



Brazilian Stocks Scoring Big Returns

Brazil is a nation that usually takes centre stage every time the FIFA World Cup comes around. Their impressive football playing prowess aside however, Brazil will bask in the international spotlight as Rio de Janeiro, Sao Paulo and ten other cities in the country host the FIFA World Cup football tournament in 2014. Recently however, the country scored the rights to another international sporting event, as Rio de Janeiro won its bid to host the Summer Olympics in 2016.

Rio de Janeiro, which is famous for and often associated with its festive Carnival celebrations and its exquisite Copacabana beach, beat back bids from Chicago, Madrid and Tokyo to achieve the coveted title of the very first city in South America ever to host the Olympics.

Positive effects from the Olympics will be felt long after the games are over, as the hosting region generally reaps the rewards of urban development and increased global media exposure. As Brazil opens its doors to the world, the successful bid shall open a world of investment opportunities in Brazil whose stock market has already surged this year on expectations that the country's economic recovery will outperform its global counterparts.

In September 2009, Brazil became the first country in South America to stage a small recovery out of recession, and its second quarter economic growth rate of 1.9% was stronger than other nations that have reported economic expansion, including Japan's rate of 0.6% and Germany's rate of 0.4%.

Additionally, in September, Brazil's debt was granted an investment grade rating at Moody's Investment Service, thereby giving its sovereign debt investment grade status at all three major ratings agencies. Brazil's long-term sovereign debt is currently rated BBB-/ Stable by Standard & Poors, BBB-/ Stable by Fitch and now Baa3/ Positive by Moody's.

Alongside the increased availability of lower cost credit and the strengthening of the Brazilian real against the US dollar, the rating upgrade is likely to stimulate increased capital flows into the country's stock market (the Bovespa) in the mid to long-term.

The Bovespa has also attracted many investors this year because it is set to become home to two of the world's largest initial public offerings (IPOs) for the year, namely the upcoming listing of banking firm Banco Santander SA and credit-transaction processor VisaNet. Many of the Brazilian stocks on the Bovespa are cross-listed as American Depository Receipts (ADRs) on the New York Stock Exchange where they are denominated and traded in US dollars.

Almost all of Brazil's equity sectors stand to benefit in some way from the country's latest venture. According to estimates from Brazil's organizational committee investors will bring in around 30 billion reals (USD 17.01 billion) in new spending over the next seven years. Based upon a preliminary estimate, Brazil's Ministry of Sports has said the event could bring in up to 90 billion reals (USD 51.27 billion), inclusive of indirect investments and overall longer-term benefits.

Brazilian steel maker Gerdau SA (GGB) was cited by analysts to be among the top beneficiaries from infrastructure-related business. Investors can also take a look at Gafisa SA (GFA), a home builder that may assist in the construction of residential facilities needed to house athletes in an Olympic village.

The hosting of the two sporting events would also be beneficial to Brazil's largest mobile-phone operator, Vivo Participacoes SA (VIV). In terms of transportation stocks, air carrier Gol Linhas Aereas (GOL) and its direct competitor TAM SA (TAM) are both set to see their growth take-off in the short and long term via providing service to the expected increased number of tourists.

Other companies poised to reap gains from Brazil's venture include banking firms Banco Bradesco SA (BBD) and Itau Unibanco Holding SA (ITUB).

In addition, media companies are worth a look because of increased ratings and advertising related to the games. The ability to offer exclusive content would help cable-services provider Net Servicos de Comunicacao SA (NETC).

There are concerns though that investors' enthusiasm over Rio's selection for the games may wane as their focus returns to gauging the pace of economic recovery and the timing of interest rate hikes by Brazil's Central bank. The Brazilian Central bank has slashed its key rate by 50 basis points (0.50%) this year to a historic low of 8.75% in an effort to shield the economy from the worst of the global recession. Some analysts are expecting the benchmark Selic rate to be raised by as early as the second quarter of 2010.

Investors looking for more diversified exposure to the Brazilian stock market can purchase iShares MSCI Brazil Index (EWZ). This is an exchange traded fund (ETF) that seeks to provide investment results that correspond generally to the price and yield performance of publicly traded securities in the Brazilian stock market, as measured by the MSCI Brazil index. Year to date (as of 14 October 2009) EWZ has had a fantastic run and is up by almost 118%.

Potential investors should note though that many of these Brazilian ADRs are trading at or near their 52 week highs so trade entries should ideally be taken on pullbacks in their prices. Thorough and in-depth analysis alongside the right timing and application of a suitable trading strategy is essential to make winning investments. As Brazilian-born football legend Pele once said, "Success is no accident. It is hard work, perseverance, learning, studying, sacrifice and most of all, love of what you are doing or learning to do."

Table 1: Regional Market Performance (as at 15 October 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	786.47	-0.36	0.18	-6.70	-20.50
All Trinidad	1,113.78	0.27	1.45	-3.55	-16.25
JSE Index	80,606.17	0.48	0.19	0.57	-16.01
JSE Select	1,795.16	1.28	-0.74	-9.55	-28.77
All Jamaica	65,304.14	0.97	-1.02	-11.75	-29.98
BSE Composite	833.46	0.23	-1.69	-9.39	-18.77

Table 2: International Market Performance (as at 15 October 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,096.56	2.92	4.17	21.40	20.79
Nasdaq Composite	2,173.29	2.32	3.36	37.81	33.47
Dow Jones Industrial	10,062.94	2.82	3.92	14.66	17.31
German Dax	5,830.77	2.00	3.58	21.22	19.93
FTSE 100	5,222.95	1.33	3.59	17.79	28.03
Nikkei 225	10,238.65	4.13	0.21	17.05	7.24
Hang Seng	21,999.08	2.36	5.43	52.90	37.51
DJ Eurostoxx	2,939.09	1.78	3.38	19.89	14.00

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