Published by
Closed-End Fund Advisors

THE SCOTT LETTER:
CLOSED-END FUND REPORT

Vol. X, No. 5 | *A Global View of the Closed-End Fund Industry* | September/October 2010

THE SCOTT LETTER is intended to educate global investors about closed-end funds. Closed-end funds can be a valuable and profitable investment tool. To learn about closed-end funds, visit our web site, www.CEFAdvisors.com, and in particular, read our article, *What Are Closed-End Funds*. Feel free to forward this newsletter to anyone who you believe could benefit from information on closed-end funds or global portfolios.

– George Cole Scott
Editor-in-Chief

IN THIS ISSUE:

Aberdeen Manages Emerging Markets Fund Across the Globe

LAQ Declares Capital Gains Distribution

Aberdeen Asset Management, one of Britain's biggest independent fund manager, acquired the bulk of the global fund management business of Swiss bank, Credit Suisse, on July 1, 2009. The Latin America Equity Fund (NYSE:AMEX:LAQ) was a part of the deal.

In a press release dated September 1, 2010, LAQ announced "that the Fund's Board of Directors has declared a capital gain and net investment income distribution in the estimated amount of $9.282 per share. The capital gain portion of the distribution is comprised of long-term capital gains estimated at $8.504 per share and short-term capital gains estimated at $0.671 per share. The net investment income portion of the distribution is estimated at $0.107 per share. The precise amount of the distribution will be determined on the record date of the distribution, at which time the Fund will make a further announcement.

The distribution will be payable on October 29, 2010 to stockholders of record on September 14, 2010 with an ex-dividend date of September 10, 2010. The distribution will be paid in shares of the Fund's common stock. Stockholders may, however, request that their distribution be paid in cash in lieu of common stock. The Fund will limit the aggregate amount of cash to be paid out in the distribution to all stockholders to 10% of the aggregate dollar amount of the total distribution. If cash distribution requests exceed this limit, the Fund will pro-rate the cash distribution among all stockholders who have made such requests, based on the amounts requested. Requesting stockholders who do not receive 100% of their distribution in cash, will receive the balance in shares of common stock of the Fund. Stockholder requests to receive cash in lieu of stock must be received by Computershare Trust Company, N.A., the Fund's transfer agent, not later than 4 p.m. (New York time) on October 20, 2010. All fractional shares will be paid in cash.

The per share value of shares of the Fund's common stock to be issued in the distribution will be determined on October 21, 2010. The per share value will be the average trading price of the Fund's common shares on the New York Stock Exchange as of the close of trading during a three-business day period ending on October 21, 2010." (For more information, visit www.aberdeenlaq.com.)

We recommend that our clients ask Aberdeen to reinvest at least the long-term capital gains portion of this distribution in new shares because of its large size.

The global equity strategy of Aberdeen Asset Management is built around a high conviction or "best ideas" approach designed so its Global Equity unit can capitalize on the expertise of its regional research teams.

The emerging markets desk of Aberdeen operates from London and Singapore. The London team oversees Latin America, Emerging Europe, the Middle East and Africa, while the Singapore team covers Asia and Australia. Each investment manager cross-covers his regions.

Aberdeen manages around $246.4 billion of assets for clients around the world, a significant portion of which is in Latin America. Stock ideas drive allocations, not vice versa, leading to high stock and country deviations invested in Latin American companies. There is a strong awareness of downside risks and of corporate governance.

While emerging markets are not immune from global economic concerns, they have less debt than developed nations. The adoption of prudent fiscal and monetary policies by governments has fostered stability and growth. Emerging markets also have stronger economic growth potential than their mature counterparts, supported by a young and growing population, durable consumer spending and a burgeoning middle class.

Emerging markets companies have become better managed and more transparent in order to compete for increased investor cash flows into the region. They have stronger balance sheets, are more profitable and are increasingly committed to maximizing shareholder value. While the emerging markets decoupling from developed markets has been debunked, they play a demonstrably important role in portfolio diversification. (Please read Dr. Mobius' blog comments on page 6)

Aberdeen seeks good, quality managements with good track records and tries to maximize shareholder value. They prefer companies with strong, prudent and easy-to-understand balance sheets that indicate free cash flows. This is what determines the share price, because it supports share buy-backs and dividends.

In Aberdeen's view, global emerging markets will lead, not follow. These markets have a much-reduced dependency on developed economies, and exports to other emerging economies are growing.

Corporate governance is very important. Aberdeen wants to be sure the companies it invests in respect the rights of minority investors, understands the needs of investors and manages the companies for the advantage of all investors.

In the emerging markets, especially in Latin America, many companies have powerful controlling shareholders in families or institutions which Aberdeen wants to make sure that their interests are appropriately aligned.

So far, in 2010, more than $11 billion has gone into funds focusing on shares of companies based in the emerging markets, according to the Investment Company Institute. An additional $17 billion has been invested in other foreign equity funds, including those specializing in the developed markets of western Europe and Japan.

This report will focus on the region covered by The Latin America Equity Fund which covers the largest economies in the portfolio: Brazil, Mexico and Chile. There is also some commentary on the other countries in the region.

Nick Robinson

Nick Robinson (32) is currently director of Aberdeen's operations in Sao Paulo. Nick joined Aberdeen in 2000 and spent eight years on the North American Equities desk in London, including three years in Aberdeen's U.S. offices. He graduated with a M.A. in Chemistry from Lincoln College, Oxford and is a CFA Charterholder. In 2008, he returned to London to join the global emerging markets equities team.

Nick relocated to Sao Paulo in October, 2009 and is assisted by Brunella Isper, who helps him with the "cross coverage" of companies so no single person takes overall responsibility for a particular sector or country.

We telephoned Nick Robinson on August 25, 2010 in Sao Paulo. As of that date, CEFA held about 6.2% of our assets in LAQ. About 66% of LAQ was invested in Brazil, 23% in Mexico and 6.5% in Chile. These interviews are an important part of our research for each bi-monthly edition of *The Scott Letter,* which now has a circulation of over 2,000 readers around the world.

SL: How does your investment style work?

Robinson: We have been investing in the emerging markets since 1987. I am part of the Global Emerging Markets team covering all of our markets and regions. We do all of our company research in-house and meet often with managements of the companies that we own and those in the universe that we don't own across the region covering Latin America. I speak some Portuguese, but am not fluent yet. [Most of my contacts speak good English.]

In 2009, Aberdeen conducted 1,300 in-house meetings with managements to understand the risks and opportunities associated with their businesses. About 230 of these companies were in Latin America.

SL: We found that there are many differences between Rio (a beautiful city with famous beaches), and Sao Paulo (where the big money is). Is there much competition between these two cities?

Robinson: Petrobras and Vale, the largest companies in Brazil, are located there. Rio is a nice city, but for those who are in the finance business, Sao Paulo is a better location. It has a more temperate climate at an elevation of about 800 meters.

SL: Have you traveled much around the region since you moved to Sao Paulo?

Robinson: One of the core parts of our investment process is to visit companies located where we invest. This way, we get an idea of how things work and the importance of the countries where we operate.

SL: Much is happening in your region. There are stories of drug wars in Mexico, and news of dramatic rescue plans of the miners trapped in a copper mine in Chile. In Brazil, you have an important election coming up in October. What are the key issues there?

Robinson: There is an important political environment but less so than in the past. We had an election in Chile in 2009, and Sebastian Pinera was elected president. Pinera was a successful businessman and has demonstrated a market focus in how he has dealt with the immediate aftermath of the earthquake.

Brazil is the big one; its election on October 3 has the most risk. The jury is out on President Lula's successor, Dilma Rousseff. Not much is known about her, but Brazil, like the rest of the world, has moved towards the left in the last year. There are concerns about state intervention getting more into the private sector.

One of the big issues is how the Latin American countries will manage increasing interest rates – a big issue. In Mexico, interest rates are pretty stable, given the troubles in the economy there, but Brazil has now increased its interest rates. Chile has been aggressively increasing its interest rates off a low base.

SL: Is inflation the reason?

Robinson: Most of these countries are midway through their interest rate increasing phase so one issue is how they will manage it and the other is how to keep a balance between the two.

Brazil

Brazil is the sixth largest country by population and the eighth largest in the world. Serious money is flowing into Brazil, but many problems also plague the country that pose risks for investors, according to a report just published by the CFA institute.

Dilma Rousseff, the presidential candidate of the ruling workers party, says, "Brazil, where millions live in slum shantytowns, known as 'favalas', is the most unequal country in the world."

The country is still grappling with extreme poverty and has a major challenge in education, a stumbling block in its bid to accelerate its economy and establish itself as one of the world's most powerful nations. This exposes a major weakness in its new found armor. The current state of education means Brazil is likely to fall behind other developing economies in the search for new investment and economic opportunities.

Brazil has been a stable democracy for 25 years. Policy continuity, floating exchange rates, inflation control and fiscal discipline is expected regardless of who wins the presidential election. However, major delays in construction bedevil preparations for the 2014 World Cup, glitches emblematic of the country's pressing infrastructure needs.

To the bulls, Brazil is the largest exporter/producer of ethanol, electric power, iron ore, beef, sugar, coffee and regional jets. Brazil came back from the financial crisis quicker than most countries, as its GDP growth turned positive in the second quarter of 2009. Seven million people have entered the growing middle class in recent years.

Brazil has huge offshore oil finds, which, when developed, will make it one of the top 10 petroleum producers in the world. These fields are expected to catapult Brazil to the ranks of top oil-producing countries with reserves of 50-100 million barrels. The first oil well is located about 200 miles off the coast – too far to reach by helicopter – and may be as much as four miles down below a layer of rock and shifting salt. The BP oil spill has prompted a regulatory review which may delay development and raise costs for Brazil. (Source: *Financial Times)*

SL: Please tell us more about what you know about Petrobras and its developments in the search for new oil reserves?

Robinson: There is much oil there, but money needs to be raised to develop that oil. The government is trying to decide how to come to market to raise a significant amount of equity to pay for the expected five billion barrels of oil. Petrobras, a large holding of LAQ, hasn't been a particularly good performer in 2010 because the markets are concerned about how they will pay for this oil. People are also reluctant to buy the shares because of the new shares coming to market.

[**Editor's Note:** The board of Petrobras announced on September 23 that it was approving the price for the largest share offering in its history, up to $74 billion. The shares soared amid expectations of high demand, despite concerns that Brazil's government, expected to buy a majority of the new shares, will increasingly play an increasingly meddlesome role in Petrobras' management, according to press reports. More up-to-date information is available at www.petrobras.com.]

SL: Do you think that President Lula's successor will maintain the same policies which were so successful in maintaining Brazil's high growth rate?

Robinson: Yes. One of the things that Dilma Rousseff, Lula's possible successor, is planning is to put together is a housing program, "Mina casa, mina vida" which translates as "my house, my life". This means the program may be strengthened if she becomes president. There is a divided government which has become increasingly large and continues to grow. That program is not a great thing for Brazil and will dampen economic growth in the future in our view. This will raise the tax rates, an increasing burden if Dilma gets elected. The opposition candidate wants to reduce the size of the government

SL: Nick, what can you tell us about Brazil's second phase of its economic stimulus plan, including $883 billion in infrastructure improvements that will increase energy output, build two million homes and construct high speed rail lines between Sao Paulo and Rio?

Robinson: That is a hot topic. The newspapers say the government will spend lots of money, but we are not sure that all of that will happen as things are done more slowly here. For instance, high speed rail may not be ready by the time of the World Cup in 2014. Infrastructure projects may be needed, so it is difficult to see all of this happening.

The state bank, BNDES, is pumping a lot of loans into the economy to stimulate economic development. We are concerned about this, but getting the money is slow because it needs government subsidies.

SL: The finance minister says that it will guarantee an estimated 5% annual GDP growth and 5.5% average growth through 2014. What is Brazil's current growth and inflation rate?

Robinson: Brazil is growing about 8% in GDP in 2010, with inflation about 4%. In the early part of the year, Brazil was looking like a really hot economy, but since April, people are concerned that the economy may be overheating. More recently, some of the heat is out of some commodity prices so the forecasts are now turning negative again. Still, Brazil will exhibit a high growth rate. The government has also started a sovereign wealth fund, and Brazilian companies increasingly are making acquisitions abroad so the people are beginning to trust the economy more and are willing to lend long-term to Brazil.

[**Editor's Note:** Since our interview, it has been announced that Brazil is expected to resume a more sustainable growth rate in 2010. The country grew at an annualized rate of 8.9% in the first half of 2010, defying expectations of a more significant slowdown in the second quarter, according to a report in *Financial Times.* This is Brazil's best performance for a half-year period since 1996. Brazil is now a creditor nation. The country achieved investment grade status in 2008 after it successfully reduced external debt and amassed foreign reserves.

There is a strict listing designation on the Bovespa, Brazil's benchmark stock index called the "Novo Mercado". This designation was established by the Latin American Corporate Governance Round Table to indicate companies that promote good corporate governance at the company level. The Round Table was founded in April 2000 and has representative members from Argentina, Brazil, Mexico, and seven other Latin American countries, as well as the United States. More information about Brazil's participation in the Round Table is available in *Financial Times* at www.ft.com/americas].

SL: Is increasing inflation causing interest rates to rise in Brazil?

Robinson: Yes, in early 2010, Brazil was rebounding quickly so inflation started to creep up quite a bit. Brazil has had a few problems with inflation in the past. The Central Bank becomes paranoid about inflation when it is out of control. At the moment, interest rates are 10.5% and are likely to remain stable.

SL: What commodities are exported from Brazil?

Robinson: Iron ore is the most important one; much of it is produced by Vale, one of the largest companies in Brazil. Much of the iron ore goes to China, hence the saying "Brazil is a play on China." Recently, Brazil is producing fertilizers, such as potash, a hot topic at the moment, which is growing and reduces cyclicality.

SL: Could you update us on Brazil's use of cane sugar-produced ethanol and the use of it as a "flex-fuel" for cars and trucks?

Robinson: The government is pushing it hard, but it is really a push by Petrobras, one of the producers of ethanol.

The majority of the cars sold today are flex-fuel models so they can use both gas and ethanol. Ethanol is cleaner, and people use whichever is cheaper. We have invested in a company called Ultrapar that operates a lot of gas stations selling ethanol. However, this company makes much more money selling gasoline than selling ethanol.

SL: There is a world shortage of lithium for all of coming electric cars in 2012. Is much lithium found in your region?

Robinson: Most of the lithium is in Chile. There is a lot of lithium in Bolivia, but no one is willing to go there and put up the money as it is too risky. There is also lithium in Afghanistan as well, but that country is outside of my region.

[**Editor's Note:** We asked Nick if he knew about the controversial proposed Belo Monte dam to be built in the Amazon region. If Brazil is able to build this dam, it would be the first of more than 60 large dams planned for the region. It would flood 500 square kilometers of pristine river forest and would be catastrophic for the Amazon ecosystem of the world's most important river basin. As many as 146 dams could also be built on the Amazon River and its tributaries by neighboring countries (Bolivia, Columbia, Ecuador and Peru) for hydroelectric generation.

Dams divert the flow of rivers and devastate an extensive area of the whole Amazon rain forest region, threatening the survival of approximately 45,000 indigenous people who depend on the river for survival as well as impacting wildlife. They can also become a massive source of greenhouse gases due to methane emissions.

This is an economic issue because this potential energy source will help to increase Brazil's growth rate but at a devastating human expense. Visit www.internationalrivers.org for more information.

Nick said he knew about the controversial dam, but was not yet willing to comment on it.]

Mexico

Mexico has a free market economy that contains a mixture of modern and outmoded industry and agriculture, increasingly dominated by the private sector. Competition in sea ports, railroads, telecommunications, electricity generation, and natural gas distribution remains highly unequal. Mexico has free trade agreements with over 50 countries and sells lots of hand-made products. The U.S. is by far the largest importer of their exports under free trade agreements.

Mexico's GDP dropped 6.5% in 2009 as world demand for exports dried up and asset prices tumbled, but its GDP is expected to grow in 2010. The Calderon administration continues to face many economic challenges, including improvements in the public education system, upgrading infrastructure, modernizing labor laws and fostering private investment in the energy sector. In 2007, President Calderon was able to pass pension and fiscal reforms, and in 2008, his administration passed an energy reform and another fiscal reform in 2009.

Upper middle class Mexicans today are firmly implanted in the developed world, with iPhones, modern apartments, high education levels and small families. They sometimes feel ignored amid all the talk of violence: Mexico's murder rate, after, all, is a relatively low 14 per 100,000, well below the average for Latin America. (Source: *The Wall Street Journal)*

SL: Please update us on what is happening in the Mexican economy?

Robinson: One of the big issues is dealing with Pemex, Mexico's national oil company. The company has become an embarrassment because the country is running out of oil. Mexico is trying to put through lots of reforms, but I think there are many problems due to the drug wars in the north of the country, now getting much press attention.

This has some impact. I visited Monterrey last week, one of the worst affected regions close to the U.S. border. It is a problem, but what is really influencing the economy is its impact on the hotels and restaurants there.

The weakness in the U.S. economy is probably the most important factor determining Mexico's weakness. The second issue is flooding which has caused damage to existing infrastructure. Crime is another big issue in northern border towns, although Mexico City is much safer now. This is something that Mexico recognizes, but press coverage is out of control. This situation is changing consumption habits, and the economy is down a bit. However, Mexican companies are still operating in this environment.

[**Editor's Note:** The surge of violence by drug gangs in Monterrey is now leading to an exodus of wealthy Mexicans as well as scores of U.S. ex-patriots. This is a big blow to what has been one of Latin America's richest and safest cities. A Pew Research Center poll released in August also shows that 79% of Mexicans are dissatisfied with the country's direction.]

SL: How have your investments in Mexico held up?

Robinson: We expect a tough second half of the year because of the difficult economic outlook. We have pretty much the same holdings as we had in Mexico since we took over the funds from Credit Suisse. For the most part, the stocks have held up reasonably well. The main thing for us is to invest in companies that have decent cash flows – simple businesses that will not be put out of operation with a recession. We would much rather be selling our investments in Mexico when the economy is looking good than when it is weak.

SL: With increasing signs that the U.S. stock market is possibly beginning to boom, we should also be able to count on resumed growth for Mexico. Its IPC All-Share index is now positive year-to-date.

Chile

Chile has a market-oriented economy characterized by a high level of foreign trade and a reputation for strong financial institutions and sound policies that have given it the strongest sovereign bond rating in South America. Exports account for more than one-fourth of GDP, and commodities make up some three-quarters of total exports. Copper exports makes up a third of government revenue.

Growth in real GDP averaged 8% during 1991-1997 but fell after that because of tight monetary policies which were implemented to keep the current account deficit in check because of lower export earnings caused by the global economic crisis. Growth has averaged 4% a year, however.

Chile claims to have had more bilateral and trade agreements (57) than any other country, including one with the U.S. signed in 2004. Over the past five years, foreign direct investment (FDI) inflows have quadrupled to some $17 billion USD in 2008, but these investments dropped to approximately $7 billion in 2009 because of the world slowdown.

SL: Please tell us why Chile has such an open economy?

Robinson: Foreign direct investment is fairly decent, as is true throughout Latin America and especially in Brazil. The Chilean economy is very open and has been so for the last 20 years or so.

Unlike Brazil, it is very easy to get money into Chile. Their economy is going through a very interesting phase at the moment. Since the earthquake, there has been a surprising massive domestic consumer demand. Chile tends to be a "Steady Eddy" economy that doesn't have the "ups" and "downs" of Brazil. It is one of the better performing markets in the region, partly because it has a lot of good retail businesses.

SL: The government has a rule-based counter-cyclical fiscal policy that accumulates surpluses in sovereign wealth funds during periods of high copper prices and, by September 2008, those funds amounted to more than $20 billion. How well is the Chilean economy rebounding after the worldwide slowdown?

Robinson: It is rebounding strongly but it's going to take time. Interest rates remain low. They are now 2% versus 10% in Brazil. Even so, interest rates have increased quite a bit in Chile compared to a year ago when they were about 50 basis points (0.5%). Inflation is well under control.

There is good lending and reconstruction since the earthquake last February. Auto sales have increased 90% since this time last year, which is really helping the economy. Chile, as you know, has a sovereign wealth fund to help them manage the economy, and they benefit from the recent strength in copper prices.

Chile is dominated by the pension funds, and the valuations of these funds tend to be pretty high because they are large holders of stock. You have only one class of shares so the controller needs to own more than 50% of the outstanding stock. The pension funds own around 15% of the shares on its stock market.

SL: Hasn't Chile had high valuations on its shares for some time now?

Robinson: Historically, Chile has been a more expensive market than the rest of the region because there are more buyers than sellers. The retailers can sell at high prices because consumption is so great and earnings are strong at the moment. Companies in Chile are also quite successful in their international expansion into Peru and Columbia.

Brazilian companies do not have this advantage. Some of the commodity companies are also quite expensive. You not only get high valuations but high quality companies as well, so there is definitely a trade-off.

After Chile's disastrous military government of the 1980s, they applied a clean sheet of paper to rebuild the economy by bringing down some finance gurus from the University of Chicago to help them. The group suggested a pension fund system to create an appetite to buy long-term financing of 20 years or so. Companies would have access to long-term financing to take on new projects and pay it back over many years. This meant people could get mortgages, an important development for Chile resulting in a very stable government.

SL: How well has Chile been able to diversify away from copper as an export?

Robinson: Copper is an important commodity and represents about 50% of the government's revenues. They have done a good job of seeing that revenues have gone into savings rather than spending, unless it is done with price supports rather than depending on fluctuations in the world price. The copper business is a dangerous industry all over the world. From an emerging markets perspective, Chile may not be as bad as some places, but copper is very important to their economy.

SL: I see that GDP in Chile has dropped from a positive to a negative growth rate. What is Chile's growth rate now?

Robinson: Chile should grow about 5% in 2010. After the earthquake, the economy rebounded much quicker than anyone had thought possible.

Argentina

SL: How does Argentina differ from Chile?

Robinson: Argentina is very different. It has an extremely corrupt government that no one believes in. If you have no faith in the government, you won't be lending to it, so it is very hard for that economy to grow. Some of the banks in Argentina are doing better, but there is a lack of confidence in the financial system. It may take 10 years to turn that country around. It is a real shame because Argentina was a real part of the growth of Latin America not that long ago. There are some good companies in Argentina, but it is difficult to invest in Argentina now because the local market is closed to foreign investors.

[**Editor's Note:** Argentina has just announced that it has reversed this policy and is ready to accept International Monetary Fund scrutiny of its much questioned public accounts in order to repay $7 billion owed to western government creditors in the Paris Club.

The Paris Club is composed of officials from 19 of the world's biggest economies to provide debt services to indebted countries and their creditors. In 2002, the government of Argentina blamed its peso devaluation on IMF policies. (Source: *Financial Times*)]

The Latin America Equity Fund

Annualized Performance as of July 31, 2010

Total Return	Year-to-Date	3-Year	5-Year	10-Year	Since Inception (October 1991)
Market	38.6%	6.6%	24.8%	19.6%	12.4%
NAV	38.4%	5.8%	23.7%	17.2%	13.4%

Geographical Exposure as of July 31, 2010

Brazil	66.5%
Mexico	23.2%
Chile	6.5%
Luxembourg	3.4%
United States	0.4%

Columbia

SL: The prior manager was very positive on investing in Columbia. Do you think that you will be looking at this country any time soon?

Robinson: We do make sure that someone goes there every year to check on potential investments. There are a couple of companies that we have been watching in Columbia. It is a good market with a decent economy, but it is difficult to find good companies there because many of them tend to be opaque in their ownership structures. There is probably a reasonable chance that we will find an investment in Columbia at some stage, but probably not in the very near term.

Summary

SL: What concluding thoughts do you have about your region?

Robinson: We think the region is pretty stable. The important thing to remember is that we are bottom-up investors. We try to find the best companies that we can at reasonable valuations throughout the region and continue to look for good opportunities in the region. Some companies are trading at good valuations, and through the rest of the cycle we should get some very decent performance from The Latin America Equity Fund, but we urge you not to depend on the funds on a quarter-to-quarter basis. We think that we can get companies through the rest of the cycle and not depend on what the markets are going to be.

SL: We are long-term investors and have been very happy with our investments in LAQ. Where are the best valuations in Brazil, Mexico and Chile now?

Robinson: It is quite a trick to generalize on that because there are pockets of attractive valuations in every country. Brazil is a fairly expensive at the moment relative to its history. On the other hand, Mexico is quite cheap now, partly due to investment perception of what is likely to happen over the next year or so. Chile has been a more expensive market than the rest of the region. ■

The discount for LAQ on September 17, 2010 was -8.85%. For more information about The Latin America Equity Fund, call 866-839-5233 or e-mail them at Investor Relations@aberdeen-asset.com.

Disclaimer: Clients of Closed-End Fund Advisors as well as members of the Scott family own shares of LAQ.

Investment Adventures in Emerging Markets

The following is a summary of what Mark Mobius, President of the Franklin Templeton Emerging Markets Fund writes on his blog (http://mobius.blog.franklintempleton.com/).

"On the heels of the global financial crisis, as Europe discusses the implementation of painful austerity measures and the U.S. deliberates the continuation of expensive government spending, I can draw attention to the relatively good fiscal health of several emerging market countries. While many investors continue to think emerging markets are 'backwards' compared to developed markets, this is somewhat of a misperception based on impressions from decades ago. Per capital income in some emerging markets may still be lower than that in the developed markets. However, on several measures, some emerging markets actually look healthier than some developed markets.

In the mid-1990s, some emerging markets substantially relied on foreign financing, making them more vulnerable to shifts in foreign expectations and perceptions. Consequently, they experienced serious financial crises, such as in Asia in the late 1990's and in Latin America in the early 2000's. These crises brought sharply into focus the risks and costs associated with underdeveloped domestic markets.

As a consequence, a policy shift took place in some emerging markets. They tried to reduce both their global level of external indebtedness and their level of short-term debt, empowered by current account surpluses in several countries. In parallel, national savings rates were increased, with Latin America increasing its domestic savings rate from 18% to 22% by the end of 2008.

As a result, some emerging markets have now become more stable thanks to the implementation of long-overdue structural changes following their "trial by fire" through these major financial crises. The emerging markets are today fiscally healthier than developed markets in terms of foreign reserves, debt-to-GDP ratios and risk perceptions.

Although it is unrealistic to assume that the structural changes implemented in some emerging markets can completely shield them from the effects of future financial crises, they seem to have borne the most recent global financial crisis reasonably well. While risks have not disappeared, things look a lot better than they did 20 years ago." ■

Portfolio Manager's Review

Despite glowing reports about the high growth rate in Brazil, there are still many problems. There is extreme poverty and little progress is being made to educate its children. Despite these weaknesses, Brazil is focused on maintaining its high growth rate by building more hydroelectric dams in the Amazon region which will negatively affect the lives of thousands of people and the environment. Secondly, Brazil is trying to raise millions of dollars to expand offshore drilling by its state-owned energy company, Petrobras. The company may not be able to live up to investors' expectations. CEFA has been watching these two potential Brazilian growth areas very carefully for years and will continue to do so. The progress of this key South American emerging market depends on how well Brazil pays attention to its people's needs and desires.

Unlike many money managers, CEFA utilizes diversified emerging markets managed funds in our portfolios, like The Latin America Equity Fund rather than exchange-traded funds (ETFs). There is no doubt there is more volatility and higher risks in the emerging markets, but as Dr. Mobius has pointed out, these markets are "healthier than many developed markets". This is more reason for prudent investors to seek the advice of a professional advisor before investing.

CEFA's investment into these emerging markets has resulted in higher performance for its clients. We hope that investors have not fallen into the trap of too much emphasis on the risk of pursuing current "yields" in income-producing funds rather than diversifying into more long-term growth funds.

Regarding the status of the U.S. markets, the 2007-2009 recession has ended; the longest slump since the Great Depression is over. The National Bureau of Economic Research has just released its report saying that positive data on housing, manufacturing and employment followed by improvement in corporate earnings all point to decent growth in the last 12 months. Slow growth persists, but better stock markets in September could be the beginning of a new bull market. However, the news of the recession's end was greeted with near silence in Washington. Go figure. ■

We will interview the manager of Cohen & Steers Quality Income Realty Fund. It will be released December 1.

George Cole Scott

The Scott Letter Online
is published by

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