

Vietnam's Different Approach

"My center is giving way, my right is in retreat; situation excellent. I shall attack." -- Ferdinand Foch

We have all heard it; the best defense is a good offense. Of course, we all also have heard defense wins championships, so by the transitive property of equality, a good offense translates to the best defense and that wins championships, so you might as well forget about the defense altogether and just starting heaving the ball downfield and hope one of your guys catches it.

Look; it is better than 99% of all the post-game locker-room interviews you ever have heard, so wipe that puzzled look off your face.

Dong Dinged

Vietnam taught both the French and us a thing or two about winning and losing back in the day, and gave an invading Chinese force a bloody nose in 1979 just for good measure, so we should not dismiss their strategic capacities lightly. But their current approach is an eye-opener: Faced with consumer prices rising at a 12.17% annual rate, the State Bank of Vietnam did not follow in the tracks of other nations on the Chinese periphery and raise rates. No, their last move, in November 2010, was to allow the three-month rate gap between Vietnam and the U.S. to narrow even as the U.S. was spraying money into the stratosphere.

Their currency, the dong (VND) had been devalued three times since the end of 2008, and was trading lower in the misnamed "black" market; the correct term is "market." What is a fourth devaluation at this point? Not much, apparently, the VND was devalued 7% to bring the rate to 20,895 per USD. Do not laugh: No currency that ever winds up with such outlandish numbers, such as the old Italian lira or anything related to Zimbabwe gets there without some manic central banker whose answer to every question is, "More."

Stocks Rise

But as other money-printers have discovered, the answer to the old *Kojak* question, "Who loves ya, baby?" is "the stock market." Vietnam underperformed the MSCI-Barra Emerging & Frontier Asia index substantially between August 2008 and November 2010, but once the State Bank did not take the bait and raise rates in November 2010, Vietnam began to outperform its regional benchmark.

Vietnamese Equities Anticipated Currency Shock



More and cheaper money led to a stock market rally. Hmm, I wonder if others will get this idea?

If you want to take a stab at Vietnam directly, the Market Vectors Vietnam ETF is a good place to start. However, I would ask you to write down three reasons why you would want to do this trade, and none of them should be, "Because it sounds cool." The fund's total return since its relative performance rally turned higher in November 2010 has been all of 6.4%, and that is with a 21-day realized volatility of 33.9%. Vietnam should, at best, represent a sliver of your portfolio.

Finally, Vietnam has been getting China's attention the wrong way. Not only is it looking to lease our old naval base at Cam Ranh Bay, it is trying to position itself as a lower-cost source of labor. The country is no stranger to long odds, but this seems a tad bold even by their standards.