'2011' An Investment strategy

If there is a financial guru in the United States, it would have to be Med Jones, president of the International Institute of Management. He is one of the few experts who predicted the nation's current economic downturn. In fact his economic predictions are generally considered to be the most accurate. What does he foresee for 2011?

Where are the highest growth economies for 2011?

High growth countries include BRIC countries (Brazil, Russia, India, and China), GCC countries especially Qatar and Saudi Arabia, the Asian Tigers and Australia. China and Africa have strong growing relationship; as China continues to grow, we will see the Chinese offer more infrastructure development to African governments in return for natural resources and farmland to support its vast population. It is a natural and mutually beneficial relationship.

. Where are the highest growth sectors?

Global commodities including oil, gas, metals and agricultural products. Although we are likely to see periods of volatility, I see a bull market trend overall. In particular, the growth is tied into the new markets with strong supply and demand factors. As the new market nations develop their economies, they have an enormous demand for better food, more fuel, better housing, infrastructure, and telecommunications.

Commodities have shown a high correlation to inflation, especially in high inflation periods. In addition to diversification, the commodities asset class may also protect investment portfolios against an expected inflation or a declining local currency.

Let me be clear, at International Institute of Management we do not sell investments or investment advice; we sell knowledge to help our clients make better investment decisions, thus it is always important to fully understand the performance variables, benefits, and risks of each investment and why you'd want to add each investment to your portfolio in amounts that fit your risk appetite. Despite my bullish overall outlook, there are several risks to commodities going into 2011. The number one investment risk variable is Mother Nature. Other risks to the recovery and commodities demand include rising interest rates to combat inflation. In the US, the risks are the failure of the new round of quantitative easing, and spending cuts by US state and local governments. Crude oil will surely hit 3 digits. Its price can increase by 50% to 100% if the war lobby has its way in US foreign policy.

In the EU, there is a risk for the re-emergence of a debt crisis. Add to that the dangers of domestic policy-making errors that could allow protectionism or price controls to infringe on the marketplace.

Unlike many in the investment community, I classify these high volatility assets as speculative investments. Although I would invest in them, I would keep their share of the portfolio to minimum and would monitor them closely.

What do you think of gold and other metals as investments?

Lately, everywhere I travel, I get asked about gold and gold equities. This has the same eerie feeling of the Real estate bubble in 2006 & 2007. In my opinion, there is still room for growth in Gold prices in 2011. Only about 1% of all global assets are in gold, and gold is trading right in line relative to its historical relationship with other industrial commodities and precious metals.

> THE NUMBER ONE INVESTMENT RISK VARIABLE IS MOTHER NATURE

The important thing about gold is that it is the only commodity that is a currency. Gold is likely to become an even more important part of an international currency. Although the US took the dollar off the gold standard in 1971, it remains the largest owner of gold in the world for a good reason. This also explains the support behind the US dollar. Most other central banks hold gold in their foreign exchange reserves.

One reason that led to the spike in gold prices over the past two years is that the central banks of countries such as China, Russia and India, have all increased gold as a component of their foreign exchange re serves. Add to that the consumer and investment demands driven by gold traders and the media blitz exaggerating the impact of the crises and prophesying the demise of the US dollar.

Since gold is one of the most volatile asset classes, keeping it to minimum in a portfolio is likely to shield it from its volatil ity.

To me, gold belongs with a class of speculative investments and should be kept to a minimum in long-term investment portfolios. This statement is valid until the world adopts gold as the main component of a new international currency.

So, if I'm a passive investor, I would not favor buying gold at this time, however if I'm an active trader who monitors the price of gold in real time, then it does make sense to add it to my trading portfolio in 2011.

As for other metals, I like silver and platinum. Copper is likely to outperform aluminum, but like other commodities I'd keep them to minimum in a portfolio.

In this uncertain economic climate, in which assets would you invest?

In general, I would look at the stocks of industrials, materials, trucking, machinery, and coal. They could benefit substantially with the global economic recovery. I would only invest in specific companies subject to good valuation and pricing points. Selecting the right company after detailed research is the only valid investment strategy; the rest is more speculation than investment.

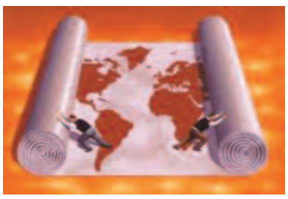
Over the last two years, many companies have improved their cost structures and maximized their manufacturing and operational efficiencies that resulted in higher profit margins, healthier balance sheets, and more cash flow. Many of these companies have depressed valuations because of the investor's flight to bonds and gold. When the investment rotation cycle comes back to stocks, the shares of these firms will rocket upwards. I prefer multinational companies with more diversified sources of income and who can benefit from the higher growth of the newer markets.

With the growth of China and India and their resulting demand on the energy supply, a new demand will be created for energy efficient products all over the spectrum including lighting, air-conditioning, power plants, and engines.

As for transportation, demand all over the world will increase, especially in China and India. The Indian's Tata's Nano car, the cheapest car in the world priced at less than $3,000 will affect not only transportation and infrastructure, but will send oil prices higher.

Not to forget agriculture companies in emerging markets, with growing populations and development there is higher demand to improve their diet (mainly protein). These are good investment hedges against inflation. In the US, agriculture demand is also increasing due to the mandate to use corn-based ethanol in gasoline. As farmers plant more corn, supply for soy and wheat can get tighter, thus raising the prices further. With increasing trend towards green energy, more corn will be produced. I expect to see rising wheat prices and instability in many countries that consume bread as part of their daily diet.

I also like some of the undervalued secular (long-term) stocks; that is the stocks of companies experiencing structural changes in demand for their products and services that will allow them to grow at rates faster than the broader technology sector. I like the LCD glass manufacturing, smart mobile and multimedia companies. The popularity of smart mobiles and internet videos will increase the demand for higher telecom bandwidth and networking gear investments. I look for relatively undervalued companies with early product penetration that will result in a superior growth.



It is important to remember that the only valid investment strategy is to be highly selective about your target markets and companies. For example, investment in IT and software businesses in US is less likely to provide higher returns because the market has entered the maturity stage, on the other hand, investment in banking software in China can make you rich, considering that in less developed cities they do not have automated software and they rely on manual processes and calculators, consequently there is a huge demand for IT automations.

As for oil, I would not be surprised if the price of oil crosses the $100 mark in the short term. In the mid term to long term, I would not be surprised if it increases by more than 50%. This will reflect well on the oil stocks and oil producing economies. Oil prices will keep breaking new records until other countries move to nuclear and alternative energy sources or we discover massive new reserves and increase production dramatically over the next few years. The same assumptions apply to natural gas, but again you have to be selective about where to invest. Unfortunately in US we do not have enough production facilities for natural gas liquefaction plants, and producers need liquid natural gas (LNG) facilities to put it on boats and export it, so Qatar and other natural gas exporters will benefit from the growth in the global demand. Coal prices will also move up with more global development.

THESE COUNTRIES ARE PART OF THE NEW WORLD ORDER. I WOULD NOT BE SURPRISED IF WE COUNT SOME OF THEM AMONG THE LEADING ECONOMIC POWERS IN THE NEXT TWO DECADES

Alternative energy investments, could pick up steam when the price of oil rises above $150 and/or they manage to develop new technological innovations that make them commercially viable alternatives to traditional energy plants. Government's investment and funding of R&D can accelerate the development and commercialization of these technologies.

Which New Markets are you optimistic about?

From a long term point of view, in addition to the BRICS, in Asia, I'm optimistic about South Korea, Indonesia, Vietnam Philippines, Bangladesh, and Pakistan. In the Middle East, Egypt, Iran, and Turkey. In Latin America, I like Mexico and Argentina. In Africa, I like Nigeria, Ghana and South Africa

Why these countries?

These economies are sleeping giants. Some of them are burdened by lack of political stability and immature economic development policies, but these conditions will not continue for long.

There are three major global trends that are working in their favor. The first is a freer flow of global capital and the rise of micro finance. The second is the reduction of global knowledge gap with the rise of the internet, open source software, open content, and online education. The third is the rise of India and China manufacturing providing cheaper access to production, telecom and transportation technologies thus making capital goods more accessible for these economies.

When you take these economic production factors and combine them with their large populations translating into massive national consumer and production labor forces. You can see they are poised to ride a virtuous socioeconomic development cycle.

It is only a matter of time for their economic development policies to evolve and provide more stability, globalization, governance, and investment promotion. As their middle class grows bigger and stronger, you will see more accelerated development from these markets. Their economic growth rates will be much faster than those of the developed countries.

We have seen shining examples with the newer markets and smaller economies like Singapore, UAE and Qatar.

These countries are part of the New World Order. I would not be surprised if we count some of them among the leading economic powers in the next two decades.

What is good about this trend is the reduction in global inequality in wealth and as the rise of the global middle class. This will also reflect positively for major US and European multinational companies with branded consumer products and branded tourism destinations.

All in all these trends are leading to a virtuous global socioeconomic development cycle. I hope it is not interrupted or slowed down by wrong policies or other negative events.

Med Jones is the president of International Institute of Management. He is recognized as one of the few experts who predicted the US financial and economic crises of 2008. In January 2007, he challenged the US President's State of the Union Address, Federal Reserve Chairman and world economists. His predictions were the most comprehensive and accurate among the experts who warned about the crisis.