Colombia Speeds Ahead

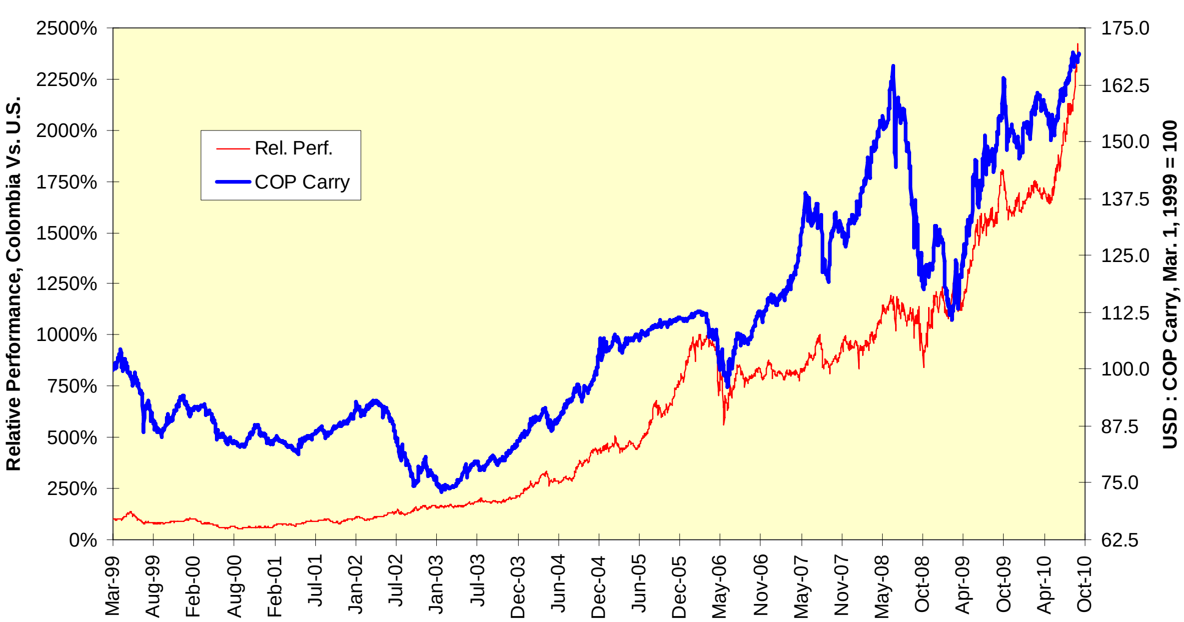
What if I could climb into a time-travel machine, head back to December 2000, walk into anyone's – and I do mean anyone's – investment committee meeting and proclaim, "Put it all on Colombia." They might toss me out the window on the spot, or someone might have punched up the Colombian GDP screen on *Bloomberg*, the very same one with a head note, "GDP Excluding Drug Crops" and said something disapproving. We all are prisoners to our image.

Yet Colombia is at the head of the global pack in total returns since early 2001, besting other places where you might have considered placing your (presumably) hard-earned cash such as Peru, Indonesia and Egypt. If you think this is all a fun-with-percentages game based on a low 2001 starting value, consider the total return in USD terms on the MSCI-Barra index for Colombia since the Europeans decided to paper their problems over in early May has been a cool 40.56% at the time of this writing. The comparable figure here has been a not-as-cool 1.76%.

One Word: Carry

If Cato could work "Carthage must be destroyed!" into every speech, I can work a reference to the global carry trade into every analysis, or so it must seem. If we map the excess carry return on borrowing three-month dollars and lending in three-month Colombian pesos (COP) against the relative performance of Colombian versus American equities, we cannot help but see the link.

Colombian Stocks: Returns Of The Richest Kind



The mechanism is simple. So long as short-term rates in Colombia are higher than those in the U.S., and the comparative numbers at the time of this writing are 4.15% versus 0.292%, any fool carry borrow the dollar and lend in the peso, subject to the risk of dollar appreciation when the forward contract ends. If the Federal Reserve is telling all and sundry short-term rates in the U.S. will rise only on the 31st of Never, if then, exuberant risk-taking is rewarded.

Some of the top performers in the Colombian market are very pedestrian, what once was derided as "Old Economy" before the "New Economy" stuff detonated in a fiery demonic conflagration back in 2000; the biggest gainer of 2010 to-date is Enka de Colombia, a manufacturer of industrial textiles, filaments and tire cords. Number two is Biomax Biocombustibles, a manufacturer of liquid fuels, lubricants and additives. As Gordon Gekko would not have said, "Dull is good."

If you want to chase performance, and this seems to be human nature, you can buy Colombian stocks en masse via exchange-traded funds such as the SPDR Emerging Latin American ETF (GML) or the Global X/InterBolsa FTSE Colombia ETF (GXG).