

# Global Investing

A Practical Guide to the  
World's Best Financial Opportunities

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Darrin Erickson



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# **GLOBAL INVESTING**

## **A Practical Guide to the World's Best Financial Opportunities**

**Darrin Erickson**

**WILEY**

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*For Dawn*  
*She walks in starlight*

## **PREFACE**

For those of us who have traveled extensively or lived abroad, we know how remarkable and expansive the world is in which we live. In the early days of 1977, not long before my eleventh birthday, my father took a job in Iran, where he helped design and construct a pulp and paper mill. As difficult as it was to leave my friends behind, I would not trade that experience for anything. My family lived there among the Iranian people, as well as other expats from around the world, for a little over a year. Looking back, I realize now how this incredible adventure shaped the way I view the world as well as my views on investing. By the time I returned home at the age of 12 I had lived in a foreign country, circumvented the globe, and visited Great Britain, Thailand, the Philippines, Hong Kong, and Japan. By the spring of 1978 I was back home in British Columbia, but my curiosity about the world around me was ignited.

These early life experiences initially inspired me to pursue bachelor and master's degrees in international politics at the University of British Columbia. Diplomacy, arms control, and the reunification of Germany were central political events at the time, so in June 1990, I naturally jumped at the opportunity to join an academic tour of the European Community, NATO, and SHAPE headquarters along with stops in Berlin and Warsaw. The energy at the time was palpable as the Berlin Wall fell and visitors from East Germany flocked to the West. Merely one week before Checkpoint Charlie was dismantled, I was able to travel through the infamous crossing, chipping off pieces of the Berlin Wall along the way for my souvenir collection. As a visitor I could sense the excitement for the possibility of a

new and brighter future. Tremendous changes were on the horizon.

Prompted by the immense economic and business implications of these events, I entered an MBA program, where I was introduced to the wonderful world of finance. My first job in the investment industry was as a currency trader, which, as you can imagine, is heavily influenced by global factors. It was at this time that my fascination with the global financial markets became an obsession. I came to view the financial markets as a mathematical version of the world around us and the engine that keeps our modern economy running. Powered by the interactions of nearly 7.8 billion people and a multitude of businesses, the infinitely complex workings of the world economy create tremendous wealth and a massive pool of investment opportunities.

Economic growth is a primary driver of new wealth creation. Over time, greater amounts of wealth should result in an increasingly developed equity market, since a portion of newly created wealth is invested in productive financial assets, such as stocks. It seems logical then that our views on where to invest our capital should consider expected long-term economic growth as a source of wealth creation and increasing stock market capitalizations. As the value of the equity market increases in size, it gains in importance to the local economy and greater efforts are made to help protect shareholder rights and maintain the integrity of the market. It should come as no surprise then that wealthier countries tend to have more developed financial markets and greater total stock market capitalizations.

By using wealth creation as our basis for investing, we are attempting to “follow the money.” While the economies of developed countries are expected to grow their GDP by an average of 13% from 2022 through 2027, emerging and

developing economies are expected to grow GDP by more than twice that amount at approximately 29%.<sup>1</sup> Viewing economic growth forecasts across the globe shows that the highest growth rates are expected in developing Asia, Europe, Africa, and Latin America. While developed market economies are not growing as quickly, they are home to a large number of leading global businesses, some of which derive a significant portion of their revenues from these same high-growth regions. Although the highest economic growth rates exist in emerging and developing economies, it is important to remember that the vast amount of wealth already accumulated in developed economies means that a significant percentage of new wealth will continue to come from these regions. Furthermore, even developed economies with slower long-term growth rates can experience short-term bursts of rapid economic growth.

Over any given time period the best-performing stocks will be spread across every region of the world. Although the relative performance of different regions fluctuates over time, the free flow of investor capital within and between geographic regions will ensure that money will move to wherever the best investment opportunities exist.

Furthermore, with more than 55,000 companies listed on public stock exchanges worldwide, there are plenty of investment opportunities available to the global investor. In addition to this vast pool of investable businesses, there are new businesses coming to the market every day. There was a total of 1,388 companies newly listed on an exchange worldwide in 2020, with a total market value of \$236.1 billion USD, and a majority of these businesses were located in emerging markets.<sup>2</sup>

Whether we acknowledge it or not, we live in a global economy, and we are subject to the forces that drive it. As an investor, do you need to own businesses from around the world to become wealthy? The answer is no. As you will see

throughout this book, however, there are numerous benefits to investing globally. In response to the question, “Should you consider companies from around the globe in your investment process?,” the answer is a resounding yes. Investing globally gives you access to a greater number of attractive businesses and the flexibility to take advantage of varying rates of growth around the world, and may also allow you to reduce the risk in your portfolio. The price you pay is hard work. Successful global investing requires you to be a voracious reader and to train yourself to see the big picture.

Building a great global equity portfolio requires you to think globally. To do this we have to shake off our natural tendencies and, in the words of Howard Marks, employ “second-level thinking” in our investment approach.<sup>3</sup> Frankly, this is much easier said than done. To accomplish such thinking, we have to overcome instincts developed over centuries that were needed to survive in hostile environments. The same instincts that helped us survive as a species often work against us as investors.

My goal as an author has been to produce a book that provides anyone who reads it with the ability to navigate the global equity markets successfully, regardless of where they reside. While many books have been written on investing, relatively few have taken a global perspective. I have tried to make this book truly global in nature by being politically neutral and avoiding any form of regional bias. I have also attempted to bring together two distinct disciplines in my writing, the study of international relations as well as the study of finance. The two are inextricably connected and I hope you find this somewhat unique perspective helpful. Additionally, my intention was to produce a book that all investors might find helpful in some way, especially those individuals who are new to

investing. I have therefore tried to avoid industry jargon and overly complex financial concepts.

While there may be uncontrollable factors that prevent one from investing in a foreign country, perhaps the biggest obstacle to global investing is a lack of familiarity. Global investing may be unfamiliar territory, but it does not have to be scary. The same sound investment methods applied to investing in your home country can be applied to other regions as well, albeit with some additional work required on the part of the investor. If I am able to accomplish one thing with this book, it would be to help investors overcome their natural tendency to stick with what is familiar, and instead think globally when making investment decisions to take advantage of the best opportunities, wherever they may be.

There are numerous books from renowned investors that are worth their weight in gold, including writings from Warren Buffett, Ray Dalio, David Dodd, Charles Ellis, Benjamin Graham, Jeremy Grantham, Joel Greenblatt, Howard Marks, Charlie Munger, Jeremy Siegel, among others. Inspecting these volumes at the start of your investing career will greatly increase your odds for success. While I have not achieved the same financial success as these investing icons, I have persevered in an incredibly challenging career and have garnered a few gems of wisdom that I can pass along to the next generation of investors. My top recommendation to anyone who wants to invest on their own or better understand how their money is being invested is to read the works written by the authors noted above and heed their sage advice. Doing so will not prevent you from making mistakes, but it should protect you from disastrous investment decisions. My hope is that this book will build on what these authors have already shared with us by providing a complementary global perspective. I hope you enjoy the journey.

# Notes

1. International Monetary Fund, IMF DataMapper, [https://www.imf.org/external/datamapper/NGDP\\_RPC@WEO/OEMDC/ADVEC/WEOWORLD](https://www.imf.org/external/datamapper/NGDP_RPC@WEO/OEMDC/ADVEC/WEOWORLD), as of April 2022, accessed April 28, 2022.
2. The Securities Industry and Financial Markets Association, “Global Equity Markets Primer,” <https://www.sifma.org/resources/research/insights-global-equity-markets-primer/>, accessed November 14, 2021.
3. Howard Marks, *The Most Important Thing: Uncommon Sense for the Thoughtful Investor* (Harper, 2018).

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## **ABOUT THE AUTHOR**

**Darrin Erickson**, MA, MBA, CFA, is an accomplished equity portfolio manager with nearly three decades of investment industry experience. Over his career, Darrin has served as the lead portfolio manager for numerous equity mandates, including Global, North American, US large cap, US mid-cap, and Science & Technology, as well as long/short portfolios. Darrin holds a bachelor's degree in international relations and a master's degree in political science from the University of British Columbia, as well as an MBA from the University of Alberta. He holds the CFA charter and has served as a volunteer for CFA Institute in various capacities for more than 20 years. Darrin has made several television appearances, where he has shared his insights into the global financial markets.

## **ABOUT THE CONTRIBUTORS**

**Joseph Shaw**, CFA, MSc RE, MBA, is a real estate investment expert with over 25 years of industry experience primarily focused on real estate transactions in the United States and Canada. Joseph also teaches at the Rotman School of Business and at Western University's Urban Development Program and has served as adjunct professor at both Johns Hopkins University and Ryerson University. He has lectured on real estate at Harvard University, for the Urban Land Institute, and for the Real Estate Property Association of Canada, consults as an expert witness, and is an active volunteer with CFA Institute.

**Joseph Zuiker**, CPA, CA, CFA, has extensive international experience in investments and fund services, banking, financial accounting, regulatory reporting, business leadership, and risk analysis. Joe joined the Bermuda Monetary Authority in 2019 as a senior member of the Regulatory Supervision team, which is responsible for the supervision, regulation, and inspection of Bermuda's banks, trust companies, investment businesses, investment funds, fund administrators, money service businesses, and corporate services providers, as well as the credit union and Bermuda Stock Exchange. Joe has served as a volunteer with CFA Institute.

**Adam Duncan** is a research analyst with over six years of investment industry experience ranging from retail to institutional portfolio management. Adam has exposure to a multitude of asset classes, including equities, fixed income, real estate, infrastructure, and money market. He holds a Bachelor of Commerce (Honors) degree with a major in

finance from the University of Manitoba and is a CFA Level III candidate.

# INTRODUCTION

---

The purpose of this book is to help investors better understand the global financial landscape and how to best take advantage of the multitude of investment opportunities it provides. Although I have tried to make this book truly global and avoid any form of regional bias, I have referenced most data in US dollars throughout the book as a base currency due to its continued prominence in world finance.

[Part One](#) discusses why the most effective way to build wealth is through business ownership. In [Chapter 1](#) we explore why actively selecting good, publicly traded businesses from around the world is the optimal way to obtain business ownership. We also touch on some of the greatest impediments to investment success and why thinking like a business owner can help you weather the toughest stock market environments. We conclude by sharing the characteristics that define a good business.

[Part Two](#) focuses on the global investment opportunity, including what is driving those opportunities and the implications for investors. [Chapter 2](#) provides a history of the global economy and how we came to live in the digital age. We look at areas of the world where economic wealth is most likely to be created in the future and some of the spin-off effects of that wealth. [Chapter 3](#) discusses world trade patterns, how trade is conducted, and what risks exist within the global supply chain network. [Chapter 4](#) provides an overview of the world's financial markets and why they are critical to the global economy and everyday

life for each of us. A special emphasis is placed on the world's stock exchanges and equity markets.

[Part Three](#) examines the key risks involved with investing globally, including market cycle risk, currency risk, and geopolitical risk, as well as how to manage those risks.

[Chapter 5](#) discusses how market cycles are driven by the economic cycle, the risks that market cycles pose for investors, and how to best manage these risks. We also examine bear markets and suggest some measures that may provide a warning sign to investors that a bull market is nearing its end. Of particular importance is how to prepare for the inevitable periods when share prices fall significantly. The reader will learn that for an investor who is prepared, these “bear markets” are beneficial because they provide an opportunity to build even more ownership in good businesses. [Chapter 6](#) discusses the benefits and risks associated with investing in stocks denominated in a foreign currency. [Chapter 7](#) reviews different forms of geopolitical risk, how those risks can impact your investments, and how to best mitigate those risks.

[Part Four](#) discusses how to analyze companies and identify good businesses. [Chapter 8](#) provides a detailed process for analyzing potential investment opportunities by assessing their earnings sustainability, growth prospects, valuation, investment risk, and balance sheet strength. We also review how a detailed analysis of a company's profitability can aid investors in making better investment decisions, how to assess acquisitions made by the companies you own, and the importance of returning capital to shareholders.

[Part Five](#) provides the reader with a primer on each of the world's major sectors and industries. [Chapters 9](#) through [19](#) provide an overview of 11 global sectors and 91 major global industries. Each chapter is focused on a single