

THE SCOTT LETTER: CLOSED-END FUND REPORT

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A Global View of the Closed-End Fund Industry

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THE SCOTT LETTER is intended to educate global investors about closed-end funds. Closed-end funds can be a valuable and profitable investment tool. To learn about closed-end funds, visit our web site,

www.CEFAdvisors.com, and in particular, read our article, *What Are Closed-End Funds*. Feel free to forward this newsletter to anyone who you believe could benefit from information on

closed-end funds or global portfolios.



— George Cole Scott
Editor-in-Chief

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Mobius on Emerging Markets: Emerging Markets Expected to Grow Faster than the Developed Markets Once U.S. Recovers, Global Growth Will Continue

We interviewed Dr. Mobius by telephone in Australia on December 30, 2008:

SL: Good morning, Mark! What are you doing in Australia?

Mobius: Well, it's New Year's eve and I am just relaxing, catching up on my reading here in Queensland. It's beautiful here.

SL: That's a beautiful climate this time of year. Sounds like you are still in good health at 72, despite this difficult year. You still have no plans to retire, right?

Mobius: That's right.

SL: I understand that you have just come in from running. That's good. I try to exercise every day as well. That keeps us going, doesn't it? I love my work and plan to continue working for a long time. Why quit?

Mobius: I have no plan to retire.

SL: You wrote the following piece for *The Financial Times* in November 2008. You said that emerging market investors should be positive for the long-term:

1. While global growth has slowed, emerging markets are still expected to grow at a much faster rate than developed markets. Predicted growth for emerging markets is an average of 5%, compared to the expected 1% in developed markets.
2. In the past, the U.S. was the largest importer of goods from Asia and other emerging economies, but trade in emerging market countries is now much more diversified with many exporting to new markets, decreasing their dependence on the US. Today, Asia exports more to China than to the U.S., which is still the largest and most influential economy. This U.S. influence has gradually diminished as other economies continue to grow at much faster rates.
3. Although the slowdown in the U.S. has hurt Asian exports to some extent,

economies in Asia are becoming more domestically driven. Indeed, the services sector is gaining importance, especially in China and India. Combined with government expenditure in areas such as infrastructure as well as private and domestic consumption, this means the emerging economies should be able to offset, at least partially, any decline in growth resulting from slowing exports with an increased economic independence. The accumulation of foreign exchange also puts emerging economies in a much stronger position to weather external shocks with reserves. For example, in China, those reserves total more than \$1,900 billion USD.

4. Most importantly, for value investors, the current valuations of emerging markets remain attractive. The benchmark MSCI (Emerging Markets Index) is trading at a price/earnings multiple of 10.7, down from 18.5 a year earlier. This is even cheaper than developed markets such as the U.S. which is trading at a P/E of 16.5. Markets such as Turkey and Russia are down to single-digit P/E's, making them especially appealing. Of course, the [market] bottom would be impossible to predict. However, taking a long-term view, these valuations are attractive.

We appreciate your usual clear and relevant insights here. Now, what countries have you visited in the last few months and which have provided investment opportunities?

Mobius: China is at the top, as are countries related to China, such as Taiwan, Thailand and other Asian nations. We also like Brazil because it is on the right track, as well as South Africa and Turkey.

In South Africa, the macro-economic situation wasn't the greatest for a while, but now it's getting a lot better and is improving

dramatically. Interest rates and inflation are coming down, and the retail sectors are doing quite well. They are on the right track with a lot of resources. A new black middle class is coming up, and I think they will do all right despite a lot of political risks in Africa generally – but that goes with the territory. We are concentrating on the consumer market such as the retailers.

We like Turkey because they have reached a loan agreement worth between \$20 billion-\$40 billion USD with the IMF in December 2008. This agreement should help the country weather the financial crisis and improve investor confidence. Interest rates were lowered recently to help the domestic economy, and transportation costs eased due to lower fuel costs. However, Turkey's future is dependent on the economic recovery of Europe, its trading partner.

SL: Have you visited Eastern Europe lately and what is happening in Russia? We know that Eastern Europe has suffered under the global slowdown. My firm CEFA has no exposure to this area.

Mobius: I was in Eastern Europe last summer and will return later this year. We have offices in Moscow and in Poland.

SL: Russia is really in bad shape now as its stock market has declined some 70%. You must have had difficulty managing the Templeton Russia Fund in the 2008 oil price decline. Your most recent report shows you have about 6.1% of your assets in Templeton Emerging Markets Fund (EMF:NYSE) as of August 3, 2008, primarily in energy, mining and telecommunications stocks. Please update us.

Mobius: We probably will increase it as we think that Russia will pull through. It was hit badly by the decline in oil and gas prices, but I don't think that will last. There is still a rising gap between rich and poor, but all boats have risen now.

SL: In December 2008, you wrote: "The Russian government has announced measures totaling approximately \$185 billion USD to boost domestic liquidity and corporate foreign debt to boost economic growth. In November, they revealed new proposals to support the economy, including a cut in the corporate profit tax rate to 20% from 24% and higher

Templeton Emerging Markets Fund Performance as of 12/31/2008			
	1-Year	5-Year	10-Year
Cumulative Performance: NAV	-57.22%	35.72%	109.50%
Cumulative Performance: Market Price	-54.55%	17.94%	90.78%
Fund inception date: February 28, 1991			

unemployment benefits. They will spend \$36.7 billion USD from the reserve fund to maintain public expenditure. The Central Bank increased interest rates to ease pressure on the ruble. Foreign exchange and gold reserves remained high at about \$450 billion USD, providing the government with resources to withstand the current market conditions. Lastly, the European Union (EU) restarted suspended talks on a partnership with Russia."

It doesn't help how poorly Russia is treating Ukraine over energy supplies.

Mobius: Russia is really trying to become a country that is governed by the rule of law, but there still is a rising gap between rich and poor.

SL: You might remember my Russian-American friend, Anatoly Mikutin, who joined us for breakfast on July 4, 1997 when we saw you at Hong Kong's handover to China. He recently told me that his Russian friends say it is so expensive to live in Moscow now that many have moved to St. Petersburg, which is not only cheaper, but is a more beautiful place to live. Are you aware of that situation?

Mobius: The cost of living is in Moscow very high. That is changing, as many people have moved into more reasonable accommodations.

Russia has been hit badly by the decline in gas and oil prices, but I think oil prices will continue to move up. Russia has incredible reserves in the meantime.

SL: The situation will improve when oil prices move higher. We have read that Putin has determined that he will destroy the oligarchs "as a class". Do you think that will happen?

Mobius: Oh, yes. That is happening. Even in Australia, there are Russian language ads on television explaining how to emigrate.

SL: Was Putin behind cutting off the gas to Europe through Ukraine?

Mobius: Yes, but they have another pipeline that goes further north to the North Sea to supply Europe.

SL: That is true, but still Gazprom, a state-controlled monopoly, cut off supplies in retaliation for non-payment of its energy bills. This appears to be a further example of the government harassing its neighbors.

[Editor's Note: A similar shut-off in 2006 was met with near hysteria when it caused a drop in gas pressure and spot shortages across Western Europe. This situation is happening again, although officials had claimed that gas bound for the West would flow without interruption, and Ukraine had enough gas stockpiled for the winter, which has been very cold in Europe.

Source: New York Times]

SL: When we think of recovery in Russia, we think of the oil prices. In the last few days, oil prices recovered due to increased violence between Gaza and Israel. I hope that geopolitical events are not the sole reason for improvement in oil prices. What are your thoughts?

Mobius: That may be a factor, but the supply/demand situation is such that prices will move up because the oil companies are cutting their expenditures on exploration and production. Therefore, they will not be finding much new oil, but oil demands are still growing. There was a "demand reduction" as a result of the prices going much too high.

We think an average price of about \$70-\$80 USD a barrel is about right.

Many countries have begun to allow oil prices to move up as they have been subsidizing oil. By allowing the retail price to move up, you have demand destruction in a lot of these countries, so the stockpiles have brought on a glut. I don't think that this can be sustained for very long.

SL: There are two closed-end funds that invest in Russia: Central European Equity Fund (CEE:NYSE) and Templeton Russia Fund (TRF:NYSE). We have not invested in either of these funds to-date but may consider them later.

New York Times journalist, Tom Friedman, has just published an important new book, *Hot, Flat, and Crowded*, that gives his views on what he calls the “Energy-Climate Era”. Have you seen it?

Mobius: No, I haven’t.

SL: Friedman sees this as one of five key world problems in a historical epoch that gave birth to the new era. He writes that there is a growing demand for ever scarcer energy supplies and natural resources, and a massive transfer of wealth to oil-rich countries by petro-dictators. You can relate to that.

Friedman continues by stating that there has been disruptive climate changes, energy poverty (which is sharply dividing the world into electricity haves and have-nots) and rapidly accelerating bio-diversity loss as plants and animals become extinct at record rates.

“How we manage these problems,” he writes, “and if not managed properly, they could cause sweeping, nonlinear, irreversible disruptions that might affect multiple generations.”

Do you think that energy demand from China or India will pick up anytime soon to affect oil prices?

Mobius: Yes, this will have an impact. The U.S. is still the largest economy in the world, and it has to recover for global growth to continue at the end of the day, particularly as China is going to continue growing at a good pace. The number of cars continues to grow as everybody in China wants a car so there will be incredible demand. The power sector will continue to need more and more gas and oil. I believe that coal prices will also continue to move up.

SL: Friedman asks, “Can Red China become Green China?” He visits China regularly, and what strikes him most is that the Chinese seem to speak with greater ease and breathe with greater difficulty.

Mobius: There is no question that is the case. The first objective for a country is

to become wealthy. You pollute because it is the cheapest way of getting things done. Then you realize that you are getting sick, and customers are getting sick. However, the clean-up also stimulates the economy.

China is going to have to solve the problem. Pollution control is definitely going to be an element of their big spending program because the emphasis going forward is going to be on the consumer.

China also realizes that it cannot depend on export-led growth but has to increase domestic consumption for growth. Part of that is ensuring that they have a safe environment and safe food, eliminating such disastrous recent events as putting melamine in milk. I think that was a wake-up call.

SL: We are glad you are aware of the problem. Friedman reported that whenever he asks the Chinese about doing something about pollution, the business leaders say that they will clean up when China gets rich enough to afford the clean-up.

Mobius: Exactly. They have to look at this very, very carefully as they realize that this is something that cannot be delayed. We recently visited a paper factory where a woman proudly showed us how they cleaned the water. She showed us a clean pond after their successful efforts.

SL: Friedman’s argument is that China can get rich only if it cleans up. Unless Red China becomes Green China, the Communist Party leadership will not be able to deliver to all the Chinese people the promised rising standard of living. China cannot afford to do what the West did: Grow now, clean up later. Do you agree with his assessment?

Mobius: Yes.

SL: The web site, www.greenchinaview.com doesn’t address anything about cleaning up China, as it seems to be telling the outside world that China is denying reality. The site covers such mundane issues as “Ecotourism,” “Chinese Gardens” and “Painting and Wildlife”. The sponsor of this web site is unidentified.

If the leadership in China doesn’t tackle the problem of environmental-energy-climate, wouldn’t it undermine the stability of the Communist Party? Is finding a way to grow green an imperative, not an option,

as continued high levels of pollution can only slow the economy further? What do you think of the fiscal efforts of China to solve its role in the global economic crisis, and do you think it will work?

Mobius: It will have an impact, but the U.S. is still the largest economy in the world. It has to recover for global growth to continue.

SL: The former editor of *The Far Eastern Economic Review*, Nayan Chanda, wrote recently this gloomy statement about China’s growth:

“China has to grow a minimum of 8% per year, or it will explode because it will have so much unemployment and discontent, the population will erupt. Without a steadily rising gross domestic product, the ruling bargain that the Chinese Communist Party has offered the people ... would unravel.”

A recent *Economist* article also has an excellent cover story on India and China which asks: “Can the emerging economies now afford counter-cyclical policies such as lower interest rates and undiminished public spending, which might offset a collapse in public demand?”

As an economist, what do you think of this assessment?

Mobius: (1) I think inflation will rear its ugly head which will have an impact. (2) China has enormous foreign reserves and will use that as well as government spending, lower taxes and incentives for banks to lend money for houses as a way to pump up the domestic economy. Government spending will bring higher consumer spending as they will be hiring people to build roads, bridges and infrastructure projects.

SL: Will that bring higher inflation?

Mobius: Absolutely. That will happen globally, and that is why it is so important for investors to be in equities at this stage. It will be a defense against inflation.

SL: There is still a lot of pessimism but doesn’t an improvement in fundamentals have to follow? There seems to be a lack of confidence among investors that there will be much improvement in the investment climate soon. What do you think?

Mobius: Yes, everyone is talking about a very bad 2009. I beg to differ. Measures

taken by governments around the world are going to result in an incredible increase in money supply, eventually causing money velocity. Right now, the Federal Reserve is doing everything it can to lower interest rates, putting money into the system by printing money and getting it out there. It is not having any impact because the banks are still not lending due to a complete lack of confidence. The fact that the Fed and Treasury keep on changing the goal posts means that people are rather confused and worried. Hence, they do nothing. Investors go for the safest reach and purchase U.S. Treasuries and the U.S. dollar.

SL: That gloom has to end soon. In the U.S., the auto companies have been offering 0% loans, and still there is little demand for cars.

Mobius: That is right. The gloom will not end until you get more confidence, and more importantly, a move by investors as they realize that 0% Treasuries do not make much sense. They soon will realize that buying an emerging market stock with a dividend yield of 7% that is growing at 10%, 12% or 20% a year makes a lot more sense. It will take a little time, but it will come, in my view, during 2009. The pressure of money and lower interest rates will definitely have an impact.

SL: Isn't the risk appetite for emerging markets still pretty weak, even though we are seeing some evidence of base building for a new bull market?

Mobius: Exactly. We are beginning to see some base-building as stocks are so cheap that it's quite ridiculous.

SL: In your monthly update for November 2008, you wrote that most of the recent stock market declines were due to "weaker emerging market currencies as investors sought refuge in U.S. Treasuries and sold their emerging market holdings." Isn't much of this due to tax loss and hedge fund liquidation selling which has continued as governments ease their interest rates? What do you think will turn it around and how soon?

Mobius: Again, people have sold emerging market currencies, but some of these currencies deserve to be devalued, particularly in Eastern Europe where they

are somewhat overvalued. In the case of many Asian currencies, that is not the case.

We believe that, as confidence returns, you will see a move toward these currencies. Naturally, if you buy stocks in the emerging markets, the currencies will move up again.

SL: That is a logical explanation. What created the boom in the last several years was higher commodity prices, especially in coal, oil and minerals. When do you think commodity prices will improve?

Mobius: They have gone too far in the other direction so commodity prices will move up soon. Lower commodity prices are a mixed blessing. It is not good for producing countries like Russia, but for China and India, it's good because inflation comes down, resulting in lower interest rates which helps these economies.

SL: Yes, India has a history of high inflation. Have you been able to track the flow of funds into or out of the emerging markets, a rather relevant factor now?

Mobius: Yes. Since September and October 2008, you have begun to see the outflows (20%) of all the emerging market organizations. Of course, there has been a 30%-40%-50% decline in these funds. This is more price than net outflows. More importantly, it is price declines.

SL: What will get the flow of funds moving again into the emerging markets?

Mobius: What you will see first is stabilization of price and a move-up in price on relatively low volume. That will come primarily from domestic investors and partly from overseas investors like us who are buying. Then you will get the others coming in.

SL: Many investors do tend to follow the crowd. In past years, we have talked about the correlation coefficient of the aggregate emerging markets against the U.S. markets being very low, so emerging market investments reduce the volatility risk in a portfolio to a greater extent than investments in other developed markets.

This is explained in your 1996 book, *On Emerging Markets*, showing that a portfolio of emerging market stocks tend to move independently of each other, more so than a portfolio of emerging market funds, like Templeton Emerging Markets Fund.

This fund has greater diversification benefits than single country funds do and therefore, can weather markets like we have seen. That is all upside down this year, isn't it? How do you explain that?

Mobius: What has happened is that you have a complete retreat from equities into government bonds. Everything has gone down at once because of a total lack of confidence in the markets.

SL: That is a good reason why we try to avoid single country funds. We have been very cautious in 2008 as a result by keeping much of our cash in the closed-end bond fund, Templeton Global Income Fund (GIM:NYSE). It is a stable fund, and we see it as a good cash alternative. GIM primarily invests in foreign sovereignty/government bonds and also has successfully hedged foreign currencies against the falling U.S. dollar. This helped our portfolios during these incredibly difficult markets. We do not want to be in bond funds long-term, however, we agree with you that the place to be is in emerging market funds for a more rapid growth than in the developed markets.

Mobius: That's right.

SL: You have often said that attractive valuations will bring back bargain-hunting investors, but couldn't it be different this time?

Mobius: No, we will go through the same sets of cyclical investments that we have seen so many times before. I think that this will be repeated, and we will see another bull market coming.

The stock market recovery will begin in 2009. We will not have a huge bull market overnight, but certainly a good recovery. Many investors miss the point that the economy may be in a terrible shape and anybody can be negative, but the stock market grows on this, as bull markets begin in depressed economies.

[Editor's Note: The first session for the world stock markets may or may not be the beginning of a new trend, but they rang in 2009 with the biggest rally since 2003. The Dow Jones Industrial Average rose 258.3 points, its first above-9,000 closing since November 5, 2008. As the month progressed, CEFA's selection of closed-end funds outperformed the market indices.

These gains also held up when the stock markets declined later in the month.]

SL: “The Templeton Way” is to buy at points of maximum pessimism as Sir John said so many times. Bull markets climb a wall of worry. What kinds of stocks are you buying aggressively now?

Mobius: We are buying consumer-oriented stocks, including telecoms, retail and banking, as emerging market banks have not been impacted the way the U.S. and the Swiss banks have been by sub-prime loans.

SL: Added to that is the fact that U.S. money fund assets at year-end increased by \$21.81 billion to \$3.83 trillion. That will create a lot of funds for investment when the time is right. Do you see further currency devaluations among the emerging market economies?

Mobius: Yes, there will be a lot of desire among these countries to keep their currencies weak to support exports. I don’t see that this will be a major problem as the Chinese and others, including the U.S., have worked out a program to keep that from happening. They are on notice as this is not beneficial for anybody concerned.

SL: You wrote in November 2008 that the Asian markets have outperformed their emerging market counterparts due to their stronger financial position, stable monetary policies and easing inflation. However, we have since seen huge declines in many of the emerging markets, haven’t we?

Mobius: I think you will see a lot of bouncing around in these markets as so many investors are sold out, but I don’t think it is anything to worry about. Base-building is taking place, and volatility is quite remarkable. This tells you one thing. There are people out there who are buying and selling on relatively low volumes.

SL: Matthew Hickman, the portfolio manager for the Latin America Equity Fund (LAQ:NYSE) whom we interviewed last month, feels that many of these markets, particularly Brazil, will recover faster than the others. Do you agree with that assessment?

Mobius: I am not so sure about that. Brazil is doing fine as it has followed the

right policies, but you have to look at its economic growth.

SL: I think Mr. Hickman will agree with you on Brazil. He sees that comparing China’s growth rate to that of Brazil is like comparing apples and oranges as they are so different. He said that it would be very difficult for Brazil to grow at the Chinese rate without generating significant macro-economic imbalances, while a 5% growth rate is “a pretty high growth rate for Brazil”. Hasn’t Brazil been a big exporter of commodities to China?

Mobius: Yes, mostly iron ore, but they will be getting lower prices for it. I believe the Asians will lead the growth spectrum, and the Asian consumer boom will co-op the other economies. However, commodity prices will take time to move back up, beyond higher oil prices.

SL: Do you think that stimulative fiscal policies throughout the world will work?

Mobius: It will take time for consumer sentiment to pick up, but it will work.

Two things will happen in 2009. First, consumer confidence has to return, and secondly, interest rates have to go to such low levels that it becomes extremely attractive to borrow. More importantly, the banks have to be able to lend when they are sitting on incredible amounts of reserves.

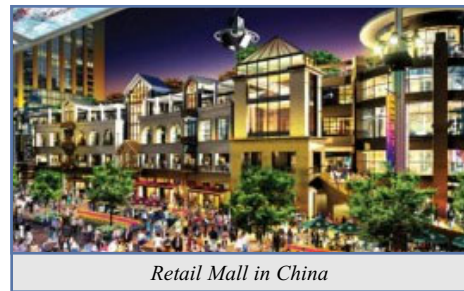
SL: You said earlier that you like Taiwan and Korea, but don’t these two countries have large exports to the U.S., which have disappeared?

Mobius: Yes, and that’s a problem. China is the main trading partner for Taiwan and Korea. Korea has heavily leveraged consumers, so you have a situation where it is difficult for the government to push up consumer spending. The Korean government also made a big mistake in [creating] measures that killed its housing market. Now, they are trying to reverse that, and to the extent that they are successful, it will be quite positive. But it will take time. China’s recovery will help Korea.

SL: I understand that China holds trade fairs every year. Have you attended any of them and do they help their economy?

Mobius: They are planning one in 2010 in Shanghai which will be a very big event. There will be smaller ones in

Guangdong as well. China has a very vibrant retail market.



Retail Mall in China

SL: What has China done about land ownership, particularly for the farmers who make up about 750 million of its population?

Mobius: What they have done now is to allow the farmers to rent out their land so that will have a big impact. Many of the inefficient farms will be able to become more efficient by being put on larger farms. This will put cash in the hands of farmers, lowering the differences between the farms in the north and those in the south.

SL: You are also bullish on India. We had invested in one of the India funds but pulled out the day after the Mumbai bombings. We try to avoid single country funds because of their volatility and prefer the diversification of global and regional funds. How long do you think it will be before investors have enough confidence to invest in India again?

Mobius: You put your finger right on it. They have had bombings throughout the year. The terrorists were hoping to have a big impact, by hitting those big hotels full of foreign investors. It didn’t work. Mumbai is thriving, and investors continue to travel to India’s financial capital and major business centers. The terrorist attacks haven’t lowered the confidence of investors in India. Tourism is hurt, but it will recover.

SL: There are quite a few problems that have been reported about India, such as the lack of infrastructure, high poverty levels, polluted rivers and a political system that makes it difficult to get things done (unlike the situation in China where things are mandated). In the Republic of India, the multi-party federal republic has a democratic system that drags on forever before decisions are made. We wonder where the

growth is, and how much confidence there is to invest in India.

Mobius: The growth is there. India has a very dynamic industrial and service base (unique in that it has many different spoken and written languages). There are more Muslims in India than in Pakistan. With this, they will get it together, so I think India will succeed.

As they move forward, they will get a much more peaceful environment. It depends on what happens in Pakistan. Pakistan will cooperate; India is in the control of civilians.

In Pakistan, it is the other way around. The military is more powerful so there has to be some accommodations. That will take time, but I have no doubt that the new U.S. administration will make efforts to keep peace between these two countries because it is so vital in the fight against terrorism.

This is despite the sorry state of India's weak infrastructure, especially its roads. There is also little improvement in raising the people out of poverty. Tourism has also slowed due to the global slowdown and fears of more terrorism.

SL: We note that the Mumbai stock index began in 2008 with a strong rally after a major bank cut its interest and deposit rates by half a percentage point, following similar rate reductions by its state-owned peers. Resource stocks also jumped after crude oil prices rose overnight, and the markets rallied all over the world in early January 2009. We still have to be completely convinced that

better markets are really coming. Are you convinced?

Mobius: Oh, yes.

SL: If you are convinced, so are we. Now it's time to summarize.

Mobius: The global economies will slow down in 2009. The pessimism in the world is much greater than it has been in a long time, but with interest rates coming down, it is only a matter of time before you will see money going into the equity markets around the world, including the emerging markets.

These markets have not lost the fundamental appeal that they have had in a long time, and that is growth. China will lead the way followed by India and Russia.



JOSEPH MARK MOBIUS was born to German and Puerto-Rican parents in Hempstead, New York. He earned his Bachelor of Fine Arts and Master of Science in Communications from Boston University, and received his Ph.D. in Economics from MIT in 1964. His other credentials include a degree in Clinical Psychology from the University of New Mexico.

He joined Templeton in 1987 as president of the Templeton Emerging Markets Fund (EMF:NYSE), the first emerging market equity fund available to U.S. investors. He integrated his knowledge of new international markets with Sir John Templeton's disciplined, long-term approach to investing. Mobius' one key condition to taking on this challenge was that Templeton had to open its first emerging market office, which it did in Hong Kong.

His current duties include managing \$37 billion USD in more than 35 closed-end and open-end mutual funds worldwide, including 13 offices overseas. His closed-end equity funds are his pioneering Templeton Emerging Markets Fund (EMF:NYSE) and the Templeton Dragon Fund (TDF:NYSE), which covers the Greater China region.

Because of his in-depth knowledge of emerging markets, Mobius has been a key figure in developing international policy for emerging markets. In 1999, he was selected to serve on the World Bank's Global Corporate Governance Forum as a member of the Private Sector Advisory Group and as co-chair of the Investor Responsibility Task Force. He has also been featured as a speaker for the World Bank (1999) and the London Speaker Bureau. Mobius gives seminars to many other groups, including the Asian Development Bank (2002).

SL: One last question, do you think the new U.S. president will be able to solve some of the world problems?

Mobius: I think Obama will be successful in the short run, but these problems have gone on for generations.

SL: Where are you going next?

Mobius: I have to be in Thailand next week as we have investments there.

SL: Thank you for your time. This is extremely important and valuable information; we will stay in touch. ■

Editor's Note: Our clients have exposure to India through EMF, but we do not plan to invest in the India Fund any time soon.

Mark Mobius: What Bear Markets Have Taught Me

Dr. Mark Mobius shares what he has learned about bear markets after 40 years of investing:

- Bear markets are shorter in duration than bull markets
- Bear markets fall less than bull markets rise (in percentage terms)
- Buy at times of maximum pessimism
- Sell at times of maximum optimism

What Are Bear and Bull Markets?

A bear market is a sustained falling market, while a bull market is a sustained

rising market. In this report, bear markets refer to a price decline of 20% or more over a one-month period.

"The most important thing I've learned in the last 40 years of investing is that bear markets are shorter in duration than bull markets. Also, in percentage terms, bear markets go down less than bull markets go up.

"I know that many find this hard to believe since, from a psychological point of view, good times seem to end rather quickly, while sorrows seem to last forever.

However, an analysis of the historical numbers shows this to be true. In studying all the bull and bear markets since 1988, we have discovered that, on average, a bull market lasts 22 months while bear markets last six months. Moreover, the average return of bull markets was +113% while bear markets have averaged a 32% fall.

"Since the beginning of 1988, the longest bear market we've seen in the Emerging Markets Index declined 49% in U.S. dollar terms. In contrast, the longest bull market lasted for 17 months, when the

MSCI Emerging Markets (December 1990 and November 1994) returned a whopping +251% in U.S. dollar terms.

The Best Time to Invest

Mobius replies, “No one is able to accurately predict the onset or end of bull and bear markets consistently. Therefore, when anyone asks me when to invest in the stock market, my answer is: ‘When you have money.’

“Given the historical evidence in favor of bull markets, there is a good chance of succeeding if we are invested rather than if we are not. Investing means investigating companies’ balance sheets and profit and loss statements, and management will enable us to uncover investment bargains.

“The proven method of succeeding in stock market investing, safely, over many years means value investing. Value investors have been able to earn substantial long-term returns, since they buy when stocks are cheap, or undervalued, and select stocks in companies that have strong balance sheets, good profitability and the ability to generate consistent earnings.

Take Advantage of Buying Opportunities

When is it most possible to buy quality, but cheap, stocks? It’s when everyone else is selling and probably despondently selling. In many cases, the prices of fundamentally sound stocks decline due poor market sentiment or low investor confidence rather than due to deterioration in company fundamentals. Also, a stock is sometimes beaten to levels which already take into account the risks associated with the company. Investors should always maintain a long-term view and be ready to take advantage of these opportunities.

The reverse also stands true – the best time to sell a stock is when everyone around you is rushing to get into the market. If a market is at its height of its popularity, prices are likely to be at their peak too.

Currently, markets around the world are substantially down, and we are probably reaching levels of maximum pessimism. ■

Source: Franklin/Templeton Investments: *Market Update*, October 10, 2008

Portfolio Manager’s Review

In December, the emphasis was on finding funds that we expect to recover the fastest in 2009.

At year-end, we purchased the most undervalued funds including Alpine Global Premier Properties Fund and Bancroft Convertible Fund (switching out of its sister fund, Ellsworth Fund). We also increased our exposure to the healthcare industry as these funds have been acting well and to Latin America due to the optimism for recovery there.

In the bond fund allocation, we added to the Templeton Emerging Market Income Fund and Templeton Global Income Fund, where appropriate. Because of the defensive nature of these bond funds, allocations there will be emphasized until the investment climate improves.

To pay for these purchases, we sold most of our positions in Asia Pacific Fund just before it declared a \$5.00 distribution,

which dropped the share price by the amount of the distribution. Shares of the India Fund were sold after the Mumbai attacks and probably will not be repurchased any time soon.

We have not been rebalancing our accounts in the last few months so we could stress the defensive nature of the funds that have been acting well over strict asset allocation. We expect to re-balance later in 2009. Our cash levels (as of December 31, 2008) are over 13%.

Looking forward, we are cautiously optimistic that the markets will do well in 2009. To take advantage of new opportunities, we plan to put our cash back to work when the prices are right. There are many bargains in the emerging markets as expressed by Mark Mobius. ■

George Cole Scott

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