

# DUMPING EMERGING MARKETS' "AMTRAKS"

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Ninety dollars. That is the quote for a one-way ticket from New York to Chicago.

How long is the flight?

Oh, this is no flight; it's the 19-hour slog on Amtrak's quickest line. I calculate it rolls halfway across the country at the supersonic speed of 41 miles per hour.

You'd have to *pay* me a considerable sum of money to endure a train ride that is matched in length by the Qantas flight from JFK to Sydney.

Happy 50th Birthday, Amtrak. You dinosaur.

People say, "If you had invested \$10,000 in Amazon<sup>1</sup> 20 years ago..." What about plunking \$10,000 into the 'Trak in 1970? Luckily you couldn't; Uncle Sam owns it. From 2017–2019, the federal government appropriated the state-owned railway \$1.5–\$1.9 billion annually. This spring, another billion was written into the COVID-19 appropriations spree.

Be honest. If Amtrak was on the New York Stock Exchange, would you invest in it? Don't worry; it's just a hypothetical—because you know they would relegate it to the pink sheets.

But say there is an alternate universe where you and I *could* own Amtrak. You would be the proud owner of a [state-owned enterprise](#), an SOE, mired in institutional lethargy, not unlike the big banks that do the Chinese Communist Party's bidding on the Shanghai Stock Exchange.

I'm not here to pick on Amtrak, which can be enjoyable if you are just doing a quick jaunt around the Northeast Corridor. In fact, I often find myself on the Philadelphia-to-New York when visiting colleagues. It's pleasant.

But face it, the company is a red ink machine, which makes it a great American example of the type of companies that populate foreign markets when you mix state ownership with the stock market.

Twenty-five percent of the [MSCI Emerging Markets Index's](#) value is in state-owned enterprises. You know what I think? I think most investors have no clue that that is the case. If Amtrak is a "no go," what on earth are we as an industry doing in emerging markets?

If you think Amtrak's 50 years is a long time, then check out Russia's Sberbank, one-sixth of the country's stock market. It turns 159 years young this month. Can you see yourself waking up to a front-page *Wall Street Journal* article targeting the Kremlin's largest state-owned bank for sanctions? Me too.

China's financial system is a case study. If you thought Bank of America's 205,000 employees are a lot, ask why Agricultural Bank of China needs 473,000. Employment mill.

Petrobras is another one. You may recall Brazil's massive scandal, "Operation Car Wash." Name someone in Brazilian high society and there is a good chance they were implicated in that money-laundering scheme, which used the large oil company for ill-gotten gains. Imagine if ExxonMobil pulled a stunt that roped in the president and half the legislature. That is basically what happened in *Operação Lava Jato*.

A 19-hour train ride to Chicago? In 2020, that prospect is nothing short of ridiculous. It all begs the question: How many "Amtraks" lurk in emerging markets? Too many.

Here are our three ETFs that exclude companies with more than 20% state ownership.

[XSQE: WisdomTree Emerging Markets ex-State-Owned Enterprises Fund](#) (Expense ratio = 0.32%)

[CXSE: WisdomTree China ex-State-Owned Enterprises Fund](#) (Expense ratio = 0.32%)

[IXSE: WisdomTree India ex-State-Owned Enterprises Fund](#) (Expense ratio = 0.58%)

To see their performance, please see the factsheets [here for XSOE](#), [here for CXSE](#) and [here for IXSE](#). Each of them has outperformed their benchmark (the MSCI Emerging Markets Index, the [MSCI China Index](#) and the [MSCI India Index](#), respectively) by more than 2 annual percentage points since inception.

<sup>1</sup>As of October 16, 2020, XSOE, CXSE and IXSE did not hold Amazon.

#### Important Risks Related to this Article

Past performance is not indicative of future results.

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. CXSE focuses its investments in China, including A-shares, which include the risk of the Stock Connect program, thereby increasing the impact of events and developments associated with the region, which can adversely affect performance. CXSE's exposure to certain sectors may increase its vulnerability to any single economic or regulatory development related to such sector. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. IXSE focuses its investments in India, thereby increasing the impact of events and developments associated with the region, which can adversely affect performance. Investments in emerging, offshore or frontier markets such as India are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. Due to the investment strategy of IXSE, it may make higher capital gain distributions than other ETFs. Funds focusing their investments on certain sectors and/or regions increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. IXSE and XSOE invest in the securities included in, or representative of, their Index regardless of their investment merit, and the Funds do not attempt to outperform their Index or take defensive positions in declining markets. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

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You cannot invest directly in an index.

## DEFINITIONS

**State-owned enterprise** : Companies in which governments have a significant ownership stake and the potential to influence the firms' actions over time.

**MSCI Emerging Market Index** : The MSCI Em (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries.

**MSCI China Index** : A free float-adjusted, market capitalization-weighted equity index designed to measure the performance of the Chinese equity market.

**MSCI India Index** : A market capitalization-weighted index designed to measure the performance of the Indian equity market.