

# Offshore Markets - Looking Better All The Time!

By David Laforge

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The World's Market Capitalization is Shifting

Emphasis in major market capitalization is shifting away from established industrialized countries toward emerging markets.

US market dominance has dramatically declined. The present tendency in the US to excess equity market valuation will accelerate the movement of capital to more attractive emerging markets. Share valuations in Asia, often at 1 1/2 times book value, compare most favorably with characteristic multiples of 6 for similar companies on the US market. Major US pension funds, e.g., CALPERS, are in high gear to diversify internationally by direct investment in emerging market growth companies.

It will be some time before confidence in the Japanese capital market fully returns.

The less liquid European equity markets, compounded by economic Uncertainties, remain unattractive.

The move of investment capital will clearly be toward the emerging economies of Asia, Eastern Europe, and Latin America.

World Economic Opportunities are Moving Too.

Prior to 1970, the US represented half of the world's Gross National Product (GNP). By 1995 it's share of world GNP had dropped to one third. Estimates are that by 2010 the US share of world GNP will have dropped to one quarter.

The European economies are faced with an endemic problem of rapidly aging populations increasingly burdening their producers with taxes to cover the escalating costs of state-funded retirement benefits as fewer wage

earners have to pay for growing numbers of retired persons. The net effect inevitably is declining competitiveness in a world market increasingly dominated by lower cost producers in countries with abundant young labor resources. The current political swing in Europe toward more socialistically inclined governments can only exacerbate growing unemployment and declining productivity problems.

Any serious investor has to think in global terms!

Wise institutional and private investors are responding to these trends by diversifying their portfolios internationally.

Considering the inherent investment risks in emerging markets where some degree of disorder is present, private investors without the necessary research capacity to make sound investment decisions independently, take refuge in collective investment schemes, including partnerships, unit trusts, and funds.

Domestic security dealers in countries with substantial capital markets, such as the US, are not necessarily well equipped to comfortably manage the transition from local trades to international ones.

European brokers with stronger international orientation may find it easier, thanks in part to the access they have had to offshore funds which have taken the lead in emerging market investing. Hence, the growth in offshore funds has been phenomenal. As the economies of Eastern Europe, Asia and South America expand further, this growth will accelerate.

The fundamentals are in favor of emerging economies with abundant workforces and a national desire to succeed. Until they reach the stage of maturity where their savings rates begin to satisfy their capital needs, these countries will continue eagerly to invite foreign investment.

Under circumstances requiring cross-border investment on an unprecedented scale, the offshore financial services industry offers opportunities of a lifetime.

The question is whether it can systematically rise to the occasion to retain the initiative without becoming bureaucratic in itself and so lose its principal regulatory advantage over domestic financial centers.

Offshore finance is no longer the exclusive domain of the very wealthy, and as its clientele becomes more mainstream, the nature of its services and their means of delivery are changing dramatically.

The ability to securely communicate complex information around the world in a flash, profoundly affects the way in which business is conducted.

Offshore finance is a prime candidate for electronic delivery of services on

a  
grand scale.

For more information on the world of offshore business go to  
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