

February 18, 2011

"In China, of course, just like in most emerging markets, you're dealing in a country where the rule of law and the independence of the courts are extremely questionable... That's why emerging markets...deserve to trade at a discount compared to developed markets."

-LOUIS GAVE

Being Evergreen Capital's chief investment officer has many advantages, but taking relaxing vacations isn't one of them. This downside has been driven home over the last couple of weeks as my wife and I have attempted our usual mid-winter getaway with mixed success (in her mind, there's no doubt about it; she would definitely classify our supposed holiday as a "daycation"?just a day or two with no e-mail or research to do).

One small concession I've made to my spouse is to take a week off from writing EVA but, as has been my past practice, I want our growing list of regular readers to receive a more than worthy substitute. Fortunately, my usual stand-in, GaveKal Research, was gracious enough to agree to share one of its particularly interesting efforts, in this case an interview with the firm's founder, Louis Gave, conducted by veteran newsletter writer Kate Welling.

Last month, two of my Evergreen team members and I had the opportunity to connect in person with Louis at his winter home in Whistler, B.C. (Louis normally plies his trade from GaveKal's headquarters in Hong Kong or his alternate office, the business-class section of countless transoceanic flights.)

In addition to the pleasure of meeting his young wife and children—Louis has managed to earn both a sterling reputation and bountiful personal wealth at the tender age of 36—we were also able to gain more insights into his exceptionally agile mind. He particularly impressed me with the breadth of his reading; over adult beverages at his home, I brought up a relatively obscure book by one of *Barron's* regular contributors and, to my amazement, he'd already read it.

Moreover, his knowledge of global economic trends is impressively deep and he communicates his thoughts with unusual lucidity. If you think those plaudits are a bit over the top, the accompanying interview is almost certain to change your mind.

Among the important topics he covers are:

- ? The emerging market inflation threat
- ? The fact that this is the first monetary tightening cycle being led by the central banks in developing countries
- ? The GaveKal take on the still unfolding financial crisis in Europe
- ? His very surprising comments about the changing nature of China's labor force
- ? The unsustainability of present US fiscal and monetary policies
- ? Germany's need to accept higher inflation

One suggestion: While there is a copious amount of valuable information in this piece, it is lengthy; therefore, I suggest you print a hard copy and read it at your leisure. It's my sincere belief you will not be disappointed.

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