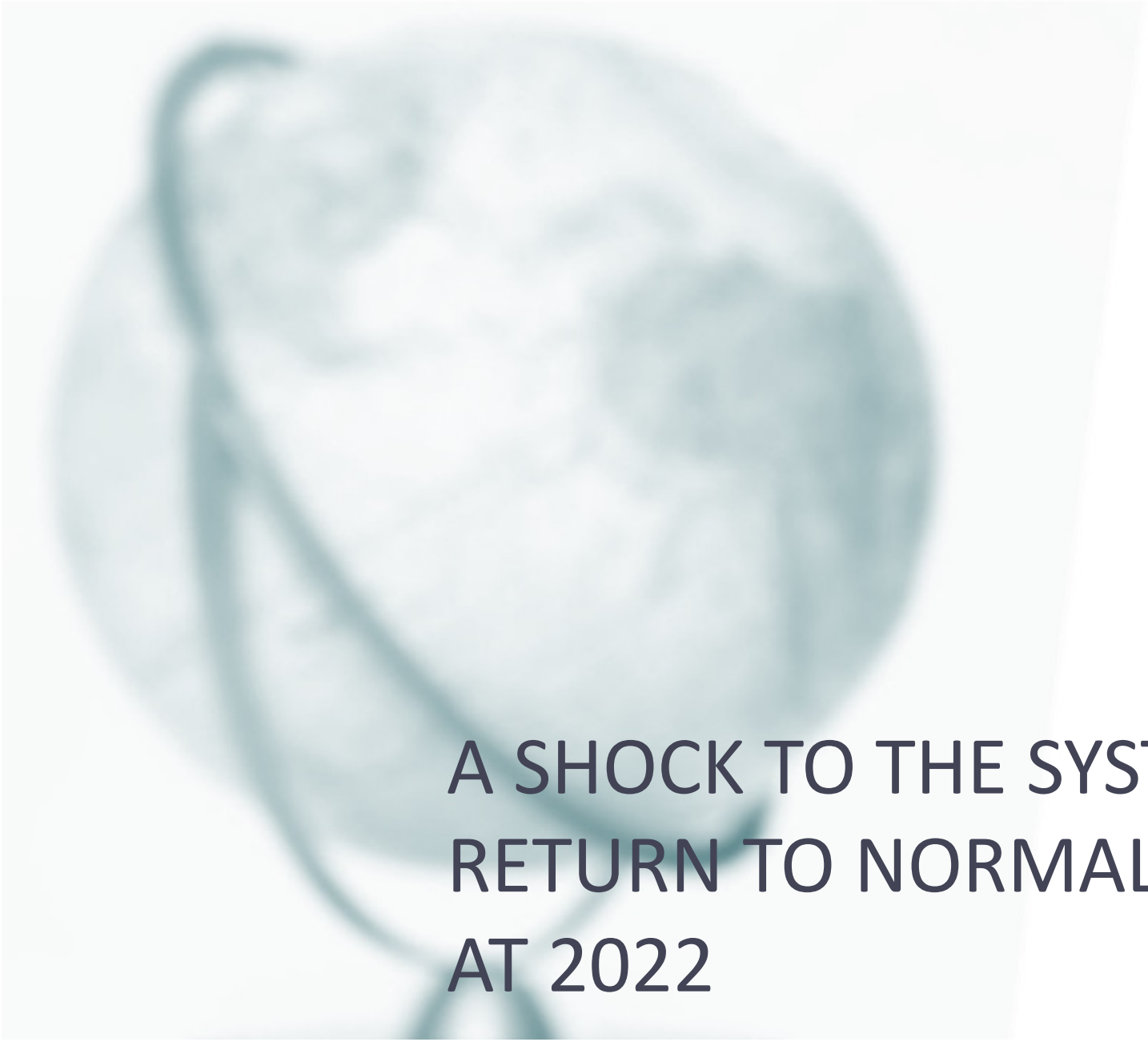


A SHOCK TO THE SYSTEM OR A RETURN TO NORMALCY: A LOOK AT 2022

All about perspective!

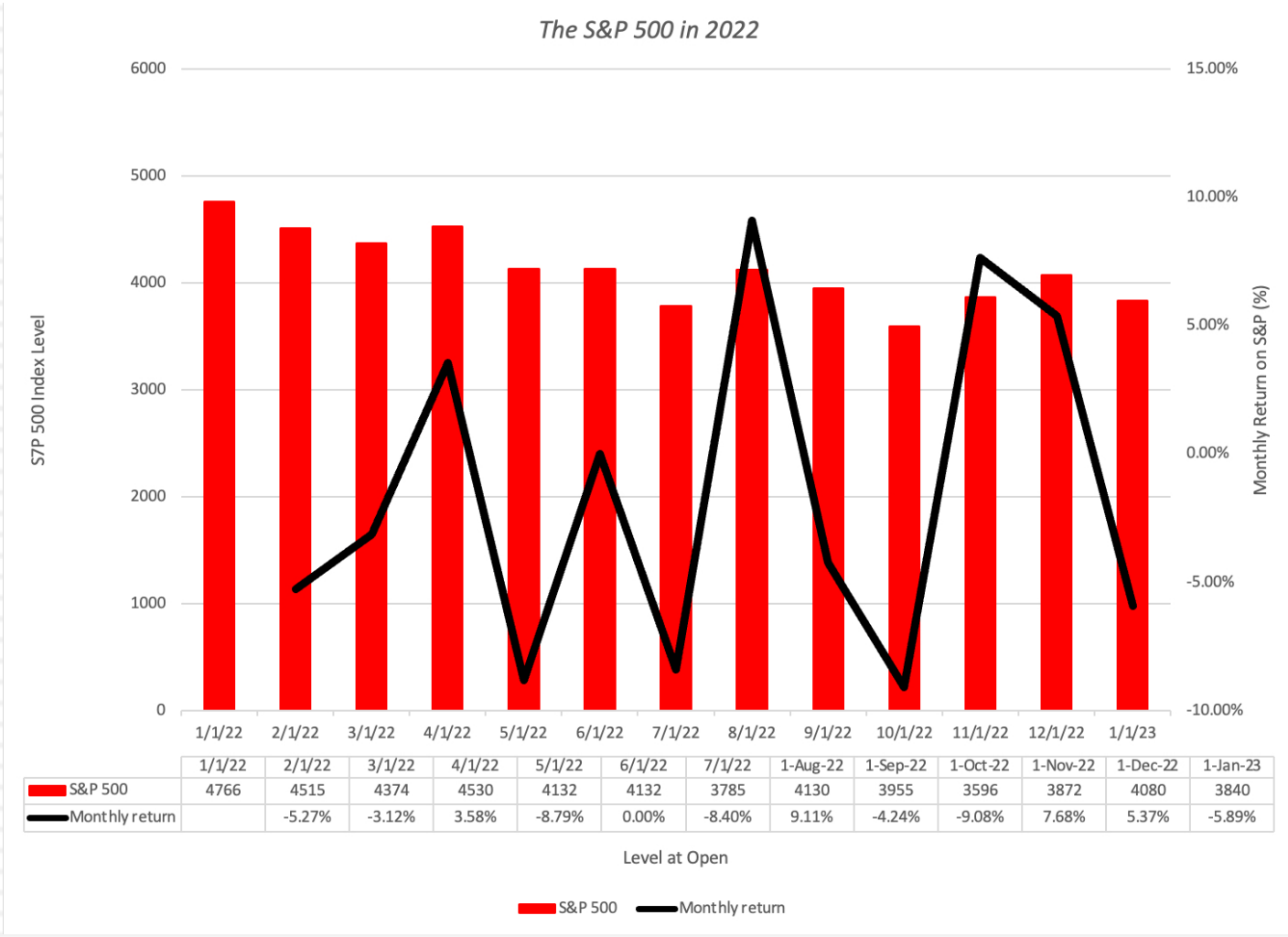
A Market Reminder

- It is the nature of stocks that you have good years and bad ones, and much as we like to forget about the latter during market booms, they recur at regular intervals, if for no other reason than to remind us that risk is not an abstraction, and that stocks don't always win, even in the long term.
- In 2022, we needed that reminder more than ever before, especially after markets came roaring back from the COVID drop in 2020 and 2021.
  - While there are many events during 2022, some political and some economic, that one can point to as the reason for poor stock returns, it is undeniable that inflation was the driving force behind the market correction.

US Equities

Inflation in the Driver's seat!

Stocks: Chronicling 2022 actual returns

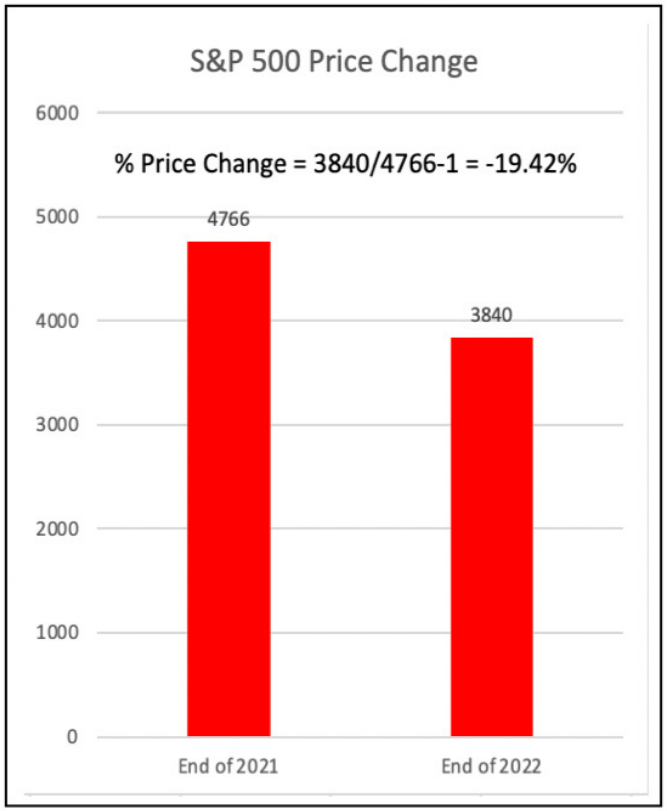


	1/1/22	2/1/22	3/1/22	4/1/22	5/1/22	6/1/22	7/1/22	1-Aug-22	1-Sep-22	1-Oct-22	1-Nov-22	1-Dec-22	1-Jan-23
S&P 500	4766	4515	4374	4530	4132	4132	3785	4130	3955	3596	3872	4080	3840
Monthly return		-5.27%	-3.12%	3.58%	-8.79%	0.00%	-8.40%	9.11%	-4.24%	-9.08%	7.68%	5.37%	-5.89%

Breaking down 2022 Returns

The S&P 500 in 2022

Price Change



Dividends

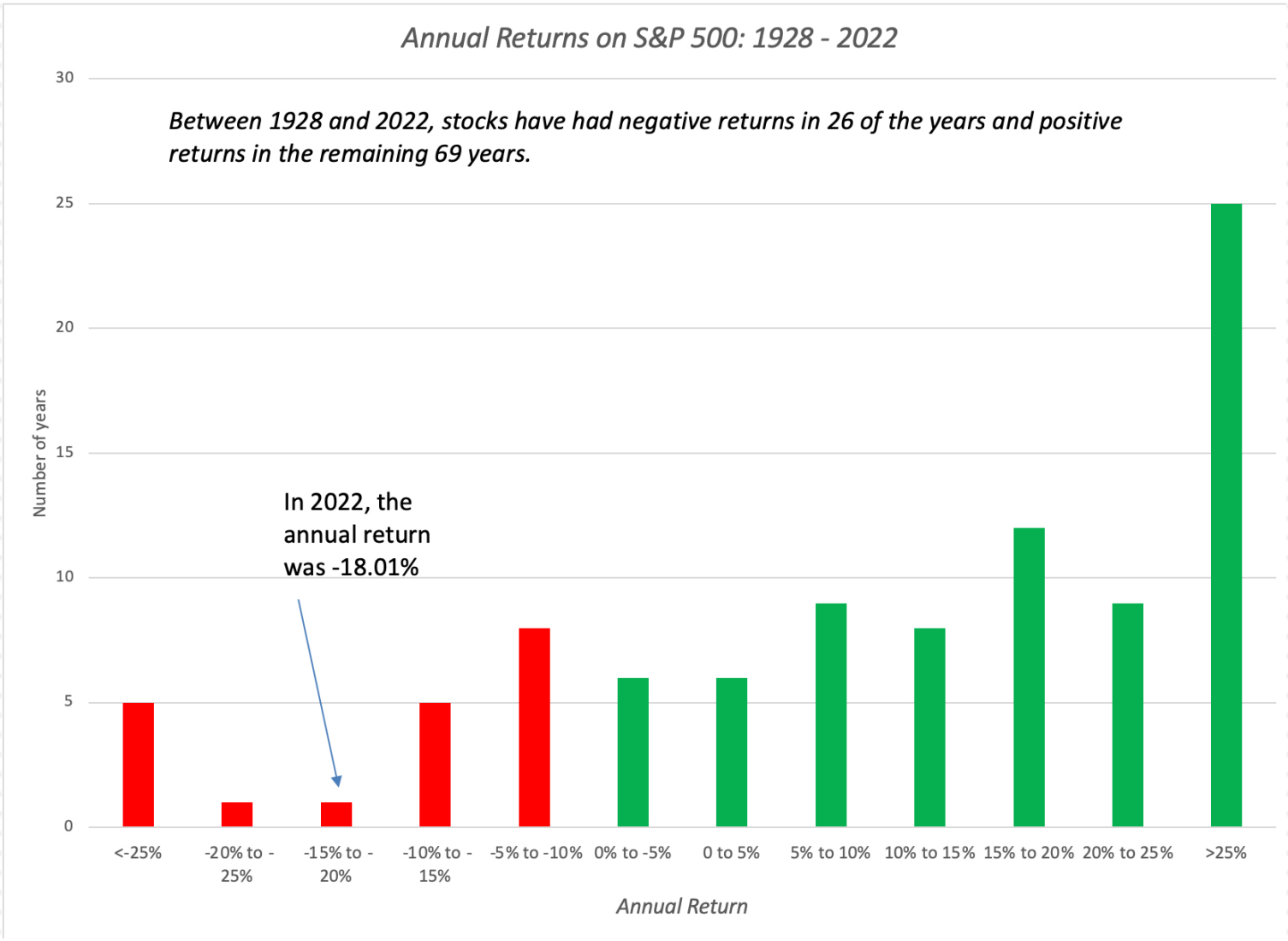
Dividends on the S&P 500 in 2022
= 69.3 (estd thru Dec)
Index Level on Jan 1, 2022
= 3840
Dividend Yield = **1.41%**

Of the 500 companies in the index, 399 paid dividends during 2022, up from 394 firms in 2021. 66% of firms increased dividends during the year.

Total Return

Return in 2022
= - 19.42% + 1.41%
= -18.01%

In historical context…



How 2022 falls in history….

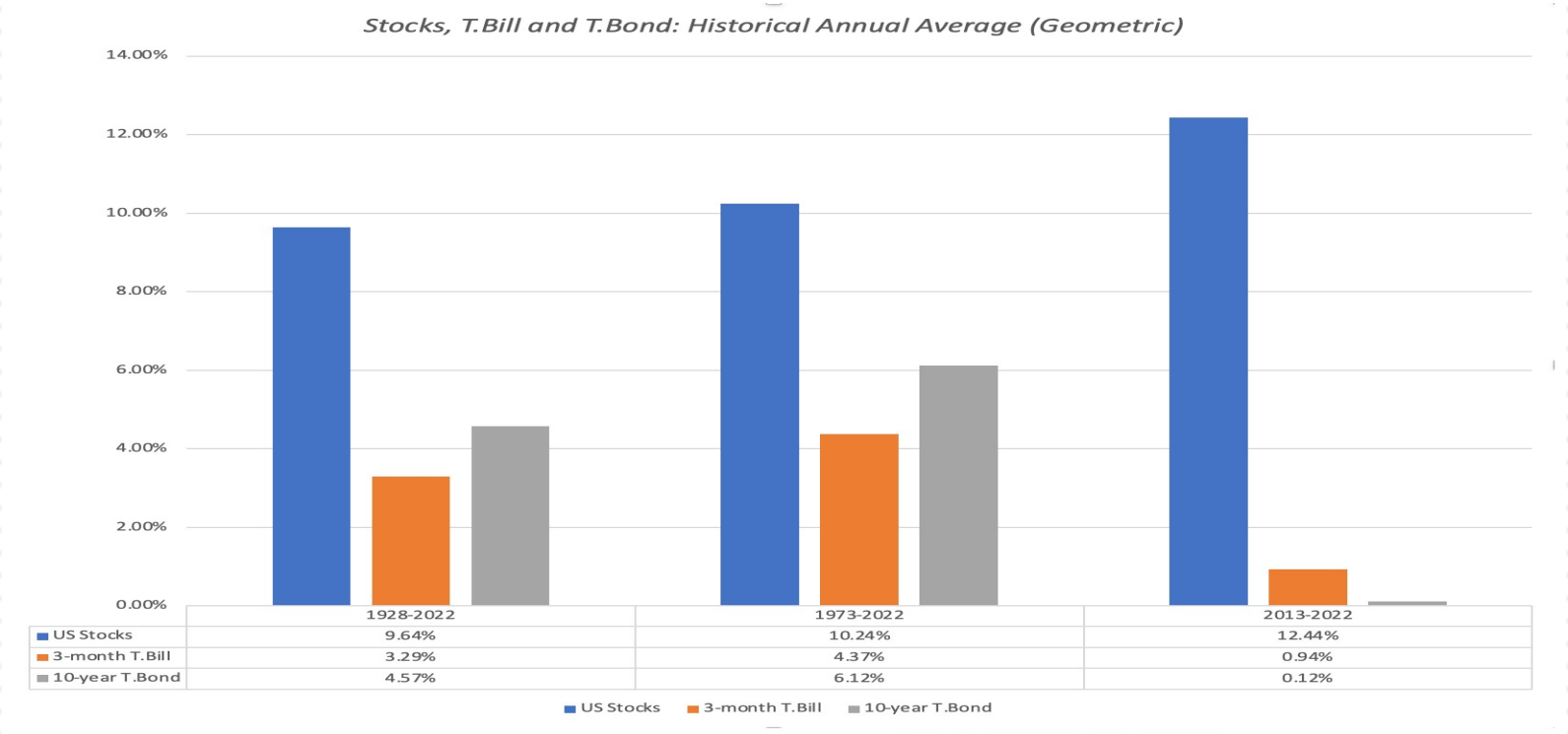
Ten Worst Years (Nominal)		Ten Worst Years (Real)	
Year	*Total Return*	*Year*	*Total Return*
1931	-43.84%	1931	-38.07%
2008	-36.55%	1937	-37.13%
1937	-35.34%	2008	-36.61%
1974	-25.90%	1974	-34.04%
1930	-25.12%	2002	-23.78%
2002	-21.97%	2022	-23.46%
2022	-18.01%	1946	-22.48%
1973	-14.31%	1973	-21.17%
1941	-12.77%	1941	-20.65%
2001	-11.85%	1930	-20.01%

By Decade (Nominal)			By Decade (Real)	
Decade	*Cumulative Return*	*Annual Return*	*Cumulative Return*	*Annual Return*
1931-1940	8.73%	0.84%	24.16%	2.19%
1941-1950	231.19%	12.72%	86.79%	6.45%
1951-1960	353.99%	16.33%	280.86%	14.31%
1961-1970	117.45%	8.08%	62.82%	5.00%
1971-1980	126.02%	8.50%	4.23%	0.42%
1981-1990	264.18%	13.80%	134.89%	8.91%
1991-2000	393.19%	17.30%	279.25%	14.26%
2001-2010	14.69%	1.38%	-8.95%	-0.93%
2011-2020	262.77%	13.75%	205.26%	11.81%
2021-2022	5.33%	2.63%	-8.19%	-4.18%

Expected Returns

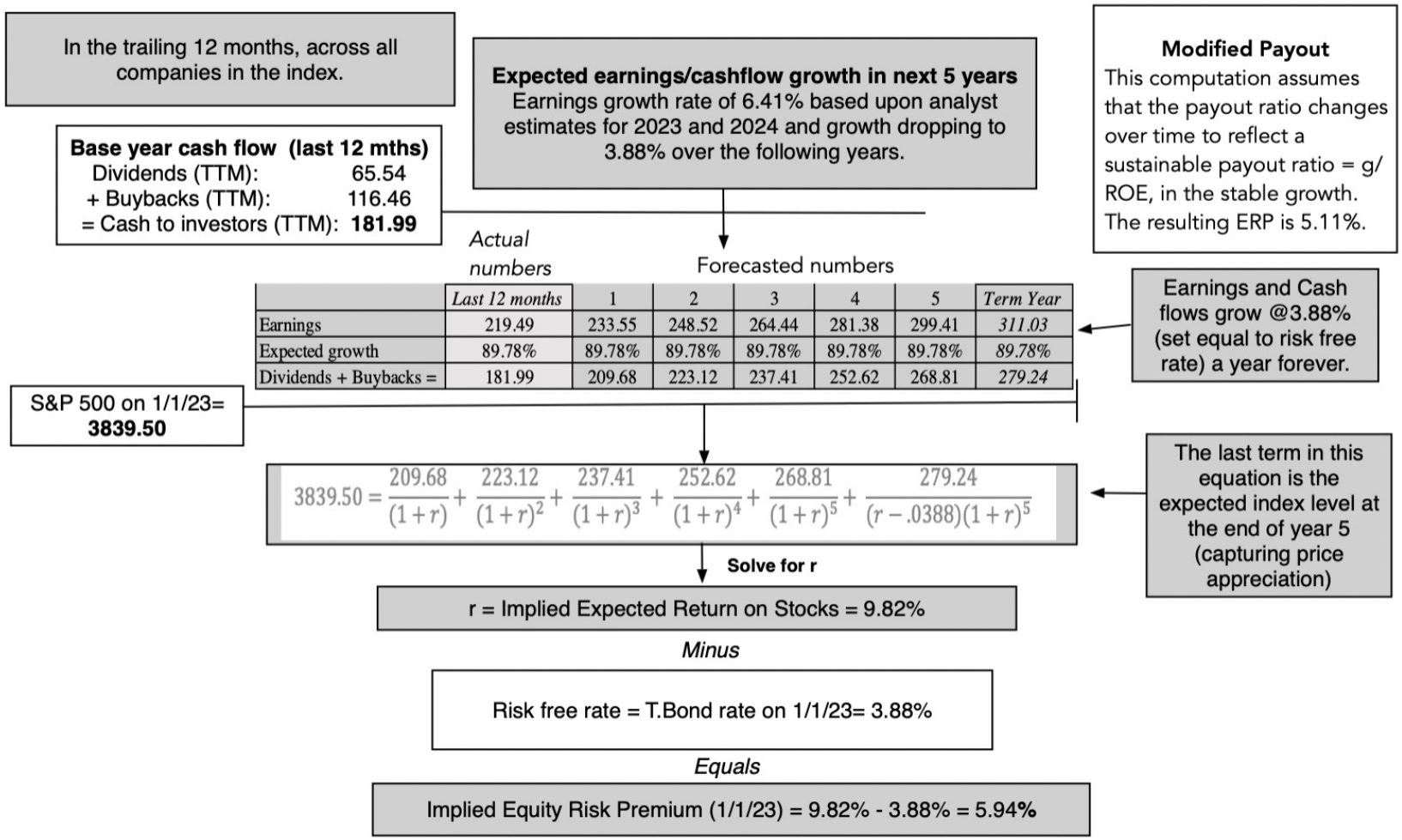
- As you saw in the previous section, actual returns on stocks can be negative, and significantly negative, in some periods, and those negative returns can sometimes extend into decades.
- The notion that stocks always win in the long term is a dangerous one, and while those pushing it claim to have the data on their side, it is worth remembering that the use of US data to make this case is statistically flawed.
- That said, when investors buy equities, it would be both irrational and illogical to settle for expected returns that are less than what you can earn on risk free or guaranteed investments, though behavioral finance suggests that both irrationality and illogic are persistent human traits. The premium that investors demand over and above the riskfree rate is the *equity risk premium*).

Historical Equity Risk Premiums



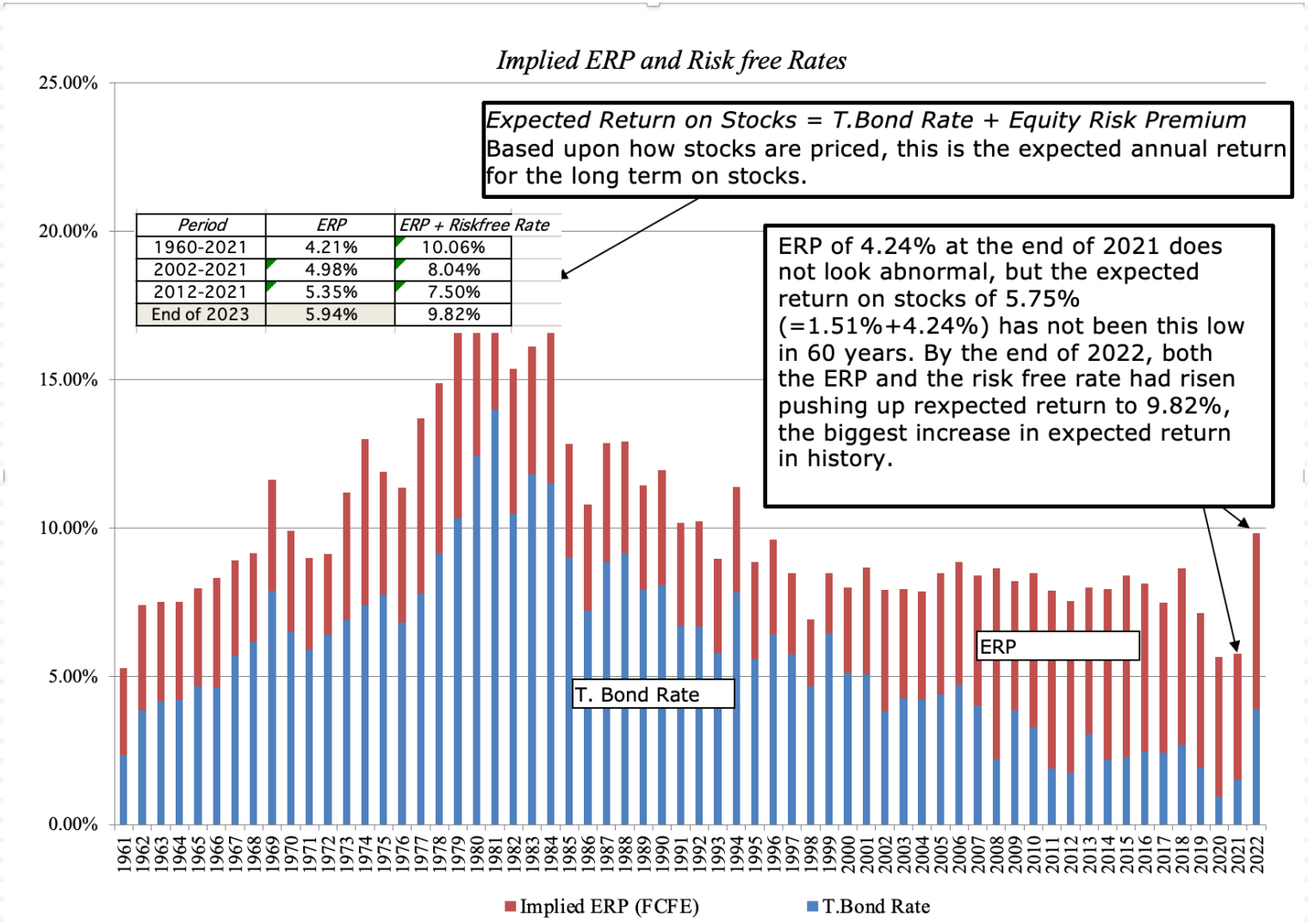
	Arithmetic Average		*Geometric Average*	
	Stocks - T. Bills	Stocks - T. Bonds	Stocks - T. Bills	Stocks - T. Bonds
1928-2022	8.17%	6.64%	6.34%	5.06%
Std Error	*2.05%*	*2.15%*		
1973-2022	7.30%	5.14%	5.87%	4.12%
Std Error	*2.51%*	*2.75%*		
2013-2022	12.64%	13.08%	11.50%	12.32%
Std Error	*5.50%*	*4.81%*		

Implied ERP: Start of 2023



	Last 12 months	1	2	3	4	5	Term Year
Earnings	219.49	233.55	248.52	264.44	281.38	299.41	*311.03*
Expected growth	89.78%	89.78%	89.78%	89.78%	89.78%	89.78%	*89.78%*
Dividends + Buybacks =	181.99	209.68	223.12	237.41	252.62	268.81	*279.24*

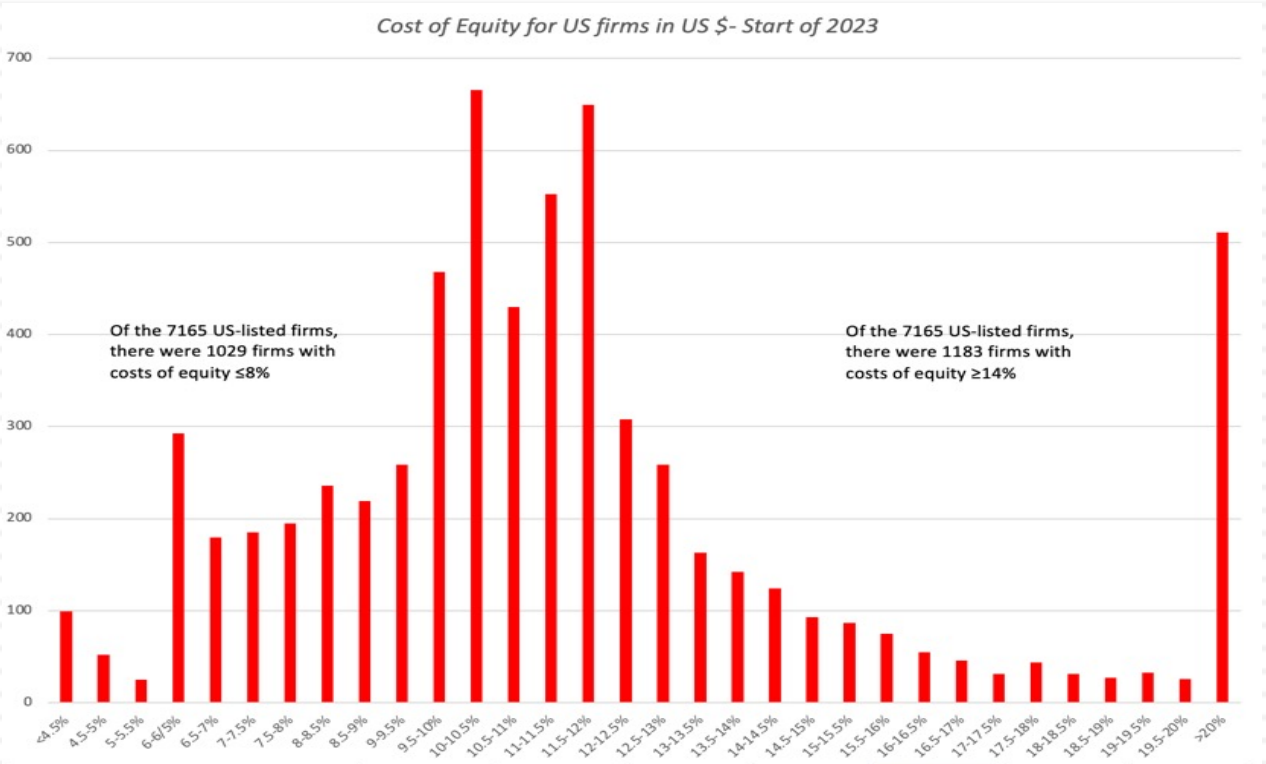
In historical context again…



So what?

- It is worth noting that in valuation, demanding a higher expected return depresses value today, and the increase in expected returns over 2022 is therefore consistent with the decline in stock prices during the year.
- There is another reading of this expected return that ties into investment and growth, where the expected return on stocks is the cost of equity that companies need to clear to make investments.
  - In short, an average-risk project with a return on equity of 7%, which would have passed the investment test at the start of 2022, because it was greater than the cost of equity of 5.75%, prevailing at the time, would not pass muster at the start of 2023.

Differences across stocks..



Primary Sector	# Firms	Average	10th	25th	Median	75th	90th
Communication Services	371	18.17%	7.50%	10.44%	11.52%	14.06%	23.14%
Consumer Discretionary	664	23.17%	8.82%	9.78%	11.48%	14.66%	21.93%
Consumer Staples	341	37.73%	8.00%	8.61%	9.59%	10.42%	16.42%
Energy	321	12.86%	9.37%	10.59%	10.86%	12.08%	14.63%
Financials	1,572	19.45%	5.67%	6.29%	7.26%	7.30%	9.29%
Health Care	1,436	30.03%	9.82%	10.53%	11.47%	12.81%	18.77%
Industrials	833	23.36%	8.86%	9.82%	10.47%	12.05%	17.60%
Information Technology	933	20.27%	11.18%	11.72%	12.21%	14.26%	18.30%
Materials	330	14.25%	9.79%	10.44%	10.56%	12.04%	15.47%
Real Estate	266	14.54%	7.19%	7.61%	8.43%	10.30%	16.07%
Utilities	98	12.27%	6.82%	7.59%	8.15%	8.45%	9.69%
All US firms	7,165	22.47%	7.19%	8.38%	10.67%	12.42%	16.89%

A Market Consensus Valuation

Market Consensus Valuation

Long term rates are at steady state and analyst estimates already incorporate economic slowdown

Earnings estimates: Analyst estimates of earnings for 2023 & 2024 incorporate the expected effects of a slowdown in 2023. Earnings grow at 3.88% (the riskfree rate) after that.

Riskfree rate: The treasury bond rate reflects updated expected inflation.

ERP: The equity risk premium converges on 5%, the average since 2008.

Intrinsic Value Estimate (based on your choice of ERP)							
	2022	2023	2024	2025	2026	2027	*Terminal Year*
Expected Earnings	$219.49	229.78	253.56	263.40	273.62	284.23	295.26
Growth Rate		4.69%	10.35%	3.88%	3.88%	3.88%	3.88%
Expected cash payout as % of earnings	89.78%	89.78%	87.49%	85.19%	82.90%	80.60%	80.60%
Expected Dividends + Buybacks =	$197.06	$206.30	$221.83	$224.39	$226.82	$229.09	237.98
Expected Terminal Value =						$ 4,759.63	
Riskfree Rate	3.88%	3.88%	3.88%	3.88%	3.88%	3.88%	3.88%
Required Return on Stocks	8.88%	8.88%	8.88%	8.88%	8.88%	8.88%	8.88%
Present Value =		$ 189.47	$ 187.12	$ 173.84	$ 161.39	$ 3,260.24	
Intrinsic Value of Index =	**3972.06**						
Intrinsic Trailing PE =	18.10						
Intrinsic Forward PE =	17.29						
Actual Index level =	**3839.5**						
% Under or Over Valuation =	**-3.34%**						

Cash Payout as % of Earnings: Starts at 2022 levels, but changes over time to reflect sustainable payout, given growth and ROE.

The two big uncertainties…

	No recession	*Steep Recession*
Inflation subsides to pre-pandemic levels	T.Bond rate drops to 2%, Earnings come in at analyst estimates.	T.Bond rate drops to 2%, Earnings in 2023 (2024) come in 20% (10%) below analyst estimates.
	Index Value = 4311.08	**Index Value = 3587.58**
Inflation stays high	T.Bond rate rises to 5%, Earnings come in at analyst estimates.	T.Bond rate rises to 5%, Earnings in 2023 (2024) come in 20% (10%) below analyst estimates.
	Index Value = 3762.60	**Index Value = 3212.37**

Market Strategists- Market Views

FIRM	STRATEGIST	2023 S&P 500	2023 EPS
Deutsche Bank	Binky Chadha	4500	195.00
BMO	Brian Belski	4300	220.00
Scotiabank	Hugo Ste-Marie	4225	225.00
Jeffries	Sean Darby	4200	232.00
JP Morgan	Dubravko Lakos-Bujas	4200	205.00
Cantor Fitzgerald	Eric Johnson	4100	212.00
RBC Capital Markets	Lori Calvasina	4100	199.00
Credit Suisse	Jonathan Golub	4050	230.00
Bank of America	Savita Subramaniam	4000	200.00
Goldman Sachs	Davis Kostin	4000	224.00
HSBC	Max Kettner	4000	225.00
Citigroup	Scott Chronert	3900	215.00
Morgan Stanley	Mike Wilson	3900	195.00
UBS	Keith Parker	3900	198.00
Barclays	Venu Krishna	3725	207.00
Societe Generale	Manish Kabra	3650	220.00
BNP Paribas	Greg Boutle	3400	219.00
Evercore ISI	Julian Emmanuel	-	222.00
Stifel	Barry Bannister	-	220.00
Average		4008.82	213.84
Median		4000.00	219.00
High		4500.00	232.00
Low		3400.00	195.00

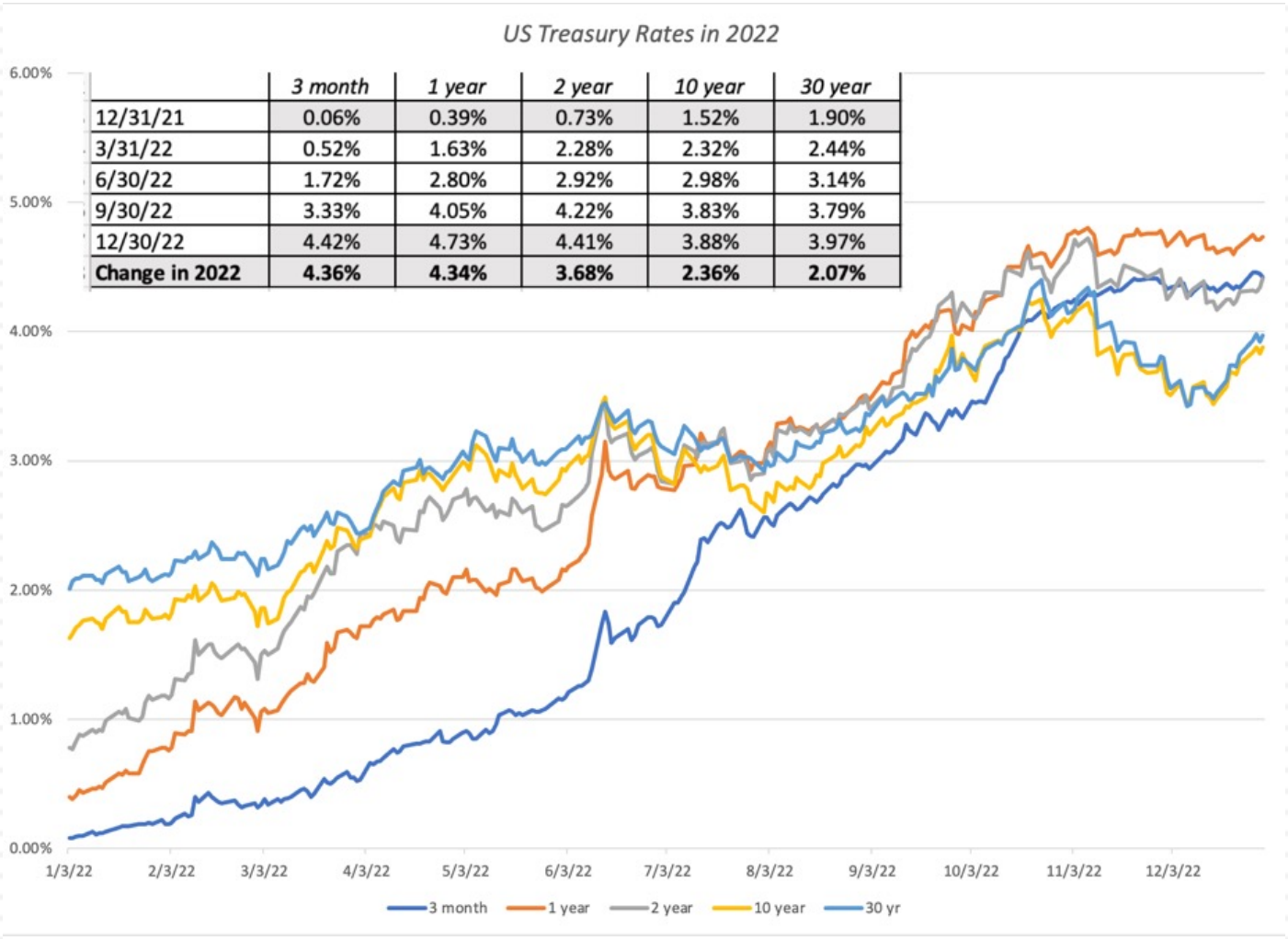
Interest rates & Bond returns

A rising tide lifts all boats!

Interest Rates in Motion

- If 2022 was an unsettling year for equities, as I noted in my second data post, it was an even more tumultuous year for the bond market.
  - The US treasury market, considered by some still as safe haven, was anything but safe or a haven, especially at the long maturities, as long term rates soared, with inflation (not the Fed) being the key driver. As a result, treasury bond investors faced one of their worst years in history, losing close to a fifth of their principal, as bonds were repriced.
  - The rise in rates transmitted to corporate bond market rates, with a concurrent rise in default spreads exacerbating the damage to investors.
- Just as rising equity risk premiums push up the cost of equity, rising default spreads push up the cost of debt of companies, with the added complication of higher default risk for those companies that had pushed to the limits of their borrowing capacity in a low interest-rate environment.

US Treasuries: Safe no more…



	3 month	1 year	2 year	10 year	30 year
12/31/21	0.06%	0.39%	0.73%	1.52%	1.90%
3/31/22	0.52%	1.63%	2.28%	2.32%	2.44%
6/30/22	1.72%	2.80%	2.92%	2.98%	3.14%
9/30/22	3.33%	4.05%	4.22%	3.83%	3.79%
12/30/22	4.42%	4.73%	4.41%	3.88%	3.97%
Change in 2022	**4.36%**	**4.34%**	**3.68%**	**2.36%**	**2.07%**

Returns on US Treasuries…

Returns on US Constant Maturity 10-year T.Bond in 2022

Price Change

Price of 10-year T.Bond, with 1.51% coupon rate, bought on 1/1/22 at par = $1000

Price of 10-year T.Bond, with 1.51% coupon rate, at 12/31/22 rate of 3.88% =

PV @ 3.88% of annual coupon of $15.10 a year for 10 years + PV @ 3.88% of face value of $1000 at the end of year 10 = $806.61

Price Change on Constant Maturity 10-year T.Bond in 2022 = (806.61-1000)/1000 = **-19.34%**

+

Coupons

Coupon on 10-year bond bought on 1/1/22 = **1.51%**

=

Total Return

Return in 2022 = - 19.34% + 1.51% = -17.83%

Nominal Return

Return in 2022 = - 19.34% + 1.51% = -17.83%

-

Inflation in 2022

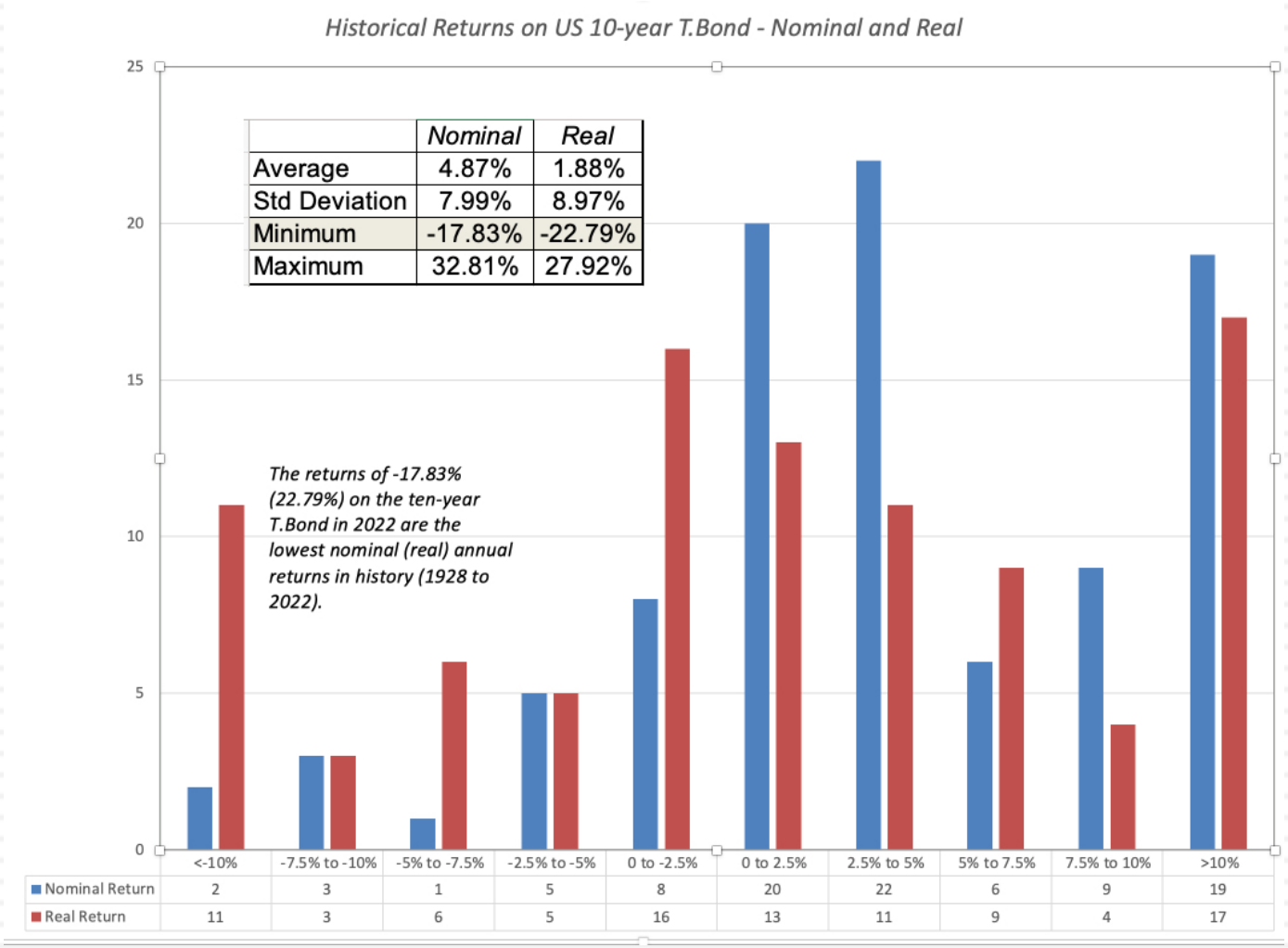
Inflation in 2022 = **6.42%**

=

Real Return

Real Return in 2022 =(1-(-.1783))/1.0642 -1 = **-22.79%**

In historical context…



	Nominal	Real
Average	4.87%	1.88%
Std Deviation	7.99%	8.97%
Minimum	-17.83%	-22.79%
Maximum	32.81%	27.92%

	<-10%	-7.5% to -10%	-5% to -7.5%	-2.5% to -5%	0 to -2.5%	0 to 2.5%	2.5% to 5%	5% to 7.5%	7.5% to 10%	>10%
Nominal Return	2	3	1	5	8	20	22	6	9	19
Real Return	11	3	6	5	16	13	11	9	4	17

And in terms of co-movement…

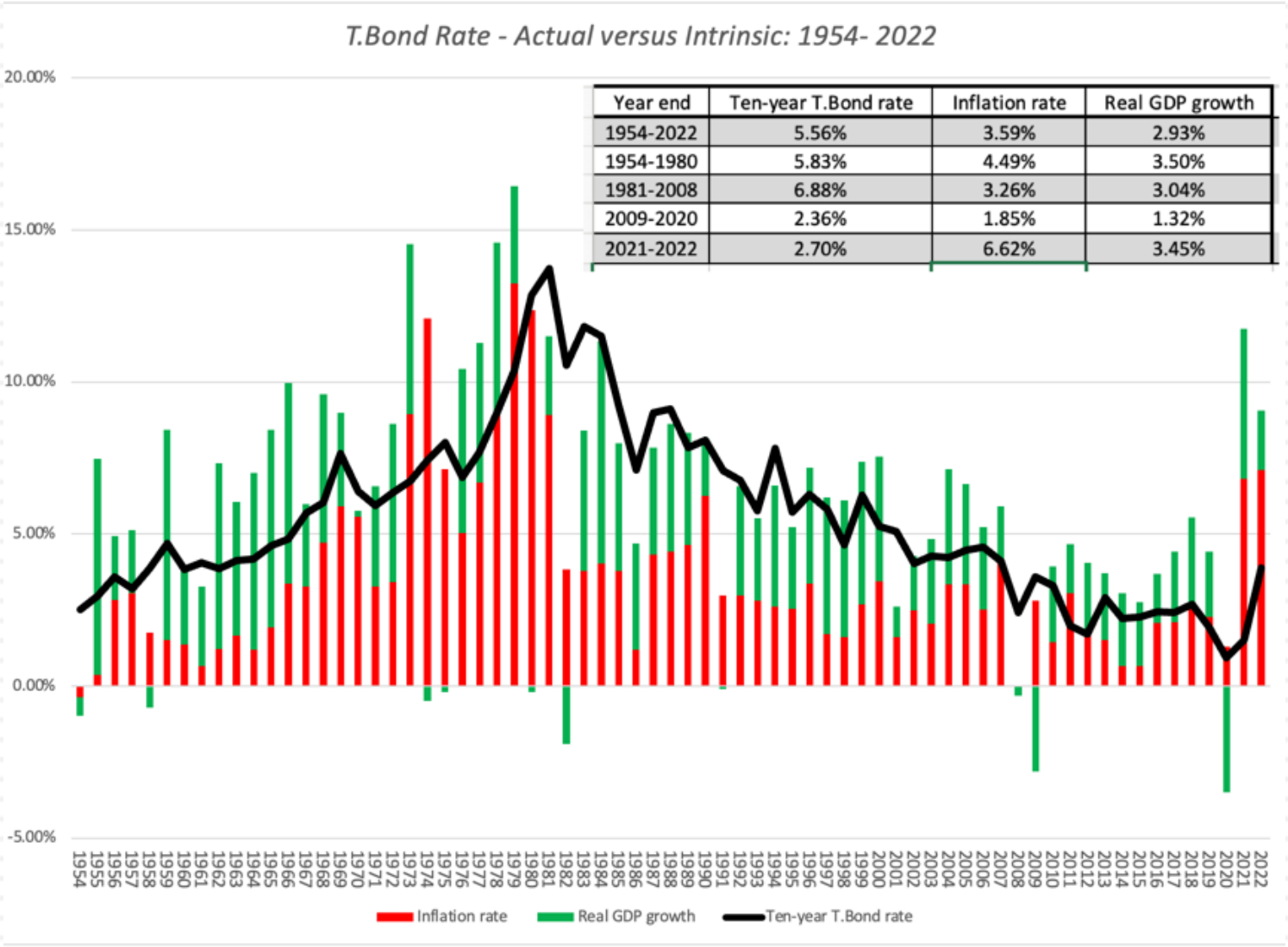
Annual Returns on Stocks & Bonds: Co-movement between 1928 and 2022

		Bond Returns	
		Positive	*Negative*
Stock Return	*Positive*	55	14
	Negative	21	5

Stocks, Bills & Bonds: Co-movement between 1928 and 2022

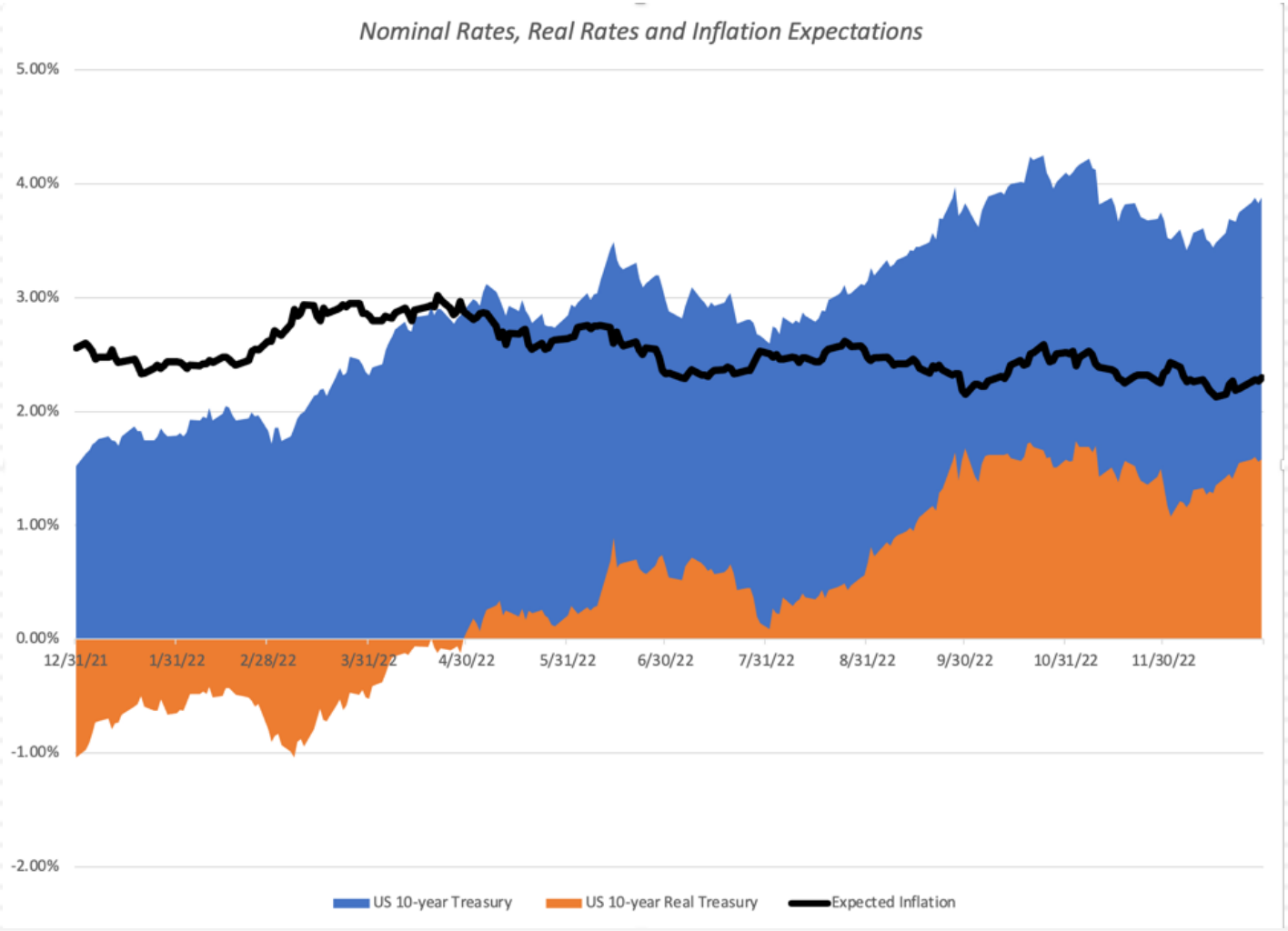
	S&P 500	*3-month T.Bill*	*US T. Bond*
S&P 500	1.0000		
3-month T.Bill	-0.0496	1.0000	
US T. Bond	0.0240	0.2500	1.0000

The Drivers of Interest Rates

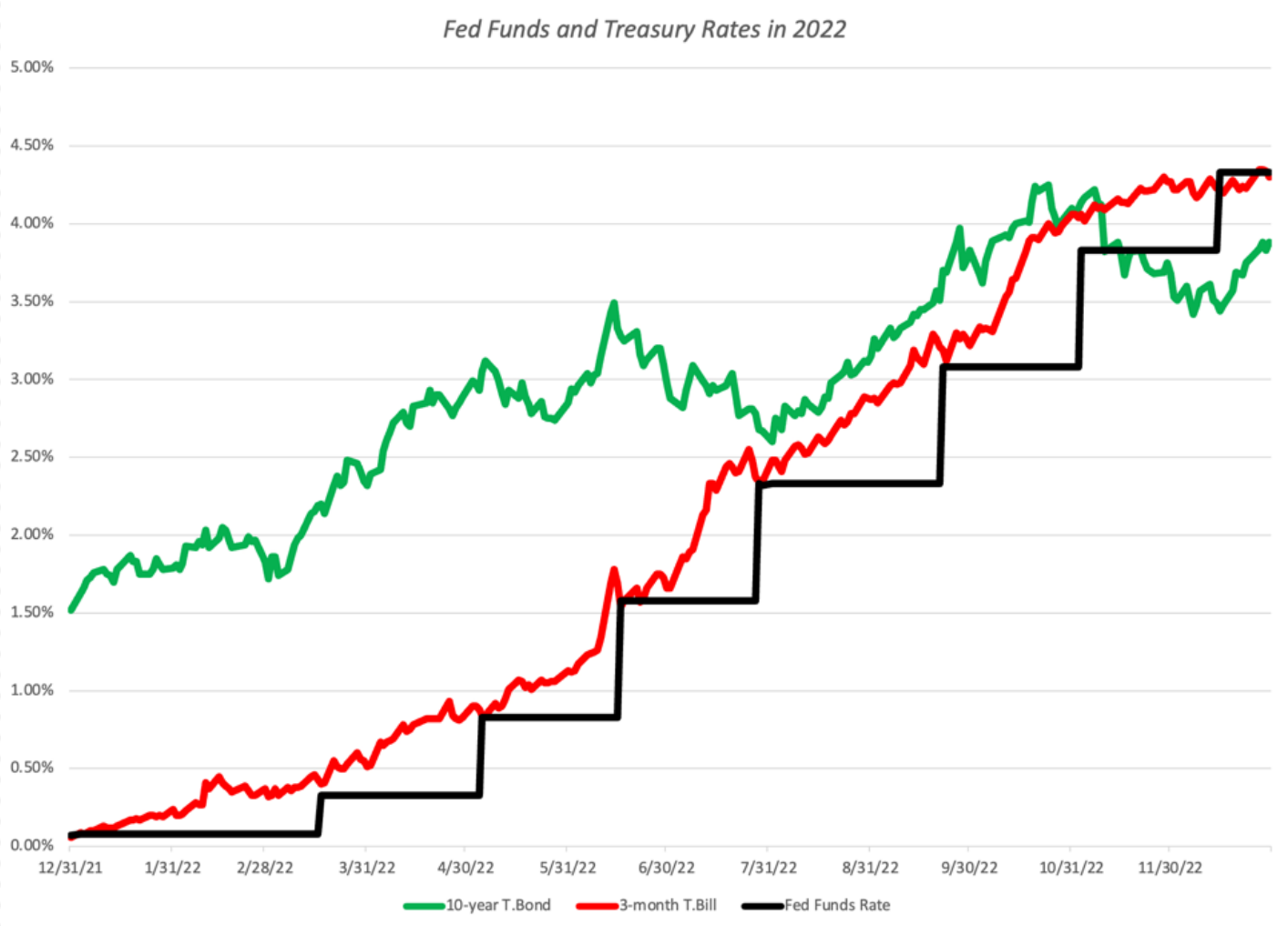


Year end	Ten-year T.Bond rate	Inflation rate	Real GDP growth
1954-2022	5.56%	3.59%	2.93%
1954-1980	5.83%	4.49%	3.50%
1981-2008	6.88%	3.26%	3.04%
2009-2020	2.36%	1.85%	1.32%
2021-2022	2.70%	6.62%	3.45%

Inflation and Interest Rates



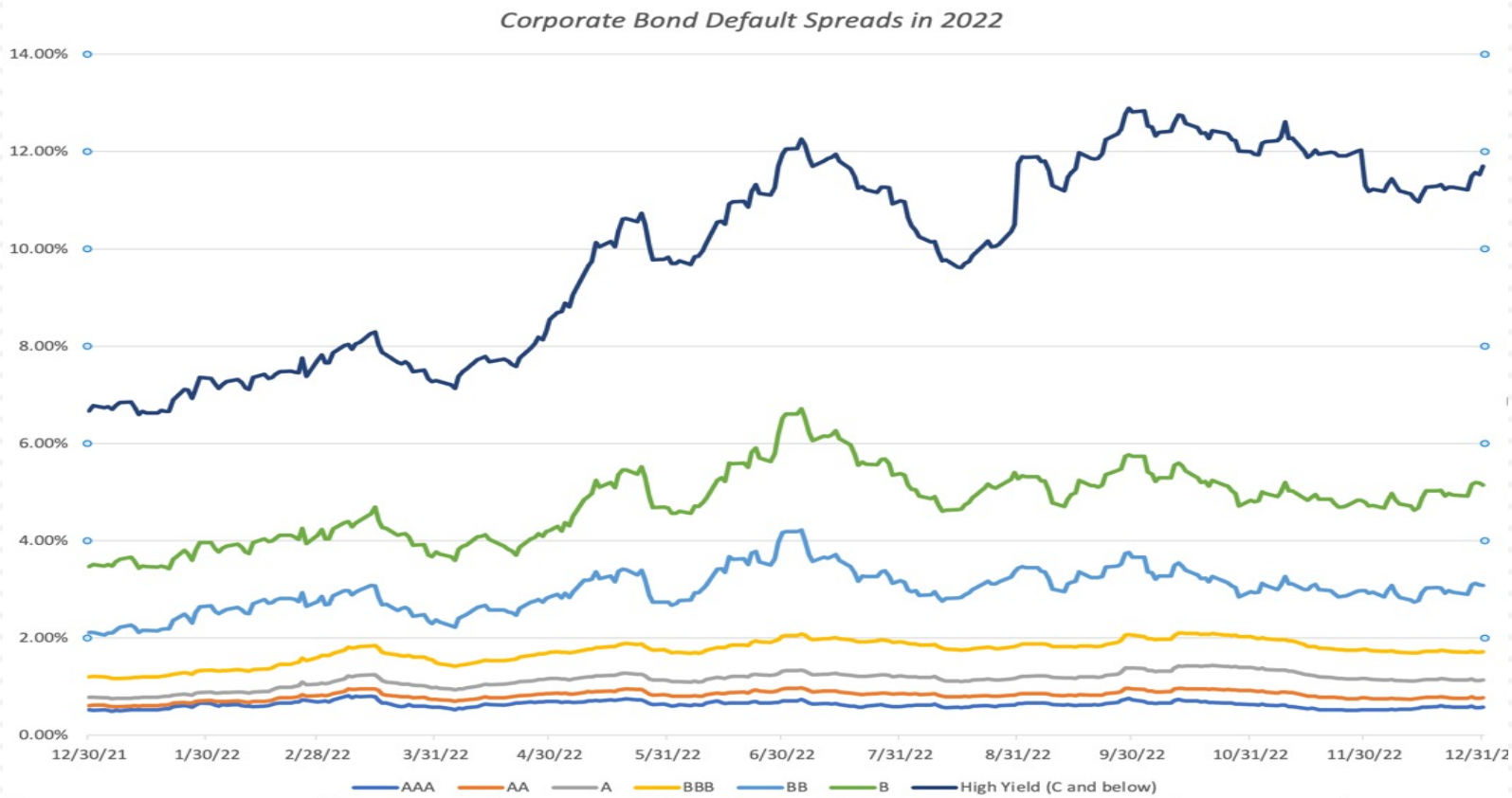
The Fed: Follower or Leader?



The Fed Fixation: Time to let go?

- I do think that the Fed and other Central Banks, in the aftermath of the 2008 crisis, overcorrected and misread their mission as keeping economies afloat and financial markets booming, and in the process, they gave risk capital a false sense that they could take huge risks, without demanding sufficient premiums, and come in for soft landing.
- I think that the fixation with the Fed is both unhealthy and counter productive. It has not only made investors passive bystanders in the great interest resetting, but has also given poorly performing active investors, individual and institution, an easy excuse for their underperformance.
- Much as we bemoan our portfolio performance during the year, the market developments of 2022 are, on balance, healthy insofar as they bring risk capital back to earth.

Default Risk and Spreads



Date	AAA	AA	A	BBB	BB	B	HY
12/31/21	0.52%	0.61%	0.78%	1.20%	2.11%	3.47%	6.67%
3/31/22	0.58%	0.74%	0.99%	1.49%	2.37%	3.77%	7.29%
6/30/22	0.71%	0.96%	1.32%	2.04%	4.17%	6.52%	11.94%
9/30/22	0.73%	0.96%	1.38%	2.06%	3.66%	5.74%	12.81%
12/31/22	0.58%	0.77%	1.14%	1.72%	3.08%	5.15%	11.70%
Change in 2022	0.06%	0.16%	0.36%	0.52%	0.97%	1.68%	5.03%

Corporate Bond Returns in 2022

Returns on Constant Maturity 10-year Baa Corporate Bond in 2022

Price Change

Price of 10-year Baa Corporate Bond, with 2.71% coupon rate, bought on 1/1/22 at par = $1000

Price of 10-year Baa Corporate Bond, with 2.71% coupon rate, at 12/31/22 rate of 5.60% = PV @ 5.60% of annual coupon of $27.10 a year for 10 years + PV @ 5.60% of face value of $1000 at the end of year 10 = $733.03

Price Change on Constant Maturity 10-year T.Bond in 2022 = (733.03-1000)/1000 = **-26.70%**

+

Coupons

Coupon on 10-year bond bought on 1/1/22 = **2.71%**

=

Total Return

Return in 2022 = - 26.70% +2.71% = -23.99%

Nominal Return

Return in 2022 = - 26.70% + 2.71% = -23.99%

-

Inflation in 2022

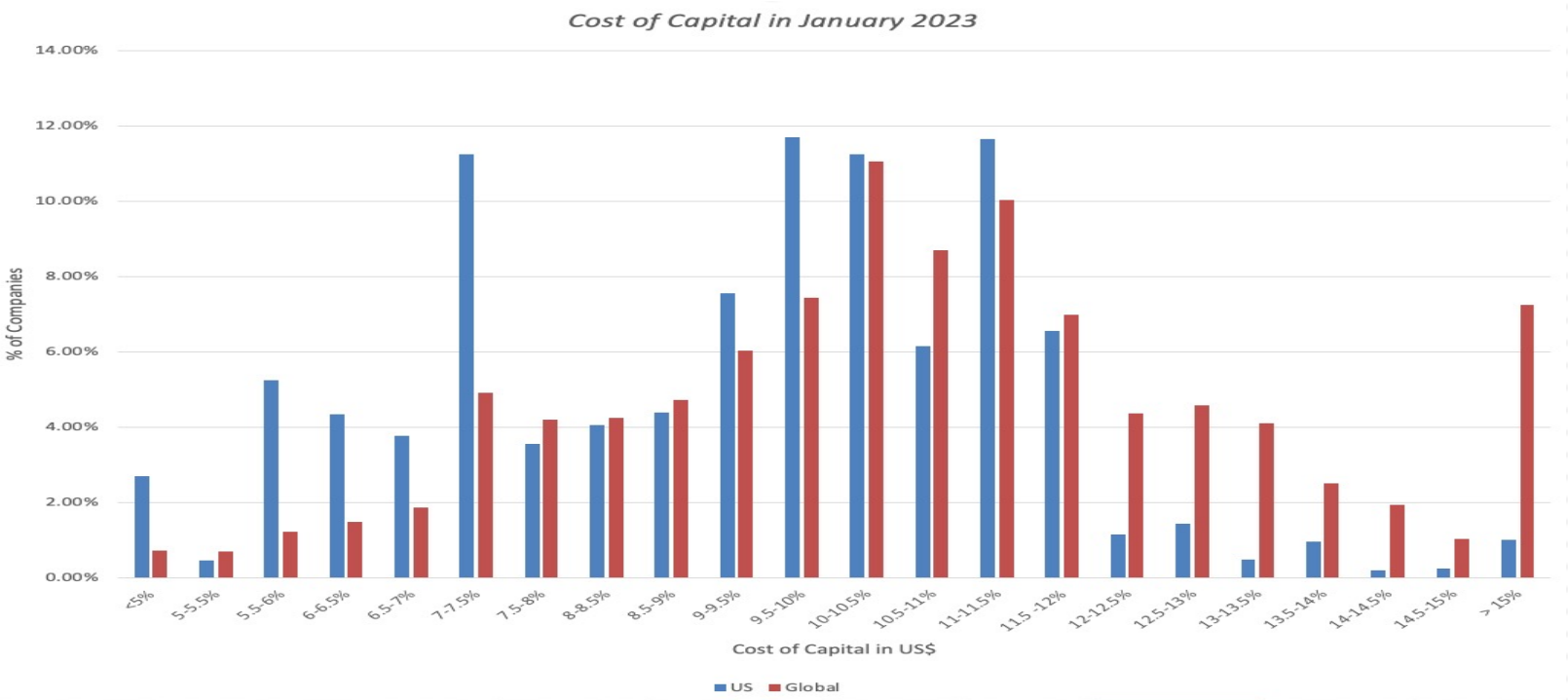
Inflation in 2022 = **6.42%**

=

Real Return

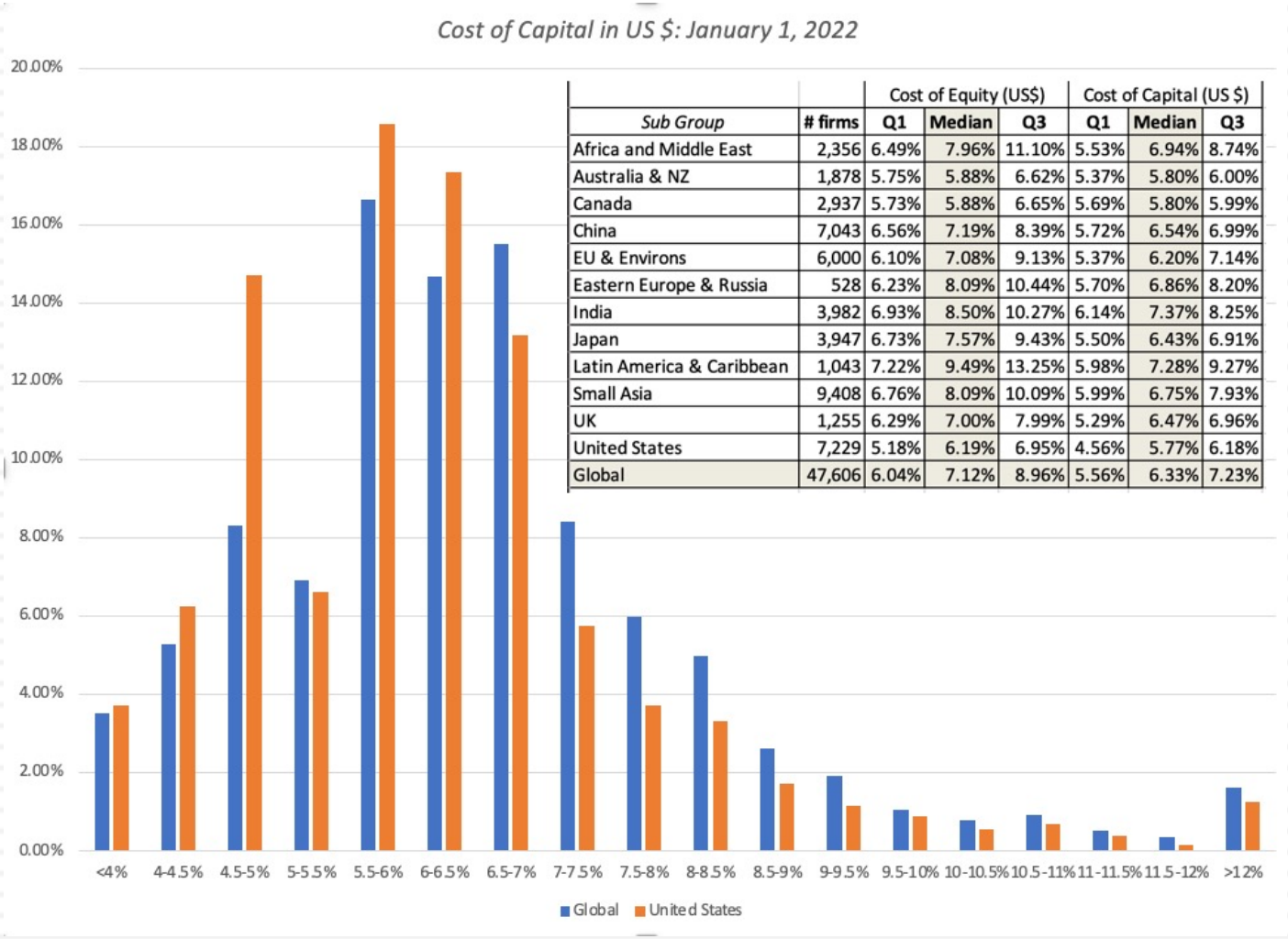
Real Return in 2022 =(1-(-.2399))/1.0642 -1 = **-31.12%**

Consequences for Companies

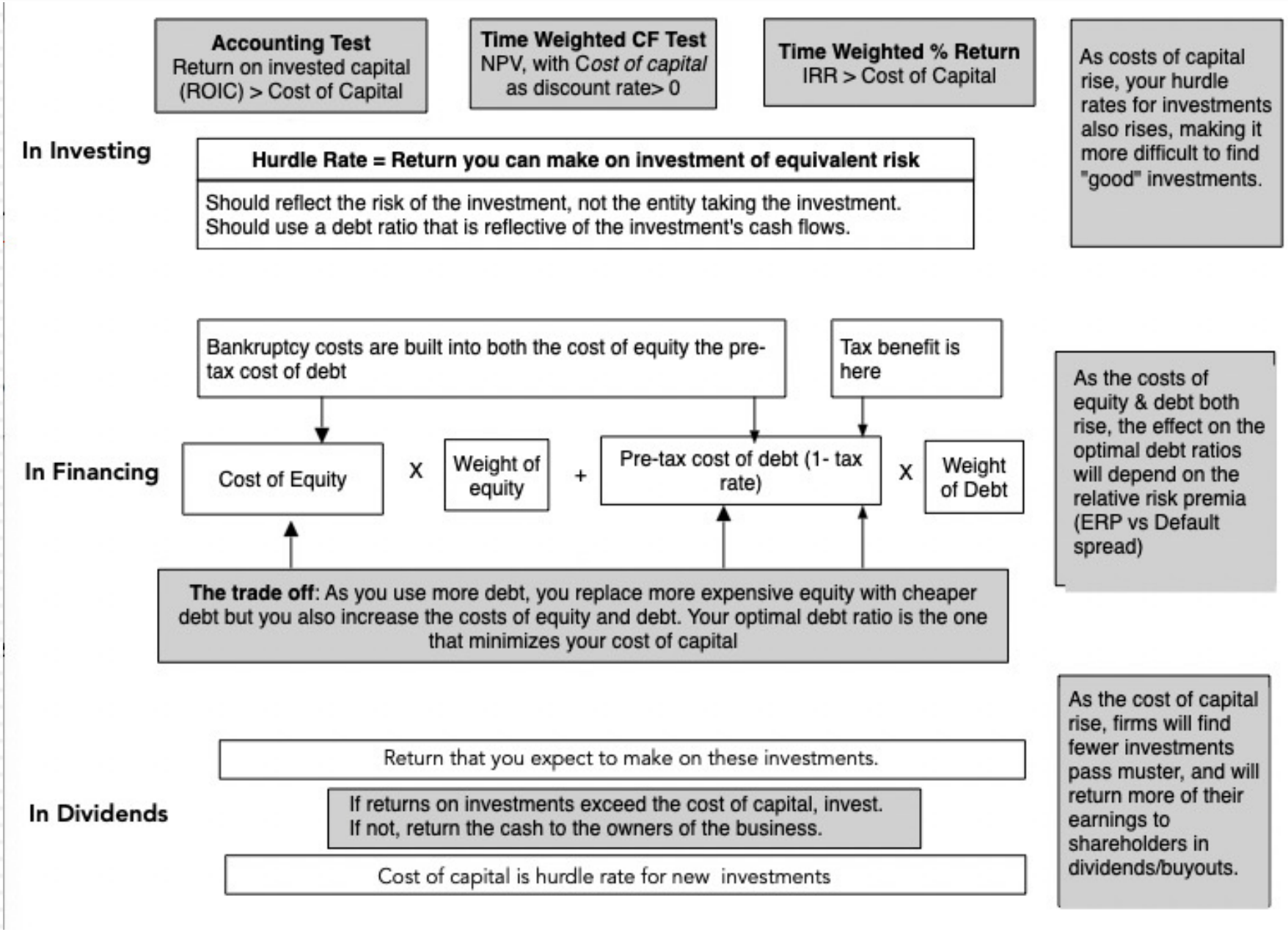


Sub Group	# firms	Average	10th	25th	Median	75th	90th
Africa and Middle East	2,409	12.19%	7.77%	9.08%	**11.35%**	14.26%	18.22%
Australia & NZ	1,895	9.67%	7.09%	8.76%	**10.39%**	10.49%	11.44%
Canada	2,900	10.05%	7.35%	9.67%	**10.44%**	10.50%	11.58%
China	7,266	10.72%	7.86%	9.24%	**10.97%**	11.74%	13.09%
EU & Environs	5,952	10.90%	7.24%	8.71%	**10.37%**	12.06%	14.90%
Eastern Europe & Russia	357	11.39%	7.94%	8.97%	**10.96%**	13.29%	15.05%
India	4,149	11.80%	8.43%	9.80%	**12.00%**	13.74%	14.56%
Japan	3,974	10.48%	7.71%	9.07%	**10.72%**	11.50%	13.10%
Latin America & Caribbean	1,023	13.08%	8.00%	9.57%	**11.96%**	14.62%	20.08%
Small Asia	9,591	11.94%	8.25%	9.66%	**11.23%**	12.86%	15.83%
UK	1,232	10.31%	7.44%	8.41%	**10.67%**	11.67%	12.95%
United States	7,165	9.27%	6.03%	7.26%	**9.63%**	10.88%	11.63%
Global	47,913	10.88%	7.39%	9.08%	**10.60%**	12.07%	14.04%

A Contrast with a year ago…



		Cost of Equity (US$)			Cost of Capital (US $)		
Sub Group	# firms	Q1	Median	Q3	Q1	Median	Q3
Africa and Middle East	2,356	6.49%	7.96%	11.10%	5.53%	6.94%	8.74%
Australia & NZ	1,878	5.75%	5.88%	6.62%	5.37%	5.80%	6.00%
Canada	2,937	5.73%	5.88%	6.65%	5.69%	5.80%	5.99%
China	7,043	6.56%	7.19%	8.39%	5.72%	6.54%	6.99%
EU & Environs	6,000	6.10%	7.08%	9.13%	5.37%	6.20%	7.14%
Eastern Europe & Russia	528	6.23%	8.09%	10.44%	5.70%	6.86%	8.20%
India	3,982	6.93%	8.50%	10.27%	6.14%	7.37%	8.25%
Japan	3,947	6.73%	7.57%	9.43%	5.50%	6.43%	6.91%
Latin America & Caribbean	1,043	7.22%	9.49%	13.25%	5.98%	7.28%	9.27%
Small Asia	9,408	6.76%	8.09%	10.09%	5.99%	6.75%	7.93%
UK	1,255	6.29%	7.00%	7.99%	5.29%	6.47%	6.96%
United States	7,229	5.18%	6.19%	6.95%	4.56%	5.77%	6.18%
Global	47,606	6.04%	7.12%	8.96%	5.56%	6.33%	7.23%


Accounting Test
Return on invested capital (ROIC) > Cost of Capital
Time Weighted CF Test
NPV, with Cost of capital as discount rate> 0
Time Weighted % Return
IRR > Cost of Capital
As costs of capital rise, your hurdle rates for investments also rises, making it more difficult to find "good" investments.
In Investing
Hurdle Rate = Return you can make on investment of equivalent risk
Should reflect the risk of the investment, not the entity taking the investment.
Should use a debt ratio that is reflective of the investment's cash flows.
Bankruptcy costs are built into both the cost of equity the pre-tax cost of debt
Tax benefit is here
In Financing
Cost of Equity
X
Weight of equity
+
Pre-tax cost of debt (1- tax rate)
X
Weight of Debt
As the costs of equity & debt both rise, the effect on the optimal debt ratios will depend on the relative risk premia (ERP vs Default spread)
The trade off: As you use more debt, you replace more expensive equity with cheaper debt but you also increase the costs of equity and debt. Your optimal debt ratio is the one that minimizes your cost of capital
Return that you expect to make on these investments.
In Dividends
If returns on investments exceed the cost of capital, invest.
If not, return the cash to the owners of the business.
Cost of capital is hurdle rate for new investments
As the cost of capital rise, firms will find fewer investments pass muster, and will return more of their earnings to shareholders in dividends/buyouts.

Interest Rates in 2023: Playing Prognosticator?

	No recession	*Steep Recession*
Inflation subsides to pre-pandemic levels	T.Bond rate drops to 2%,	T.Bond rate drops to 2%.
	Default spreads decrease	Default spreads increase
Inflation stays high	T.Bond rate rises to 5%,	T.Bond rate rises, but < 5%
	Default spreads decrease	Default spreads increase

Globalizing the Discussion

Globalization's dark side!

Country Risk: The Foundations

- There is risk in investing in every country in the world, with the differences being one of degree.
  - Thus, you would be making a mistake, if you assume that this discussion only applies if you are investing in India, Brazil or Belarus, and that it does not, if your investing is in the United States, Germany or Australia.
  - The developed/emerging market divide was created for convenience, and while it sometimes has consequential effects, as is sometimes the case when a company is reclassified as developed from emerging, or vice versa, much of what I will say about how governments, legal systems and regulatory frameworks can affect corporate value applies to all countries.

Country Risk: Determinants

Political Structure
- The degree of political freedom/democracy affects business risk, but the effects can cut both ways (good and bad).
- Democracies expose businesses to more continuous risk, as laws and regulations can change, when elections create government changes.
- Authoritarian regimes often offer the promise of predictability, and less risk on a period-to-period basis, but face more discontinous risk, since regime change is often violent and significantly disruptive.

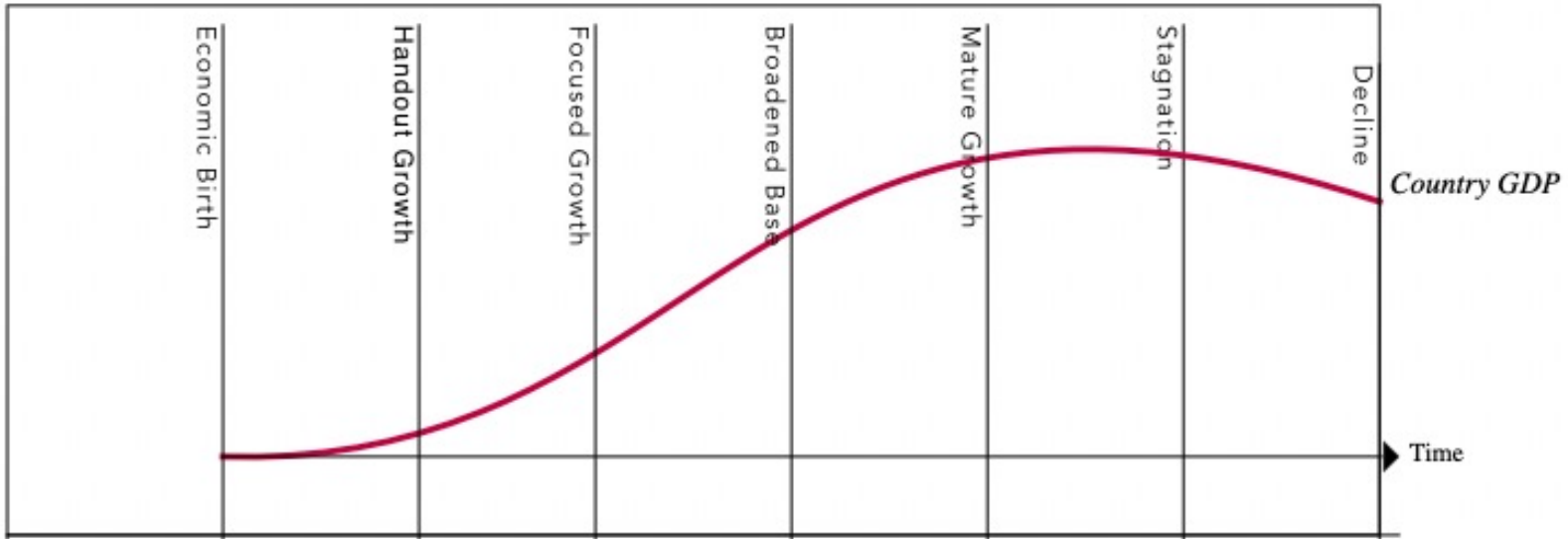
Corruption
- Corruption operates as a hidden tax, reducing profitability and value for private businesses
- Businesses operating in corrupt locales face a choice of either accepting corruption as part of the cost of doing business or operating at a disadvantage to competitors who are less scruplous.

Country Risk

War & Violence
- Operating a business in a country that is more exposed to violence, from war, terrorism or internal strife, is more difficult than operating that business in a more peaceful environment.
- Businesses will face higher costs in operations and/ or from trying to insure themselves against violence.

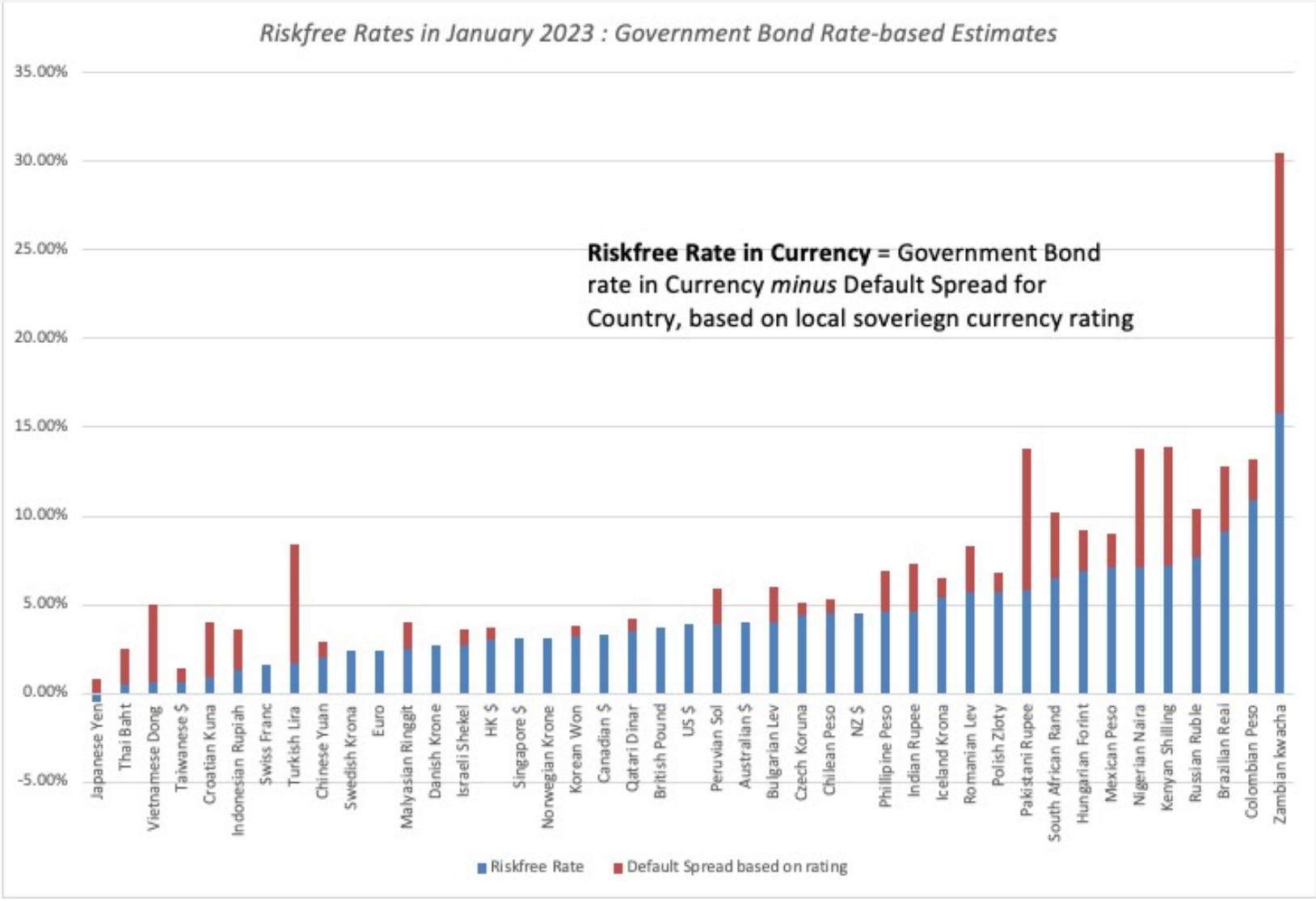
Legal & Property Rights
- The value of a private business is dependent on a legal system that respects property rights and enforces those rights.
- In a country where there are no or weak property rights or that has a legal system that does not enforce those rights, businesses face more risks and have less value.
- Timeliness in enforcing legal rights matters as much as the due process, since rights not enforced in a timely manner provide weak protection.

A Country Life Cycle…

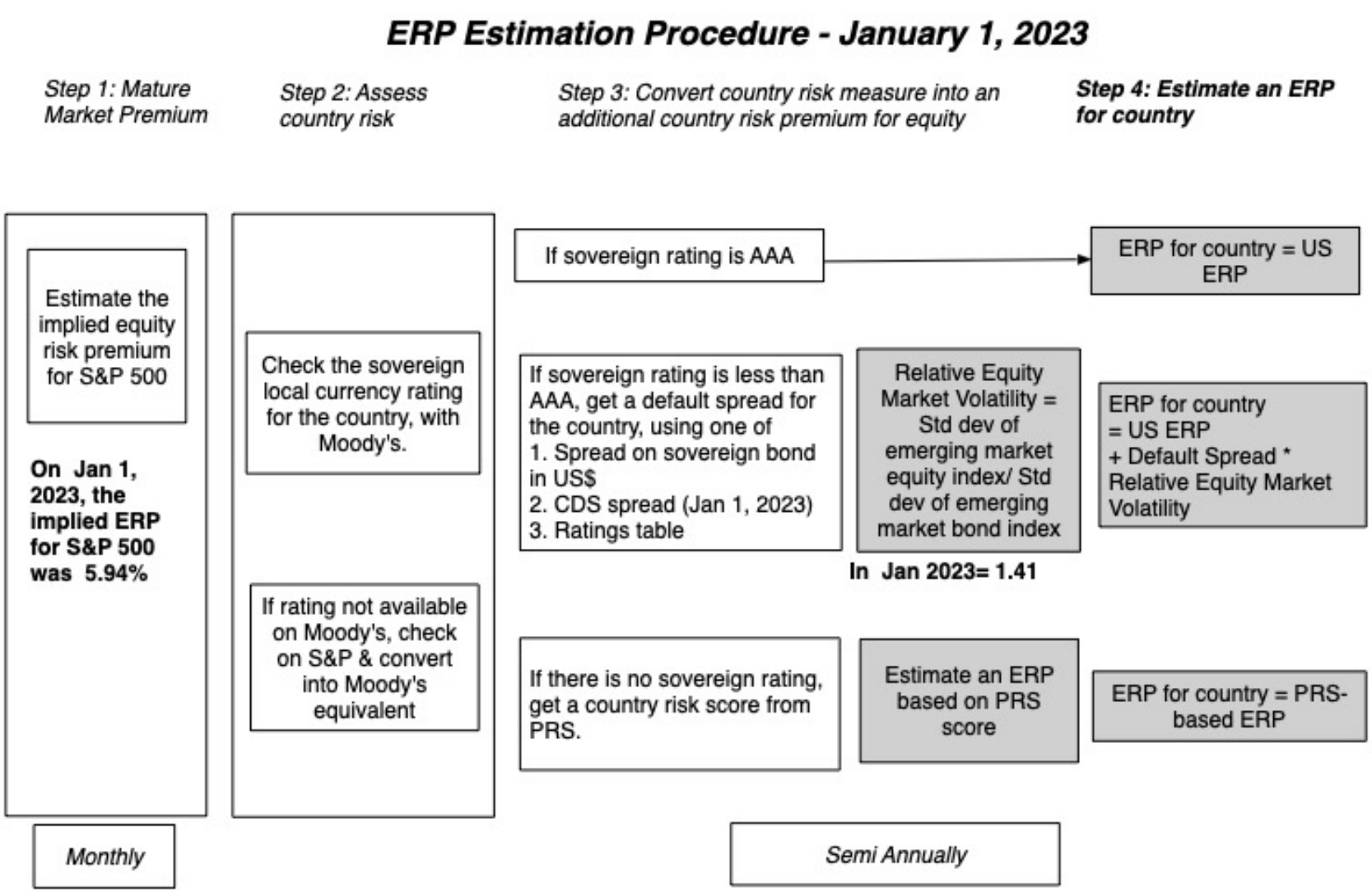


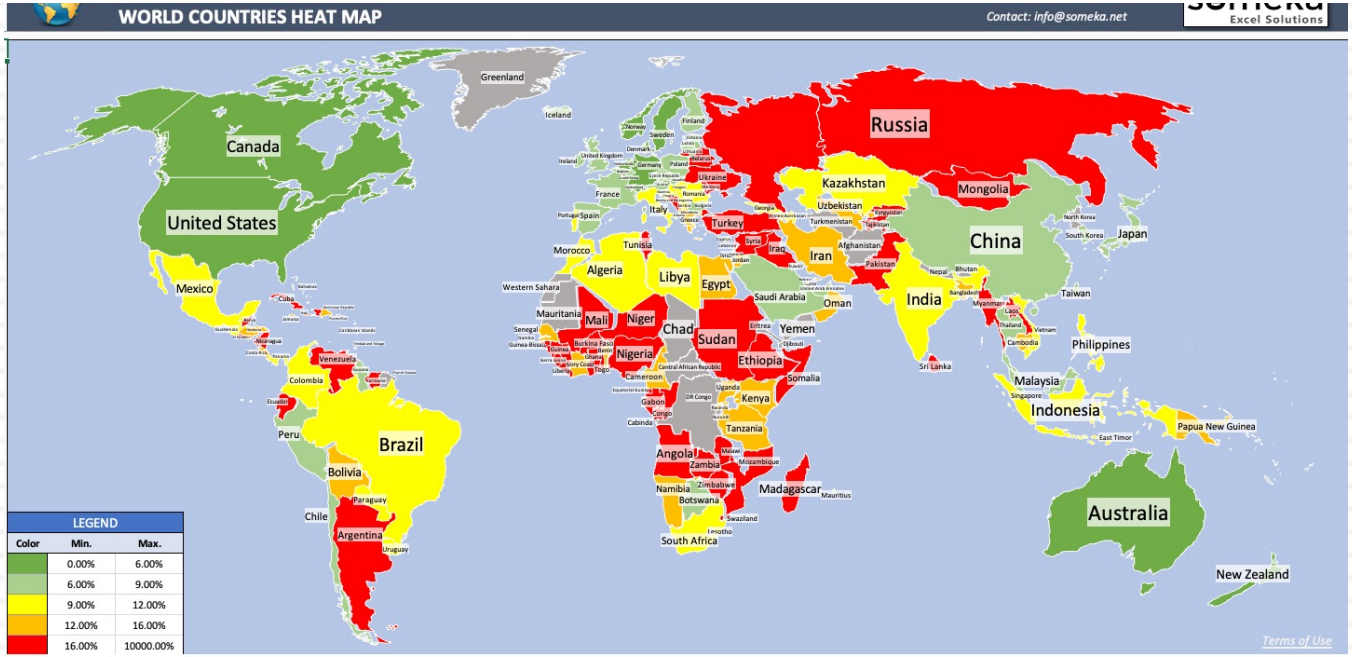
Country Lifecycle	**Bootstrap**	**Focused Growth**	**Broadened Growth**	**Mature Growth**	**Stability**	**Decline**
Government Effect on Economy	Government actions/ inacctions can make or break economy & players in it.		Government policy effects on economy decline, and become more at the margin.		Government choices can affect speed & magnitude of decline, and sharing of pain.	
Country Narrative	Country narraative is central to success, dominating company or investment characteristics.		Company narrative becomes more critical to success, with country narative becoming secondary..		Country narrative stays secondary, but acquires more importance in determining investment success.	
Uncertainty about Future	Uncertainty about growth trajetory is greatest, with no history to fall back on, when forecasting the future.		Uncertainty decreases as economy takes form. Historical data on the economy adds to predictability.		Uncertainty increases again, and historical data becomes less and less useful in forecasting, i.e., mean reversion stops working.	

Riskfree Rates in Currencies



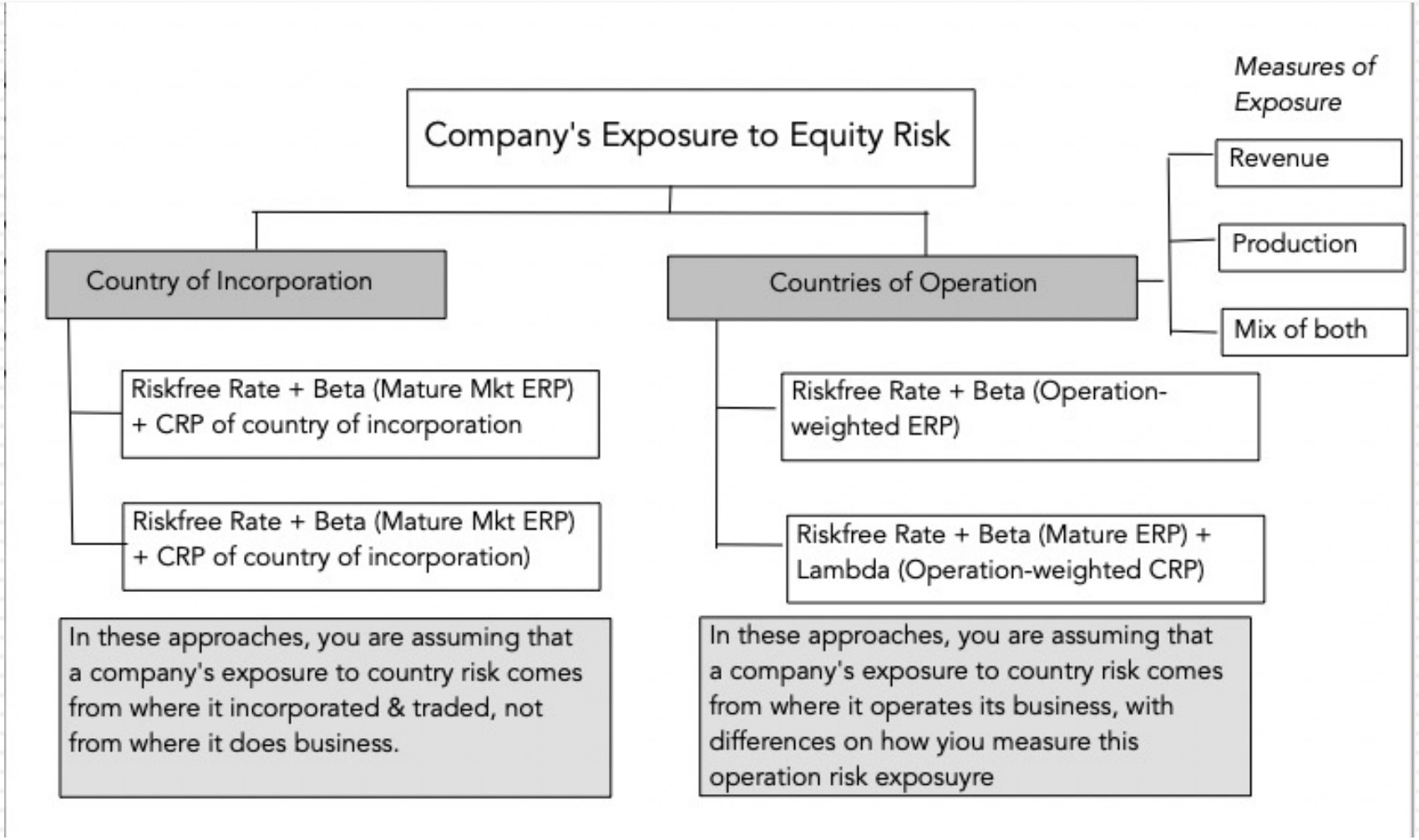
Equity Risk: From default spreads to equity risk premiums





Country	ERP	Country	ERP	Country	ERP	Country	ERP	Country	ERP
Abu Dhabi	6.79%	Congo (Republic of)	21.48%	Indonesia	9.23%	Mongolia	17.16%	Somalia	26.65%
Albania	13.71%	Cook Islands	13.71%	Iran	13.71%	Montenegro	13.71%	South Africa	11.13%
Algeria	11.13%	Costa Rica	15.43%	Iraq	18.88%	Montserrat	9.73%	Spain	8.70%
Andorra (Principality of)	9.23%	Côte d'Ivoire	12.15%	Ireland	7.16%	Morocco	10.26%	Sri Lanka	26.65%
Angola	17.16%	Croatia	9.23%	Isle of Man	6.97%	Mozambique	21.48%	St. Maarten	11.13%
Argentina	26.65%	Cuba	26.65%	Israel	7.16%	Myanmar	23.20%	St. Vincent & the Grenadines	17.16%
Armenia	12.15%	Curacao	9.23%	Italy	9.73%	Namibia	13.71%	Sudan	30.63%
Aruba	9.23%	Cyprus	10.26%	Jamaica	15.43%	Netherlands	5.94%	Suriname	23.20%
Australia	5.94%	Czech Republic	6.97%	Japan	7.16%	New Zealand	5.94%	Swaziland	17.16%
Austria	6.63%	Denmark	5.94%	Jersey (States of)	5.94%	Nicaragua	17.16%	Sweden	5.94%
Azerbaijan	10.26%	Dominican Republic	12.15%	Jordan	13.71%	Niger	17.16%	Switzerland	5.94%
Bahamas	13.71%	Ecuador	23.20%	Kazakhstan	9.23%	Nigeria	17.16%	Syria	30.63%
Bahrain	15.43%	Egypt	15.43%	Kenya	15.43%	Norway	5.94%	Taiwan	6.97%
Bangladesh	12.15%	El Salvador	23.20%	Korea	6.79%	Oman	12.15%	Tajikistan	17.16%
Barbados	18.88%	Estonia	7.16%	Korea, D.P.R.	26.65%	Pakistan	18.88%	Tanzania	15.43%
Belarus	26.65%	Ethiopia	21.48%	Kuwait	7.16%	Panama	9.23%	Thailand	8.70%
Belgium	6.97%	Fiji	13.71%	Kyrgyzstan	17.16%	Papua New Guinea	15.43%	Togo	17.16%
Belize	21.48%	Finland	6.63%	Laos	23.20%	Paraguay	10.26%	Trinidad and Tobago	11.13%
Benin	13.71%	France	6.79%	Latvia	8.01%	Peru	8.70%	Tunisia	18.88%
Bermuda	7.40%	Gabon	18.88%	Lebanon	30.63%	Philippines	9.23%	Turkey	17.16%
Bolivia	15.43%	Gambia	15.43%	Liberia	21.48%	Poland	7.40%	Turks and Caicos Islands	8.70%
Bosnia and Herzegovina	17.16%	Georgia	11.13%	Libya	11.13%	Portugal	9.23%	Uganda	15.43%
Botswana	8.01%	Germany	5.94%	Liechtenstein	5.94%	Qatar	6.97%	Ukraine	23.20%
Brazil	11.13%	Ghana	26.65%	Lithuania	7.40%	Ras Al Khaimah (Emirate of)	8.01%	United Arab Emirates	6.79%
Brunei	7.40%	Greece	12.15%	Luxembourg	5.94%	Romania	9.73%	United Kingdom	6.97%
Bulgaria	8.70%	Guatemala	10.26%	Macao	6.97%	Russia	18.88%	United States	5.94%
Burkina Faso	18.88%	Guernsey (States of)	5.94%	Macedonia	12.15%	Rwanda	15.43%		
Cambodia	15.43%	Guinea	21.48%	Madagascar	17.16%	Saudi Arabia	7.16%		
Cameroon	15.43%	Guinea-Bissau	17.16%	Malawi	26.65%	Senegal	12.15%		
Canada	5.94%	Guyana	8.70%	Malaysia	8.01%	Serbia	11.13%		
Cape Verde	17.16%	Haiti	26.65%	Maldives	18.88%	Sharjah	10.26%		
Cayman Islands	6.97%	Honduras	13.71%	Mali	21.48%	Sierra Leone	26.65%		
Chile	7.40%	Hong Kong	6.97%	Malta	7.40%	Singapore	5.94%		
China	7.16%	Hungary	9.23%	Mauritius	9.73%	Slovakia	7.40%		
Colombia	9.23%	Iceland	7.40%	Mexico	9.23%	Slovenia	8.01%		
Congo (Democratic Republic of)	17.16%	India	9.73%	Moldova	17.16%	Solomon Islands	18.88%		

Company Risk Exposure to Country Risk



The End Game for Government

- I know that I am going against the current political trend, but I believe that the end game for a good government is analogous to that of a good founder, and that is, once it has provided the structure and the basis for growth and prosperity, to make itself less central to the economy, not more so.
- Note that while this may seem like the libertarian position, there are significant differences.
  - I do believe that it is a government's role to craft laws and regulations that minimize the externalities that businesses create
  - Those laws/regulations should be few in number and changes, when they happen, should be reasoned and infrequent and enforcement should be fair and timely.
- There is nothing more unsettling than being a business person, consumer or citizen in a setting, where you are faced an avalanche of rules, sometimes contradictory, that are constantly changing, and enforced inconsistently.