COURSE DESCRIPTION:

This course provides a theoretical framework coupled with a “hands on” approach relating 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 investment, 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 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%, and the mid-term exam for 40% of the final grade. If you cannot attend a lecture I expect an e-mail notification prior to class. The mid-term will be a take home examination. The questions will be given out at the end of class 6. Answers will be turned in at class 7. They will be typed, double spaced, and not exceed 5 pages. 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 broken up into two different presentations. Each one will run for approximately an hour and ten minutes with a ten minute break in between.

REQUIRED READINGS

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 available at the bookstore and, when necessary, **Reserve Material (RM)** will be placed in the library.

**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

OPTIONAL READINGS
There are also many optional readings that have been posted to Blackboard. They can be found on pages 14 – 18 of this syllabus and they are on 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, July I would appreciate your submitting (typed) the following information:

- Educational Background, working experience along with your goals, ambitions and other relevant topics
- 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
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.
PHASE 1  **AN INTRODUCTION TO THE EMERGING MARKETPLACE**

CLASS 1 – Wednesday

Part 1

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*

(BB) Morgan Stanley: *The Morgan Stanley Emerging Market Fund*
CLASS 2 –

Part 1

EMERGING MARKETS- SPECULATIVE BOOM OR LONG TERM INVESTMENT

GUEST SPEAKER: TBA

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) Pension Funds Weigh the Risks of EM Investing: FT 9/03

(BB) Country Risk: Russia and Yukos: FT 7/03
CLASS 3 –

Part 1
MANAGING AN EMERGING MARKET FUND

GUEST SPEAKER TBA

THE BENEFITS OF DIVERSIFICATION

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

(BB) Salomon: Reasons for Global Investing

Part 2
ELECTRONIC GLOBALIZATION – THE NEXT STEP ?

Friedman: The Lexus and the Olive Tree

(BB) Bolivia Distrusts Globalization : FT 10/03
PHASE II

EMERGING MARKETS – EQUITY INVESTMENTS

CLASS 4 –

Part 1

IN EMERGING MARKETS WHY DIVERSIFY WITH EQUITY

GUET SPEAKER: TBA

(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

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) 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

(BB) Siegel notes: Investing 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
CLASS 5 -

Part 1

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) Van Agtmael: Active Management of an Equity Portfolio
(a presentation to my class in November 2000)

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

BB The Dangers of Selling Short

Part 2

THE INDEX APPROACH TO EMERGING MARKETS

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

(BB) Morgan Stanley Equity Index Methodology Overview

(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
CLASS 6

Part 1

THE USE OF CLOSED END AND OPEN ENDED FUNDS


(BB) ETF’s – A Primer

(BB) Redemptions at Putnam Fund may effect Emerging Markets: ft 8/3

Part 2

A TRADING STRATEGY IN EMERGING EQUITIES

THAILAND EQUITY TRADE

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

HAND OUT OF THE TAKE HOME MID TERM EXAMINATION
CLASS 7 - Wednesday July 23\textsuperscript{rd}

MID TERM EXAMINATION TO BE HANDED IN BY THE CLASS

Part 1

EMERGING MARKET DERIVATIVES

GUEST SPEAKER: TBA

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

(RP) HBS: Introduction to Derivative Instruments

Part 2

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

for those looking for more details and a more technical analysis to currencies the following articles are optional and found in the readings on the web site.

(BB) Goldman: Ch 2: The Global Flow of Funds
(BB) Goldman: Ch 11: Currency Options and Volatility


(BB) JP Morgan: Introduction to Hedging Emerging Market Currency Risk
PHASE III - EMERGING MARKETS – INVESTING IN THE DEBT MARKET

CLASS 8 -

Part 1

EMERGING MARKET DEBT AND THE BRADY BONDS

GUEST SPEAKER  TBA

(RP)  Luis: Emerging Fixed Income and Local Currency
      An Investment Management View

(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 +)

Part 2

DOLLAR BONDS, SWAP ARRANGEMENTS, RELATIVE VALUE AND THE REPO

(BB)  Morgan Stanley: Emerging Market Repo

(BB)  Can an Individual do a Repo? JP Morgan

(BB)  EM Local Currency and Bonds: Ft 6/03
PHASE IV: THE DANGERS WE FACE IN EMERGING MARKETS

CLASS 9 -

Part 1

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

GUEST SPEAKER TBA

(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

WHAT IS DEFAULT AND CAN YOU PROTECT AGAINST IT

(BB) Salomon The Risks of Sovereign Lending: Lessons from History
CLASS 10

Part 1

GUEST SPEAKER: TBA
AN EMERGING, EMERGING MARKET – VIETNAM

MAKING DIRECT INVESTMENTS (VENTURE CAPITAL) DECISIONS IN VIETNAM


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

CLASS 11 –

LONG TERM CAPITAL MANAGEMENT – A CASE STUDY

GUEST SPEAKER TBA

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

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

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

Class 12 –

FINAL EXAMINATION
BLACKBOARD OPTIONAL READINGS – SUMMER 2004

Class 1 - Part 1  Welcome to My World
FT:  Mastering Investment: Welcome to Mastering Investment
(although not on EM – an interesting investment overview)
Goldman Sachs:  Equities Division – Job Opportunities
(different positions in the equity department defined)

Class 1 – Part 2  Investment Opportunities in Emerging Markets
Salomon:  Portfolio Strategist: Invest in Emerging Markets Now?
International Portfolio Investments – Chapter 11
FT:  The new language of emerging markets
Goldman Sachs:  Strategy Focus: Global Portfolio Strategy
Thai Stocks:  Diversification benefits are more powerful than meets the eye
Internet Information on Russia:  Russia on the Web

Class 2 – Part 1  Emerging Markets: Speculative Boom or Long Term Investment
Patel:  Stock Market Crisis in Developed and Emerging Markets
(a more detailed analysis of EM Crisis for those who want to look deeper into it)

Class 2 – Part 2  The Problems with Emerging Market Investing
FT:  The New Language of Emerging Markets: November 9, 2000
(a really good article discussing how different it is to do business
in different parts)
FT:  Room for Improvement in Emerging Markets: July 1 2001
(a discussion of some of the risks to EM investors)
FT: Survey:  Global Custody: In for the Long Term: Emerging Markets
(problems faced in the EM for the global custodian)
NYT: Safire:  Bloomberg News Humbled: Nepotism in Singapore  8/29/02

Class 3 – Part 1  Why Diversify with Equity
JP Morgan:  Fixed Income Research: Diversifying into Emerging Markets  3/14/97
Definitions from the Internet:  Efficient Frontier, MPT, etc.
FT:  The Logic that Lies behind Overseas Diversification  5/28/01
FT:  Insights from PortfolioTheory  6/4/01
FT:  An Open and Shut Case for Portfolio Diversification  7/16/01
WSJ:  Are Markets Efficient  12/28/00
Class 3 – Part 2   Globalization- The Lexus and the Olive Tree
Business Week:  Global Capitalism: Can it be made to work better”
   (“the truth is that market liberalization by itself does not lift all boats, and in
some cases, has caused severe damage”….. an interesting article)
Friedman: Altered States NY Times June 27, 2000
(more views of T.F.
(a long, but excellent discussion of globalisation)

Economic Globalization: The Joys of Global Investment
(“by the turn of the century ..the developing world…will account for over 60% of
everything the world produces”…..)
Debating Globalization: Jihad vs. McWorld

Class 4 – Part 1   Why Diversify with Equity
Emerging Markets Quarterly: What Matters for Emerging Equity Market Investments
(a report that is a bit out of date (1997) but has a good technical discussion on
asset pricing theory and risk measurements)

Class 4 – Part 2   Active Management of the Portfolio: ADR’s, GDR’s, Locals
FT:   ADR’s a hit among the acquiring classes: 4/16/01
FT:   Global Shares face a long uphill battle: 5/31/00
FT:   Spain Faces court case on “golden shares”
FT:   ADRS mistake cost buyers $6 Million 6/8/01
FT:   Regulatory Fears put brake on Indian ADR plan
NYT:   NASDAQ debut of Chinese Stocks dampens Fever

Class 5 – Part 1   Active Management of the Equity Portfolio: Top Down/Bottom up
How Others Actively Manage International Money
NYT:   Investing: Julius Baer International Equity Fund 7/1/01
NYT:   Putnam International Voyager Fund:

Relative News Articles
FT:   Asian Investors Learn to Fight for Rights
FT:   Developing strategy for a not-so-global village
   (”global economic convergence is a myth, making data gathering in EM essential”)
FT:   How to read those annual reports
   (a brush up for those who may have forgotten)
**Class 5 Part 2**  
**The Index Approach to Emerging Market Investing**

- Global Finance: Morgan Stanley Redraws the World
- FT: Indexing in Well Served-Up Slices
  - (finding index info on the web)
- FT: Index-Based Investing: An Industry enjoying life in the Fast Track
  - (“a once derided form of investment management has gained acceptance and achieved enormous growth in recent years”)
- NYTimes: Number Crunchers Throw Asia Into a Tizzy: 8/99
  - (chaos when Morgan rebalances the index)
- NYTimes: The Index Monster in your Closet 10/99
  - (“closet indexing” in portfolio management)
- FT: Mastering Investment: Indexing
  - (a detailed description on index construction—for those who want to delve deeper into it)

**Class 6 – Part 1**  
**The use of Funds as an Investment Strategy**

- FT: Sectors gain as Country Funds Lose Appeal
  - (ramifications of the Euro)
- FT: Mutual Funds: Poor Returns that Disguise a Bonus for Investors 6/18/01
  - (mutual funds offer returns that are lower than indexed funds...yet they remain very popular....why?)
- FT: Home Economics Rule Overseas Funds 6/27/01
  - (“investor irrationallity..foreign fund investors attitudes..are driven not by the foreign market but by the U.S. market...”).
- FT: Picking up on a stock baskets Popularity: ETFs continue to grow 8/28/02

**Are “socially responsible” funds gaining acceptance?**

- FT: Getting to grips with some Ethical Issues: 7/11/01
- FT: UK Names Fail FTSE Good Ethics Test

**Class 7 – Part 1**  
**Emerging Markets Derivatives**

- LatinFinance: Lingua Franca: - How to Speak like a Derivatives Native
- Sassoon: Investment in HSI Options:
  - (what options are and how they work – a very good primer)
- FT: Derivatives: The Use and Abuse of Derivatives: 5/14/01
Class 7 – Part 2  Emerging Market Currencies
for those looking for more details and a more technical analysis to currencies

Goldman Sachs  The Global Flow of Funds: Chapter 2
(a look at Balance of Payments)
Goldman Sachs  Currency Options and Volatility Ch 11
The E.M. Group  Assessing E.M. Currency Risk
(economic models and risk indicators)
JP Morgan  Introduction to hedging EM currency risk
FT:  A Hard currency – what are the benefits

Class 8 – Part 1  Emerging Market Debt and the Brady Bonds

Brady Bonds:
JP Morgan Tutorial:  Session 2: - Duration
JP Morgan Tutorial:  Session 3: The Rolling Interest Guarantee

Bonds – in general

FT: Principles of Bond Portfolio Management
(discusses the differences between bonds and equities ..and shows how investors select)

Salomon: Understanding Duration and Volatility
(a 1985 paper with an in depth discussion)

Class 8 – Part 2  Local Bonds, Swaps, Relative Value and the Repo

Siegel: Notes from a Student on Bond Portfolio Management

JP Morgan Tutorial on setting up a bond swap
Siegel  A Total Return Swap Term Sheet for Mexican Cetes
Class 9 – Part 2  What is Default and can you Protect against it
FT: Mastering Risk: Lenders and borrowers demand a creditable system 5/00
WSJ Capital: A Default in Slow Motion 11/01
I.M.F. On the Need for an International Lender of the Last Resort 1/99
Latin Finance Vaulting the Sovereign Ceiling
(should corporations be rated higher than the sovereign ?)
Warburg Asian Bonds: Debt by Name, Equity by Nature
(in credit crunches debt can behave like equity)

Technical Analysis

Merrill Credit Default Swaps
CSFB Implied Default Probabilities: A New Approach to Risky Debt

Class 10 – Part 1 Viet Nam – An Emerging, Emerging Market
FT: Viet Nam’s change of Heart 8/27/02

Class 10 – Part 2 The Hedge Fund
FT: Why Risk Management is not a Rocket Science 6/00
The Case of the Rogue Economists

UBS Investing in Hedge Funds: The Basics Revisited
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

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