

YOUR MONEY

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Emerging market growth tied to technology

There's been much talk this year about emerging markets. The Shanghai Composite Index is up over 85% year-to-date and other emerging market indices have seen equally substantial rallies. Much of the success of the emerging markets, particularly China, has been due to an emphasis on technology and manufacturing infrastructure. Assuming economists are correct in their growth profile for China, its likely technology will remain a key requirement in that growth - giving the sector much to gain.

According to a Bloomberg survey of economists, China should grow 8.5% next year, compared with a 2.05% increase in the US and 0.6% in the Euro zone. China's estimated growth is largely attributed to expected increases in GDP per capita income; the notion being that increased wealth leads to greater spending and a revival of the economy.

Figures released by the China National Bureau of Statistics say the average income of China's urban employees in the first half of 2009 reached 8,856 yuan. In 1978 it was 615 yuan. In addition to lifting people out of poverty with a growing economy, Beijing is planning to spend \$125 billion over the next three years on clinics and hospitals, expanding health care coverage to 90% of the population. Beijing hopes that, by removing their need to save for potential health care needs, consumers will spend more of the savings and boost economic growth.

Think about that potential spending in the context of personal computers. According to Credit Suisse, the penetration rate of PCs in China is just 12%. However, as growth continues and incomes rise, PCs become more affordable to the general public. The turnover of PCs is also relatively short; the average lifespan a mere

5.5 years. As the home PC market ages, the number of replacement and upgrade sales will expand.

The introduction of netbook computers should play an integral role in building out the appetite for technology in the emerging markets. Netbooks come with a substantially lower selling price than traditional PCs and are much more accessible. In fact, Credit Suisse noted that sub-\$999 PCs were the only segment to record positive year-over-year growth in the first quarter of 2009, with netbooks representing 14% of the total home PC market.

If you dig a bit deeper into the technological realm, the numbers are even more compelling. Consider the popularity of flat screen TVs. According to Credit Suisse, 85% of all TV sales in 2008 were flat screen and yet they represented only 13% of the installed base. Global smartphone sales are also showing a promising future in the emerging markets. Credit Suisse analysts are forecasting a 13% growth in global sales; largely attributed to significant innovation in the segment. And of course, smartphones lead to increased mobile broadband and subsequent increased revenues for the wireless companies.

Putting all the numbers together, it's clear that there is long-term opportunity for technology companies with exposure to the emerging markets. When looking for opportunities, seek healthy balance sheets, strong cash flow, and good management - giving preference to companies with a history of ingenuity. Finally, since the markets have rallied quite significantly this year, use discipline when entering your position.

You might also think about ETFs so that you get a basket of good companies. However, even with ETFs, make sure you have an exit strategy and stick to it.

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There are going to be erratic market movements but proper stop-loss points ease the anxiety and allow preservation of as much profit as possible.

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