



2218 AVENIDA DE LA PLAYA, LA JOLLA, CA 92037
 T 858.456.1440 / www.frontiermkt.com

February 4, 2008

Frontier Markets in the Global Credit Crisis

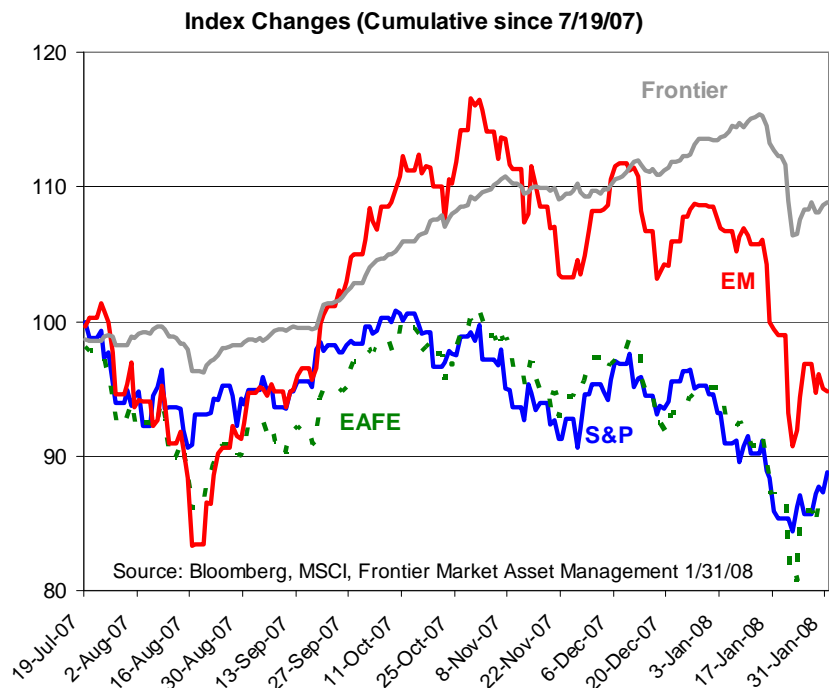
By Larry Speidell

Last summer, we looked at the impact of sub-prime mortgage loan problems on markets around the world (“Frontier Markets in a Month of Market Drops”, August 18, 2007). Now we have seen more than six months of declining markets, and it is time for another look.

The Dow Jones Industrial Average peaked at 14,001 on July 19 and closed at 12,650 on January 31, 2008, for a decline of 9.6%. Meanwhile, the S&P 500 is down 11.2% and the Russell 2000 small cap index is down 15.7%.

Abroad, the MSCI EAFE Index (Europe, Australia and Far East) has dropped 12.2% in dollar terms, and the MSCI Emerging Markets Index has been quite volatile but is down only 4.8%. Meanwhile, our average of 28 Frontier Stock Markets has fared the best, with a gain of 12.4%.

Exhibit 1



	S&P 500	DJIA	R2000	EAFE	Emerging Mkts	Frontier Markets Ave (28)
7/19/2007	1553.1	14000.4	3622.1	2327.9	1144.1	100.0
1/31/2008	1378.6	12650.4	3053.3	2044.1	1088.7	112.4
Chg 7/19-1/31	-11.2%	-9.6%	-15.7%	-12.2%	-4.8%	12.4%

Other market changes, shown in Exhibit 2, have been quite dramatic. The dollar has weakened 7.7% versus the Euro, oil is up 21%, gold is up 37%, copper is down 10%, T-bill rates are down from 4.98% to 1.95%, the 10 year Treasury Bond is down from 5.02% to 3.60%.

Exhibit 2	Oil Brent Futures	Gold	Copper	Euro	3 mo T- Bill	10 Yr Gov
5/31/1901	76.0	677.5	7920.0	1.38	4.98	5.02
9/1/1901	92.2	926.0	7170.0	1.49	1.95	3.60
Chg 7/19-1/31	21.4%	36.7%	-9.5%	7.7%	-60.9%	-28.4%

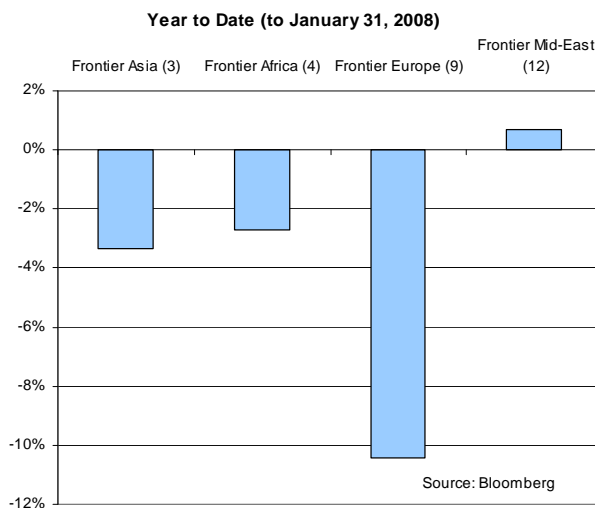
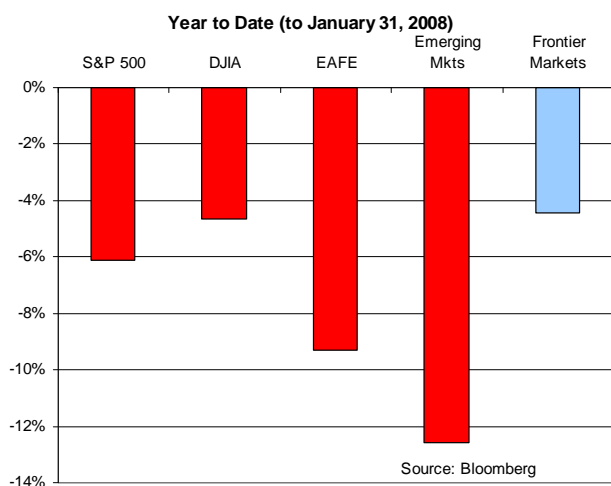
The Federal Funds rate has lagged behind the decline in the 90 day Treasury Bill rate, perhaps for too long, and the Fed is now trying to catch up with two rate cuts totaling 1.25% in the past two weeks. This still leaves Fed Funds above the T-Bill rate. With credit markets in disarray, we may hear concerns that the Fed is “pushing on a string” as it tries to restart the demand for money.

Exhibit 3 examines the behavior of frontier markets on a regional basis since July 19. Eastern Europe is the only frontier region that is down. It has been more closely tied to the rest of the world, because Europeans have invested heavily in Eastern Europe. This is not surprising, given their economic ties, but it has led to higher valuations and higher correlations.

Exhibit 3	Frontier Markets Ave (28)	Frontier Asia (3)	Frontier Africa (4)	Frontier Europe (9)	Frontier Mid- East (12)
Chg 7/19-1/31	12.4%	32.0%	20.4%	-4.7%	23.2%

The charts below show recent performance during the sharp declines in the month of January. Frontier markets have continued to provide diversification and better resistance on the downside than the rest of the world. The Middle Eastern markets have performed the best, followed by Africa, while Eastern Europe has been the weakest.

Exhibit 4



A final measure of the behavior of frontier markets is the correlation of daily returns versus the S&P 500 Index. In Exhibit 5, we have calculated correlations both on a current day basis and also with a one day lag for non-U.S. markets (since behavior in the U.S. may lead trading in the rest of the world on the following day).

Exhibit 5

Daily Correlation	S&P 500	DJIA	R2000	EAFE	Emerging Mkts	Frontier Market Average (28)	Frontier Asia (2)	Frontier Africa (4)	Frontier Europe (9)	Frontier Mid-East (11)
7/20/07 to 1/31/2008	1.00	0.99	0.93	0.34	0.28	0.10	(0.07)	(0.16)	0.11	0.08
Correlations with 1 day lag of non-US versus US:				0.29	0.06	0.00	0.37	0.03	0.23	0.18

Although these correlations are over a short six month period, they show the same low correlations for frontier markets that we have observed over longer periods, with especially low correlations for Africa.

Conclusion

These results continue to support the notion that frontier markets provide the useful diversification benefits. While some may argue that illiquidity in frontier market stocks is the reason for their independence, the monthly trading volume of 22 countries in the S&P/IFC Frontier Composite Index is over \$3 billion. If we add trading of the additional countries in the new S&P/IFC Frontier 150 Index and the new MSCI Frontier Market Index, total trading volume is probably in excess of \$6 billion per month. The real reason for frontier market's independence is that local investors tend to dominate trading in these countries, and these investors are much more concerned with local economics and local politics than with sub-prime loan problems in the U.S. While, foreign investors are starting to arrive in frontier markets, so far they tend to bring a long term investment horizon rather than a trading mentality. Hopefully, these patterns will continue to make frontier markets rewarding for some time to come.

About Frontier Market Asset Management

Founded in 2006, Frontier Market Asset Management holds more than 35 years worth of investment experience including work in Emerging and Frontier Markets since 1987. For more information about Frontier Market Asset Management, please contact us at (858) 456-1440.

This is not an offering. An offering will be made only by means of a final offering memorandum and only in those jurisdictions where permitted by law.

The fund is subject to a variety of risks, including but not limited to: investments may be speculative and subject to a high degree of risk; investments may be illiquid; an investor could lose all or a substantial amount of any investment in the fund; there is no secondary market for interests in the fund nor is one expected to develop, and there are substantial restrictions on transferring an investment in the fund; the fund's portfolio may be leveraged and experience volatility; fees and expenses of the fund may be higher than those of other investments and will reduce the portfolio return. Consult the fund's offering memorandum for complete risk disclosures and other important information.