This course provides a theoretical framework coupled with a “hands on” approach as relates to investments and overall exposure to emerging market economies. The perspective is that of the investment manager, responsible for investment portfolios, who is considering an investment in the emerging markets as an asset class: balancing risk and total returns. We discuss several outstanding problems of emerging market investments, including political risk, currency risk and speculative craze. The course will cover a broad base of products in emerging markets including equities, foreign exchange, derivatives and fixed income. We will discuss country selection, security selection and portfolio diversification along with a variety of trading strategies. Included will be indexing, closed and open ended funds, ETF’s and convergence trading. We shall also examine the problems faced in executing these trading strategies. It is anticipated that after completing the course, students will be able to evaluate the risks associated with an emerging market exposure while at the same time understanding the benefits gained by diversification and higher returns.

Prerequisite:
Foundations of Finance (B09.2316) 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 will be a take home examination and will count for 40% of your grade. The questions will be given out at the end of class 6. Answers will be turned in at class 7. 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.
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 ten 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

**Required Readings on Blackboard.**
Additional Required Readings posted on Blackboard. *(BB)*
Finally there are news articles that I think are relevant and are also required for the course
They are also posted on Blackboard under Media.

OPTIONAL READINGS
There are also many 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. (some are technical in nature)
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

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

Educational Background, working experience along with your
goals, ambitions and other relevant topics – who you are…and who do you wish to be
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 great book to read.

**China Shakes the World by James Kynge**
It is subtitled a titans rise and troubled future - and the challenge for America. It is not a quick read but one that you will find worth the time invested.

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

PHASE 1   AN INTRODUCTION TO THE EMERGING MARKETPLACE

CLASS 1 – Tuesday July 1

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) Pre Emerging Frontier markets offer opportunities FT 7/12/04

(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 July 3

Part 1

EMERGING MARKETS- SPECULATIVE BOOM OR LONG TERM INVESTMENT

GUEST SPEAKER: Don DiVivo, Principal Harmon Management

  (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 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) Siegel: Regent Hotel ((Indonesia) Notice to Guests May 1998
  (BB) A former student: A Real Estate Deal in Russia Turns Sour
CLASS 3   Tuesday July 8

Part 1
ACTIVE MANAGEMENT OF THE EQUITY PORTFOLIO

GUEST SPEAKER
David Halpert and Rahat Ahmed – Prince St. Capital Mgt.

CREATING AN EQUITY PORTFOLIO – TOP DOWN / BOTTOM UP

(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)

(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 - CONTINUED

(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.
PHASE II  EMERGING MARKETS – EQUITY INVESTMENTS

CLASS 4 – Thursday July 10

Part 1 and Part 2

ACTIVE MANAGEMENT OF THE EQUITY PORTFOLIO

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

(RP) Lopian: The Reality of Deposit Receipts

(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 7/03
Part 1

THE INDEX APPROACH TO EMERGING MARKETS

GUEST SPEAKER.... Joyce Chang, Global Head of F/x, Bonds and Research, Chase-Morgan

(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 5/03

Part 2

THE USE OF CLOSED END AND OPEN ENDED FUNDS


(BB) ETF’s – A Primer

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

(BB) Investors Flock to Emerging Mkt ETFs FT 7/2/05

(BB) A Comparison ETFs and Funds

(BB) International Funds continue to Grow 8/06
THAILAND EQUITY TRADE

Handout: The Thailand Equity Trade

A TRADING STRATEGY IN EMERGING EQUITIES

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

HAND OUT OF THE TAKE HOME MID TERM EXAMINATION
MID TERM EXAMINATION TO BE TURNED IN BY THE CLASS

Part 1

EMERGING MARKET CURRENCIES

(RP) Fong: Currency Risk Management in Emerging Markets

(RP) HBS: The 1994-95 Mexican Peso Crisis


(BB) Fear of Floating: Economist 8/03

(BB) McCurrencies and the PPP

(BB) Personal Investing: CDs Now Offered in Foreign Currencies NYT

7/03

Part 2

GUEST SPEAKER: Stanley Shopkorn, Shopkorn Associates

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
PHASE III - EMERGING MARKETS – INVESTING IN THE DEBT MARKET

Part 1

GUEST SPEAKERS: Al and Barrie Zesiger, Zesiger Capital

VENTURE CAPITAL INVESTMENTS IN AN EMERGING MARKETS

MAKING DIRECT INVESTMENTS DECISIONS IN VIETNAM

(BB) Foreign Direct Investments in an Emerging Market

(BB) Vietnam is Leading Asian Market in 2006

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
7/95

(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.
PHASE IV: THE DANGERS WE FACE IN EMERGING MARKETS

Part 1

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

GUEST SPEAKER
John Welch, Chief Economist for Latin America, BearStearns....

(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

GUEST SPEAKER: Eric Rosenfeld

DOLLAR BONDS, SWAP ARRANGEMENTS, RELATIVE VALUE AND THE REPO

(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

Part 1

EMERGING MARKET DERIVATIVES

GUEST SPEAKER: Mickey Strasser, Merrill Lynch
Managing Director, Co-Head of the Global Alternative Strategies Group

(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…
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  -  THE FUTURES INDUSTRY

GUEST SPEAKER:  Tom Dittmer – Founder of Revco

FINAL EXAM IS GIVEN OUT TO THE CLASS
Class 12 – Thursday August 7

Part 1

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

(BB) Working for $2.00 a day: NY 8/17/06

Part 2

WHERE DO WE GO FROM HERE

A wrap of the semester by Professor Siegel

CLASS TURNS IN THE FINAL EXAMINATION
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.


- 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

- 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