan
Introduction to the Emerging Bond Index
- (BB) JP Morgan
Introduction to the Emerging Bond Index Plus (EMBI +)
- (BB) The use of Credit Default Swaps (CDF's)
Note: There are 4 articles on CDF's in the Media section for those who may be interested in the subject.
- BB) JP Morgan to offer local currency government bonds FT 6/14/05
- (BB) Morgan Stanley: Emerging Market Repo
- (BB) Can an Individual do a Repo ? JP Morgan
- (BB) EM Local Currency and Bonds: Ft 6/03
- (BB) Sovereign Debt in local currency WSJ July 05
- (BB) The Repo Man
- (BB) Finding Opportunity in EM Debt June 20

Part 2 LOCAL E.M. SOVEREIGN AND CORPORATE DEBT

CLASS 10 TUESDAY JUNE 18

PART 1

GUEST SPEAKER

**DAVID HALPERT: Principal
Prince Street Capital Mgt.**

EMERGING MARKET DERIVATIVES

(RP) Emerging Markets Portfolios: Chapter 11
Derivatives in Emerging Markets

(RP) HBS: Introduction to Derivative Instruments

(BB) The use of Non-Deliverable Forwards (NDF)

(BB) Credit Default Swaps (CDS)

PHASE V -

CONVERGENCE, RELATIVE VALUE AND SWAPS

Part 2

THE HEDGE FUND

(BB) NYT: Lewis: How the Eggheads Cracked

(BB) Muehring: Institutional Investor: John Merriwether by the
Numbers

(BB) When Genius Failed

(BB) Bob Rubin discusses Russia and LTCM...

CLASS 11 THURSDAY JUNE 20

GUEST SPEAKER: Luis Oganés, Managing Director, Head of Latin America for JP Morgan

**THE CRISIS IN SOUTH EAST ASIA AND LATIN AMERICA
WHAT WENT WRONG**

- (RP) Goldstein: The Asian Financial Crisis: Causes, Cures
Ch 2: Origins of the Crisis
- (BB) NYT: Kristof and Sanger: How U.S. Wooed Asia to Let Cash
Flow In
- BB) Kristof and WuDunn: Of World Markets, None is an Island
- (BB) Kristof: World Ills and Obvious, the Cures Much Less So
- (BB) Dornbush: A Primer in Emerging Market Crisis

Part 2 -

FINAL EXAMINATION

Class 12 – TUESDAY JUNE 25

PART 1 LONG TERM CAPITAL MANAGEMENT – A CASE STUDY

GUEST SPEAKER Richard Leahy, Partner JWM Partners and former partner Long Term Capital Management

(RP) HBS. - Long Term Capital Management – A

(RP) HBS- Long Term Capital Markets- Presentation C

Part 2

WHERE DO WE GO FROM HERE

A wrap of the semester by Professor Siegel

MARTIN J. SIEGEL

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PROFESSIONAL EXPERIENCE

STERN SCHOOL – NEW YORK UNIVERSITY

Fall 1999 –

- Adjunct Professor of Finance and International Business in the Graduate School of Business at NYU. The course is “Emerging Financial Markets “ and is listed as B40.3380 in the MBA program and C15.0023 in the undergraduate school.

W.P. CAREY SCHOOL OF BUSINESS- ARIZONA STATE UNIVERSITY Fall 2011-

Adjunct Professor of Finance teaching “Emerging Financial Markets” course 494 to undergraduate seniors in the Carey School of Business at ASU.

LONG TERM CAPITAL MANAGEMENT, L.P.

1994- November 1998

- Researched and traded relative value equity investments in Europe, Asia and Latin America. Traveled globally, most recently to South East Asia, to identify and evaluate potentially undervalued equity and fixed income investment opportunities in emerging markets.
- Analyzed and traded all emerging market debt in a relative value framework. The primary focus was Latin American Brady Bonds, with the major emphasis on Brazil, Argentina and Mexico.
- Conceived strategies for equity pairs trading. Created the ISDA swap agreements. Negotiated the cost structure with the broker dealers and had responsibility for trading these positions: included were voting and non-voting shares, ordinary and preference shares, holding company stub trades, and domestic and foreign registered securities.

SMITH NEW COURT SECURITIES 1992-1993
Director

- Restructured Smith New Court's Latin American equity department.
- Directed all research, sales and trading in Latin American equities.
- Selected the portfolio, managed, and traded a proprietary book in Latin American equities.

SALOMON BROTHERS 1973-1992
Vice President and Manager of the International Equities Department

- Created and built the international equity arbitrage department. Head Trader and manager of a team of five traders and nine sales and research salespeople.
- Created and traded the first International Equity Index for the Wells Fargo Bank in 1975
- Co-Director of the first Institutional Emerging Equity Conference in 1981. Co-sponsored by Salomon Brothers and the International Finance Committee of the World Bank
- Developed and managed the Salomon Brothers- Russell International Equity Index
- Advised the countries of Brazil and Colombia in formulating their laws governing foreign equity investments.
- Built a \$100 million Latin American equity proprietary book in 1989. That trading book increased from \$100 million to \$340 million over a period of two and a half years, producing a compound annual return in excess of 60%.

DONALDSON, LUFKIN AND JENERETTE 1970-1973
Vice President.

- Hired to start an international equity trading department for DLJ. Responsible for trading and sales of all international equities.

BOBBIE BROOKS INC. 1965-1968
CEO AND COO of the Max Siegel division of this major publicly traded apparel manufacturer.

MAX SIEGEL ASSOCIATES

1956-1965

COO of the largest popular-priced children's apparel manufacturer in the United States. The firm employed 1000 people in nine operating divisions with factories in nine states. In 1965 Max Siegel Associates was acquired by Bobbi Brooks Inc.

EDUCATION

MBA, COLUMBIA UNIVERSITY, 1970

Finance. Honors: Beta Gamma Sigma

BA, UNIVERSITY OF VERMONT, 1956

Economics. Honors: Economic Honorary Society