The Markets are likely to remain choppy even after the election. Resolution of the fiscal cliff is the next economic 'super storm' to ride out, making a cloudy investment climate through year-end. But despite this uncertainty, there is good news!

Sleep Well at Night Investment Strategy... The investment portfolios are holding up quite well and still generating return, because of the embedded income component and positive risk/return structure of each strategy. This means the portfolios are designed to provide income even when the market stalls, and will capture more upside return than downside loss. How is this done? Exposure to a broad diversification of non-correlating assets and sectors will reduce short-term volatility but still allow for growth over the long term. Thus, clients can sleep well at night, knowing their portfolio can ride out the storm.

This week, I wanted to highlight an example of a fund that is used in many of the portfolio strategies to mitigate volatility, provide income and consistent return. The fund manager has a contrarian investment philosophy, a long-term investment horizon, and focuses on unpopular global sovereign debt and the currency market.
Micheal Hasentab, manager of the Templeton Global Bond Fund, has successfully navigated this fund through many tumultuous markets. In fact, the fund is ranked in the top 10% of its category over the last 1, 5 and 10 year periods although was in the bottom quartile for 2011. He is not swayed by the short-term volatile swings in the market, but instead is focused on a long-term strategy that has consistently grown capital and outperformed the broad market. (Please note, the fund is available to my clients with no-load, 0.65% expense ratio, only through the Schwab Institutional platform.)
Below is a fantastic overview of the global economy and market opportunities according to Mr. Hasentab through a recent interview by Barron's.

"***The success in Ireland—as well as in Hungary—really affirmed our investment philosophy that it pays to be fundamental, long-term, and contrarian.*** **"**
Barron's: What's your outlook for interest rates?

Hasenstab: Over the medium term, we expect interest rates to be higher. The reasons will vary by region and by country. But, generally, if we look at valuations on government debt across the world, in developed and emerging countries, they're at pretty extreme and expensive levels, both on a nominal and a real basis.

In the U.S., the fiscal concerns continue to grow, and policy makers don't appear able—or willing—to tackle them. A lot of central-bank intervention into the government bond markets is propping up prices and suppressing yields, and that's obviously not sustainable over the longer term. That's more of a U.S.-centric issue. The emerging markets don't have the same problems as the developed markets do. But given all of this money printing and large capital flows and some shocks coming out of China, inflationary pressures are starting to rise. So even though emerging-market countries are not facing the fiscal concerns that would drive up the risk premium in the U.S. market, they probably will be subject to rising inflationary pressures over the medium term. That would argue for higher interest rates.

What's important to consider when you look at central banks and their policies?
It is important to view the monetary system as a global system—that is, no country really exists in isolation. Capital accounts are porous, and money flows globally. We have the largest printing of money in the history of central banks occurring, and we have a more open capital market today than arguably we have ever had. As a result, these consequences are far-reaching. This money-printing will affect different assets and different countries at different times. The most immediate impact is that when you print all of this money in the euro or the dollar, you debase those currencies. As a result, currency weakness will be likely for any country that is undergoing massive quantitative easing. This, in turn, will create a demand for other assets, including commodities. But higher commodity prices quickly translate into inflationary pressures, particularly in the emerging markets.

Why are emerging markets the most vulnerable to the inflationary impact of global quantitative easing?
There are a couple of conduits for inflation. Debasing a currency pushes up commodity prices. In an emerging-market country, a lot of money, when measured as a percentage of income, gets spent on food and fuel, and wage demands quickly follow. The other mechanism for inflation is that all of this money being printed in the U.S. and Europe doesn't just stay in the U.S. and Europe …(but flows to) Emerging markets (for investment).
What's ahead for the dollar?
Against the euro and the yen, the dollar could actually do reasonably well. The U.S. is years ahead of Europe in working through the imbalances tied to the global financial crisis, although the U.S. still has years to go to really work off those excesses. Still, Japan has far greater structural problems than the U.S. does. Eventually, the Bank of Japan will have to print a tremendous amount of money, and that will weaken the yen. So the U.S. is ahead of the curve relative to our two G3 peers. But against the non-G3 countries, the U.S. dollar has a lot more to fall. Against Asia, except for Japan, and other emerging markets, the U.S. dollar will continue to weaken. Quite simply, we are increasing the quantity of something without improving the quality.

Why don't you have any investments in Japan?
Japan faces a lot of challenges. The first is clearly the government's indebtedness. Japan is an even a worse outlier when compared to the problems in the U.S. or Europe, and there doesn't seem to be any tangible way for the country to deal with that other than to monetize its debt. The Japanese central bank has been very hesitant to aggressively embark on quantitative easing, but it only is a matter of time before it is required to do that, and when it does, the Japanese yen could suffer significantly.

We are also concerned about interest rates in Japan, given the country's massive level of indebtedness. The very low nominal returns that you are getting there don't seem to compensate you for the fiscal risk. And in terms of the structure of the Japanese economy, there are a lot of impediments to growth. There has been really a lack of effective competition policy in Japan. The demographics, without any sort of immigration policy, will be a huge constraint on growth. The electric-power crunch that Japan has faced further exacerbated that. And there has been a decade-long hollowing out of industry there.

What about the euro zone?
There are a lot of problems, but it is unlikely to end in Armageddon. I break Europe into two components. One is the short term. The European Central Bank, with the support of the major powers and with its latest proposal of conditional purchases of government debt, is the war chest that is big enough to calm the markets. …the short-term policy measures have been large enough and coordinated enough to do that. Over the long term, what Europe needs is along the lines of what Ireland has demonstrated—a policy of growth and austerity.

Austerity means the euro zone has to deal with some of the fiscal challenges. But on the growth side, the euro zone really needs to improve the efficiency of labor and to free up product markets, something that the pro-growth and pro-austerity model in Ireland has followed. It is what has allowed that country to come back to the public-debt markets. A lot of countries can learn from that prescription, including the U.S.

Could you elaborate on why that model is worth copying?

On the growth side, Ireland has maintained its competitiveness by allowing a fairly significant and painful downward adjustment in real wages. The effect of that is continued export growth. Even without a change in the value of the currency, an internal devaluation, through wage adjustments, can restore a country's competitiveness. That's something that Spain, Italy, Portugal, and Greece need to do.

Additionally, Ireland has remained very competitive in terms of its tax regime. It has very low corporate and income taxes; that attracts skilled people. It brings in a lot of good foreign direct investment, and the country has continued to be a destination for innovation. So its growth policies have been strong. Then, on the fiscal side, the Irish government realized that it had to bend the curve and bring debt-to-gross-domestic-product levels down over time, and so it imposed some pretty tough measures, such as big cuts in government spending.

Historically, however, that kind of tough medicine isn't always palatable politically.

During the years leading up to the financial crisis, Ireland was living beyond its means. There was a recognition there that, when you have a period of excess, it needs to be followed by a period of retrenchment, but that the retrenchment doesn't have to last forever. This is the problem with some of the other countries in Europe or here in the U.S. Instead of taking the pain today, we basically have pushed the problem on to future generations and will make them pay the cost; that never cleans the system. The Irish approach has been to deal with the problem more upfront, knowing that it will be hard but that it is not going to last forever.

How have you changed your Irish-government-debt holdings, which you initiated in the summer of last year after that debt was downgraded?
It has been somewhat constant over that period. We have continued to hold Irish sovereign debt and opportunistically add exposure there. The success in Ireland—as well as in Hungary—really affirmed our investment philosophy that it pays to be fundamental, long-term, and contrarian.

Let's talk about a few of those contrarian investments.
When we made our large investment in Ireland over the summer of 2011, the debt was trading at fairly distressed levels. Ireland was not a popular investment destination for most people. We saw long-term value there with some short-term difficulties.

The other contrarian investment that we did came in September 2011, when there was a lot of noise out of Europe and it caused a lot of selling off in other markets around the world, particularly in Asian currencies. Our assessment was that these currencies had very good long-term value but were being distorted by some short-term panic. So we held those positions, which included the Korean won, the Malaysian ringgit, and the Singapore and Australian dollars. We even added to some of them, and over the past year those positions have really turned around.

Also, emerging markets didn't perform particularly well last year. We saw that as an opportunity to add holdings, such as in Eastern European sovereign debt.

What are you avoiding?
We are really looking to position the portfolio for a higher interest-rate environment. Generally, we are avoiding longer-maturity assets that are more sensitive to interest-rate increases.

So the portfolio's duration is reined in to guard against any spike in rates?
Yes, the portfolio's duration is very reined in. And we are looking for opportunities in currencies that actually can do well when interest rates in emerging markets start to go higher. In fact, the Singapore dollar, the way that nation's currency regime is set up, actually allows for currency appreciation when inflation picks up. So in that sense, the Singapore dollar is a very good inflation hedge.

What's also continuing to create good value is the effect of debasing the U.S. dollar, the euro, and, over time, the yen. It will be to the benefit of other currencies. Since every currency is a pair, if you debase one, another will benefit. We are looking for investments in local markets where the countries aren't printing money and do not have overly easy monetary conditions or huge fiscal imbalances, but do have relatively higher growth. We're finding all this in Asia, including Korea, Malaysia, and Singapore, and other regions, including Poland in Eastern Europe, and Scandinavia. The currencies in those places are good long-term investments in the face of the

policies of massive easing in the G3 countries.

Mr. Hasentab, is one example of the type of outstanding funds managers I use to build solid investment portfolios. Please contact me with any questions or concerns.