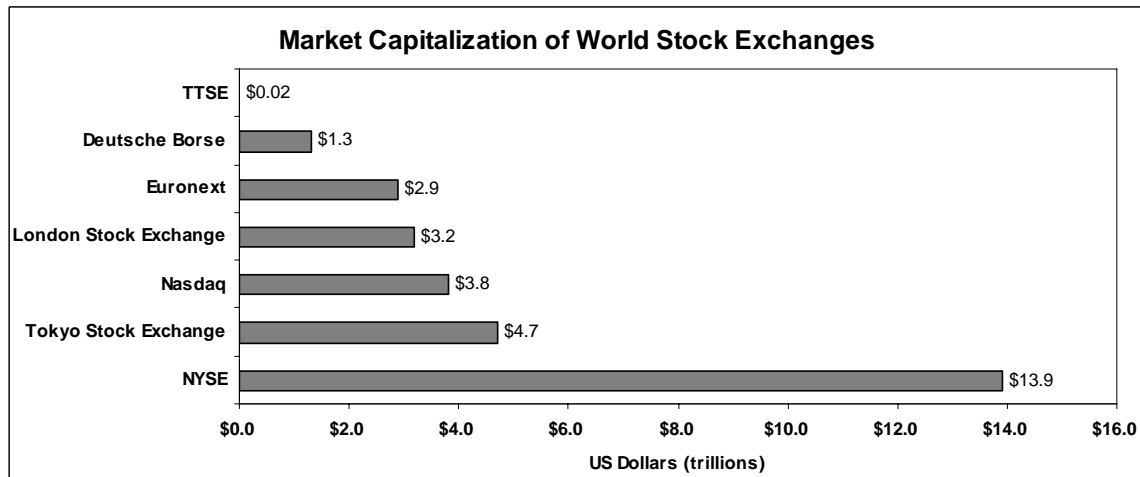


Investment: What about US?

We've all heard the financial experts expound on the benefits of diversification. When we talk about diversification in a stock portfolio, we're referring to the attempt by the investor to reduce exposure to risk by investing in various companies across different sectors, industries or even countries. Most investment professionals agree that although diversification is no guarantee against loss, it is a prudent strategy to adopt towards your long-range financial objectives.

As the world's largest stock market, the United States represents an excellent starting point for local/regional investors seeking international opportunities. Every day, American companies worth a total of \$10.2 trillion dollars are bought and sold on the New York Stock Exchange. The NYSE is also the leading market for non-U.S. companies with a total global market capitalization of \$8.4 trillion, and growing.



Source: NYSE Group 2006

Billions of shares of stock trade daily on the famous floor of the NYSE. Investments in such liquid markets are often considered to be more desirable than relatively illiquid assets as the forced sale or purchase of an item in an illiquid market may be at a disadvantageous price. It is much safer to invest in liquid assets because of the relative ease of releasing cash from the investment.

Very few investors would be willing to buy shares in a company unless they knew they could sell them later if they needed the funds for some other purpose. The superior liquidity provided by the NYSE is a major advantage of holding US listed securities over stocks listed on a relatively illiquid market such as the Trinidad & Tobago Stock Exchange (TTSE).

Annual Share Volumes Reported (millions)

Year	NYSE Volume	TTSE Volume
1999	203,914.2	73.5
2000	262,477.7	80.2
2001	307,509.3	122.2
2002	352,397.8	96.5
2003	363,135.9	312.2
2004	367,098.5	311.9
2005	403,763.6	200.1

Source: NYSE Group 2006, Trinidad & Tobago Stock Exchange 2006

The high volume of shares traded on the NYSE owes partly to the large number of securities listed on the exchange. The NYSE boasts the second largest number of listings in the world, with over 4,600 issues listed at the end of 2005. Listing on the NYSE affords companies great credibility because they must meet initial listing requirements and also comply annually with maintenance requirements. For example, to remain listed, NYSE companies must keep their price above \$1 and their market capitalization above \$50 million.

All US-listed companies must also adhere to the rules of the Securities and Exchange Commission (SEC), the principal regulator of securities markets in the United States. The SEC registers new securities and handles all the mandatory corporate filings, such as annual reports, quarterly earnings and proxy statements.

After the collapse of Enron and WorldCom in 2002, the U.S. Congress made sweeping reforms to corporate governance law to protect shareholders and the general public from accounting errors and fraudulent practices in the enterprise. In fact, the securities industry is one of the most highly regulated businesses in the United States, giving investors the security and confidence to make well-informed, realistic evaluations of various securities.

Given the sheer scale of the US market, deciding where to invest your money can be a daunting task. To allow for more in-depth analysis of the market, Standard & Poor's breaks the market into 11 sectors. Two of these sectors, utilities and consumer staples, are said to be defensive sectors because of the protection they provide in a falling market. The rest tend to be more cyclical in nature moving up and down in relation to businesses cycles or other influences. The other nine sectors are: transportation, technology, health care, financial, energy, consumer cyclicals, basic materials, capital goods, and communications services.

Other groups break up the market into different sector categorizations, and sometimes break them down further into sub-sectors. Stocks sectors are helpful sorting and comparison tools which offer investors an insight on how a stock is doing relative to its peers.

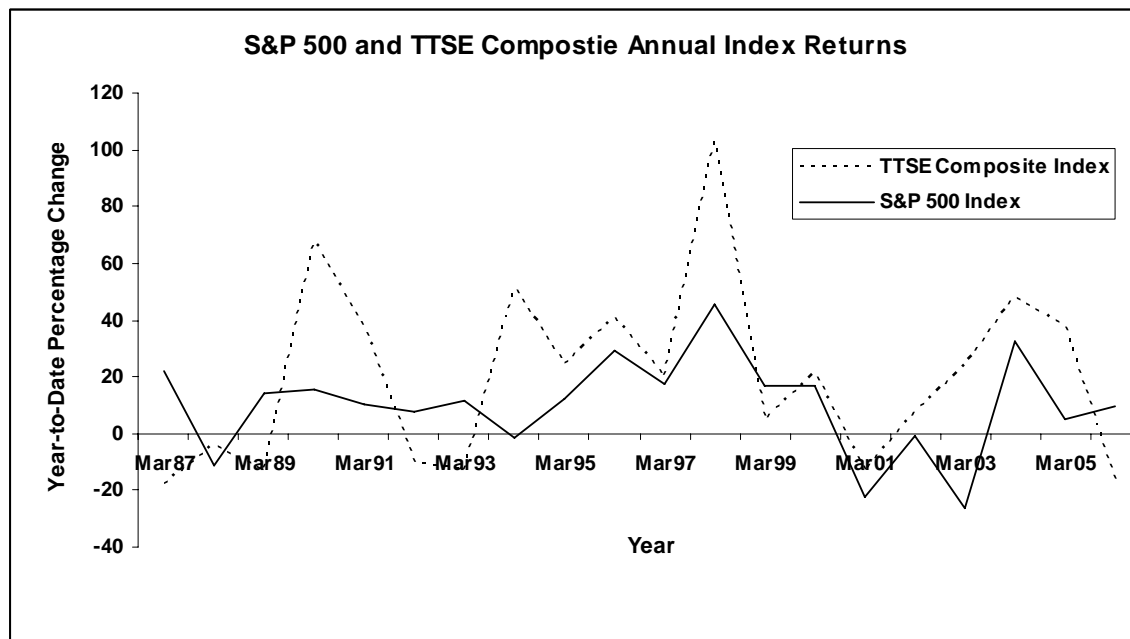
It's good to know what's going on in the many diverse segments of the U.S. and international markets. If we had to pick just one index or market to talk about, however, it would undoubtedly be the Standard & Poor's 500, which offers a good indication of the movements in the US market in general. The S&P 500 is composed of 500 established

companies selected for market size, liquidity and industry group representation and is probably the most widely used benchmarks of U.S. equity performance.

Despite higher average returns on the TTSE Composite Index over the last 20 years, the S&P 500 has certainly been less volatile. In finance, an investment's volatility is measured by the standard deviation of annualized returns. The higher the standard deviation, the greater the volatility, and therefore the greater the risk.

Based on annual index returns over the same period, the volatility of the TTSE Composite Index (annualized standard deviation of 32.4%) is almost twice that of the S&P 500 (annualized standard deviation at 17.1%). The returns on the S&P are therefore much less likely to deviate from expected normal returns.

Today, the S&P 500 index is no longer that far from its highs of earlier in the current decade and the current bull market shows no signs of having reached its peak. Analysts forecast that the S&P will see double-digit growth in 2006 as corporate earnings continue to grow, interest rates reach their cyclical peak and inflation-wary investors accept that the US economy is in good shape.



Source: Standard & Poor's 2006, Trinidad & Tobago Stock Exchange 2006

Whether you decide to invest directly in the US stock market or purchase shares in an exchange-traded or mutual fund, adding international exposure to a portfolio will normally reduce the risk without lowering returns. The US exchanges also offer a safe and inexpensive alternative to investing directly in global markets through instruments such as ADRs, international stocks traded on US exchanges and US multinationals.

With such a wide range of securities available, investors can reduce the volatility of their assets by holding stocks across different sectors, industries and countries. Experts agree that small investors fare best if they can put their money into a diversified

portfolio of stocks and hold them for the long term. It is important to remember, however, that no matter how diversified your portfolio is, your risk can never be shrunk down to zero because of the inherent market risks that affect nearly every stock.

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