EMERALD
ASSET ADVISORS, LLC

Investment Strategists for
Successful Families

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Thank you for reading GreenThought$. It is our privilege to provide you with our insight on current financial market events and our outlook on topics relevant to you.

It's a Small World After All

Living in an age of jet travel, the internet and mobile communication have their advantages. They make our world of 7 billion people seem a bit smaller since we’re just one plane ride or “one boot of the computer” away from connecting with anyone in the world.

But, along with the good comes the bad.

Worldwide interconnectedness not only connects us socially, it also connects us economically. What happens in China, for example, doesn’t necessarily stay in China. A collapse of their real estate market or a revolt against the government could have repercussions around the world.

A bit closer to home, the sovereign debt problems in Europe are helping keep a lid on stock prices in the U.S., according to MarketWatch. As the debt problem spreads from the peripheral euro-zone countries to the core in Germany -- which had a failed bond auction last week -- the U.S. is caught in the cross fire.

What's disappointing about being joined at the hip with Europe is that the U.S. economy is actually performing okay. Consider these positive points:

- Our trade deficit declined for the third month in September, thanks to rising exports.
- Industrial production rose strongly in October.
- Residential building improvements are touching record highs.
- October car sales hit the highest level since February.
- Consumer sentiment in November rose to the highest level since June, according to data from the University of Michigan and Thomson Reuters.
- Personal income in October showed the largest increase since March.
- Black Friday sales rose sharply from a year ago.

Granted, these improvements are coming off a low base and are so fragile that the modest recovery in the U.S. could get derailed if the euro-zone situation continues to deteriorate. Our small world is now focused on Europe and whether it can pull out of its debt debacle. Time to do so is running out for our friends across the pond.

DOES IT MAKE SENSE to invest outside of the United States? The concept of diversification suggests that you own a diverse group of investments that have uncorrelated return characteristics. One of these diverse groups of investments could include non-U.S. stocks. That might make sense because, as the following chart shows, the U.S. stock market captures less than one-third of worldwide stock market value based on market capitalization.

% of World Equity Market Capitalization			
Country	**5 Years Ago**	**Mid August 2011**	**5-Year Change**
1. U.S.	36.05%	29.14%	-6.91%
2. China	1.36	7.87	6.52
3. Japan	10.93	7.73	-3.20
4. UK	7.76	6.43	-1.33
5. Hong Kong	2.98	4.88	1.90
6. Canada	3.25	4.20	0.96
7. France	4.95	3.33	-1.62
8. Germany	3.35	2.80	-0.55
9. India	1.43	2.77	1.35
10. Brazil	1.34	2.72	1.37

Bespoke Investment Group, August 22, 2011; New Forces in the World Economy by Brad Roberts

The above chart shows some interesting trends:

- The U.S. is still, by far, the largest market in the world, but it has declined substantially in the past five years.
- China has catapulted to second place with dramatic growth in the past five years.
- Japan, UK, France, and Germany join the U.S. as developed countries that have lost ground over the past five years.
- Emerging countries such as Hong Kong, India, and Brazil have shown strong relative growth.
- Although not shown on the chart, back in the late 1980s, Japan's stock market represented 45 percent of world equity market capitalization. Now, it's less than 8 percent due to a 20-year bear market.

As the world turns from developed countries to emerging ones, we are keeping our eyes open and our pencils sharpened for the investment opportunities that might arise beyond our borders.

About Emerald

Emerald Asset Advisors, LLC is a Registered Investment Advisor (RIA) founded in 1998. For more information, please visit our website.

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