



The discovery of an 18th century ship reminds us that the United States was once an emerging market. This suggests cues for today's investors as the world's population fills more and more megacities.

Lessons from Archeology:

Urbanization, Past and Present

Ordinarily I avoid the World Trade Center site in lower Manhattan; the memories still smolder. But I traveled eagerly to West and Liberty Streets to view the "mystery ship"—or what was left of it.

In mid-July, the partial frame of an 18th century vessel was uncovered during construction activity near Ground Zero. It lay in a section of the site that was never excavated for the original World Trade Center project.

Backhoe operators unearthed what looked like a sodden woodpile, eventually identified as the 10-meter-long front section, ribs decomposing, of a brigantine. This two-masted workhorse of coastal transport may have carried lumber from New England or sugar from Barbados, traded for agricultural commodities grown on outlying farms. Once the ship's transport life ended, its remains apparently served as landfill for the growing city.

Trade and maritime themes offer classic metaphors for the investment business. There may be lessons for global investors in this cargo ship, built for efficiency and re-purposed pragmatically, once it was derelict.

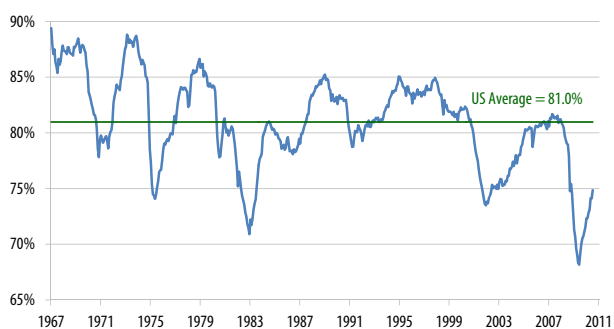
Look to the Workaday/Re-visit Emerging Markets

The vessel was a utilitarian ship of the day, not the imposing flagship that maritime historians typically study. Investors might likewise focus on those countries that serve as workhorses of the global economy.

Once we looked to the G3 nations to play this role. The global recession, however, has likely hastened the power shift elsewhere. The World Bank reports that capacity utilization rates in the developing world are recovering impressively toward pre-crisis levels. While trends are similar in the US, the rebound is less impressive and even faltering.

Our **WorldView** series presents strategic perspectives on global economies and markets. As a specialized investment banking firm, Codexa Capital bridges Islamic and conventional markets.

US Capacity Utilization: Still Below Average



Source: Federal Reserve Board.

Weak utilization suggests that excess capacity at production facilities relates to hindered growth. Nevertheless, capacity utilization rates need to be interpreted carefully. In developed economies, a rule-of-thumb claims 80%-to-85% is optimal because higher utilization can be inflationary. Data from the emerging world—if they exist at all—are difficult to use at the aggregate level because shorter histories reduce reliability.

Consider Quality of Craft/Look Beyond the BRICs

The 18th-century ship was carefully and cleverly assembled. As described in *The New York Times*, its curving ribs were crafted so they could be fastened tightly to their flat cladding planks without heavy caulking.

Well crafted emerging-market stories may similarly provide long-term value to investors. We look to “Doing Business” research by the IFC component of the World Bank. Underway since 2003, the project attempts to apply objective measurements to business regulation and its impact on commercial activity. The World Bank ranking assesses microeconomic factors that add up to a bigger picture of a given economy.

The results can surprise. If you look at each region dominated by a BRIC (investment-speak for Brazil,

Russia, India and China), several smaller countries rank better than the BRIC member itself.

Investors may find it appropriate to look more closely at these stories. One reason may be the favorable earnings backdrop for companies operating in these economies. Another may be the under-exploited nature of particular investment ideas within these less-spotlighted national frameworks. Might capital be ready to begin returning to marginal stories, at least when directed by thorough investment research?

“Doing Business” Rankings by Region

Region	Dominant BRIC	Better Ranked Neighbors
South Asia	India	Pakistan, Sri Lanka, Bangladesh
East Asia	China	Thailand, Malaysia, Taiwan
Latin America	Brazil	Colombia, Chile, Mexico
Eastern Europe	Russia	Georgia, Azerbaijan, Armenia

Source: World Bank. See www.doingbusiness.org for more details.

The Doing Business rankings of course are not designed to be portfolio recommendations. Good economies, after all, are not necessarily good markets, and vice-versa. Nor do the rankings include assessment of any national securities markets. Nevertheless, the information does provide a reasonable context for earnings analysis.

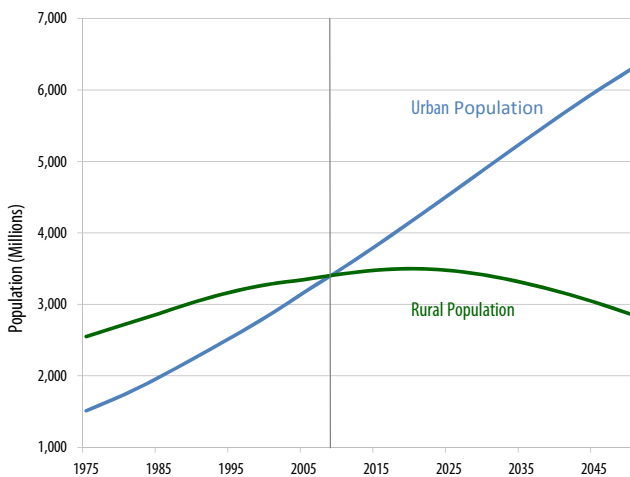
Keep Re-purposing/Re-think Investment Themes

Found along what was once the natural coastline of Manhattan, the ship apparently served as landfill after it was decommissioned. Its lifespan tracks a story of urbanization. Its first investor built it to provide goods for a growing New York population, and the last owner may have sold it for fill to support some form of colonial-era real-estate development.

We look for the urbanization stories of today. The world’s population is now shifting to primarily urban.

This will have important implications on resource use and infrastructure development. These dimensions are unknown in the era since World War II.

World Population: Rapidly Rising Urbanization



Source: United Nations, Department of Economic and Social Affairs.

The United Nations estimates that the number of megacities (population more than 10 million) will grow from 21 to 29 by 2025. The additions will include Shenzhen, Chongqing, Guangzhou, Jakarta, and Lahore in Asia, as well as Kinshasa in Africa. Two others are Bogota and Lima. Many cities are growing, but these venues—and their allied economies—may see the most dramatic change as they break into the megacity category. The rate-of-change aspect of growth may offer the very best opportunities for the thematic investor.

Economic Rebalancing as an Investment Strategy

We do not often think about America as a developing country. But in 1790, when the “mystery ship” may still have been under sail, the City of New York had a population of only 60,000. The city’s infrastructure was sorely inadequate. Alexander Hamilton (whose face appears on the US \$10 bill) championed the first municipal waterworks in the closing years of the 18th century. On a modern-day trip to the Financial District,

a visitor can examine a segment of an original wooden water pipe in the Trinity Church museum at the corner of Wall Street and Broadway.

As a relic of those early years in the United States, the “mystery ship” reminds us of the potential and promise of developing markets. We point to three ideas worth considering amid the current turmoil of global capital markets:

- **Re-visit emerging markets.** Defensive instincts may cause us to allocate otherwise.
- **Look beyond the BRICs.** Market inefficiencies can create opportunities.
- **Re-think investment themes.** We have heard it before. Or have we?

Investors in the developing world may want to exercise their relatively higher risk preferences, while the major economies wrestle with economic rebalancing requirements.

New York’s “Mystery Ship”



Source: The New York Times.

Financial District construction revealed the skeleton of an 18th century brigantine, whose life as a coastal trading vessel evidently ended as landfill for a fast-growing Manhattan.

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