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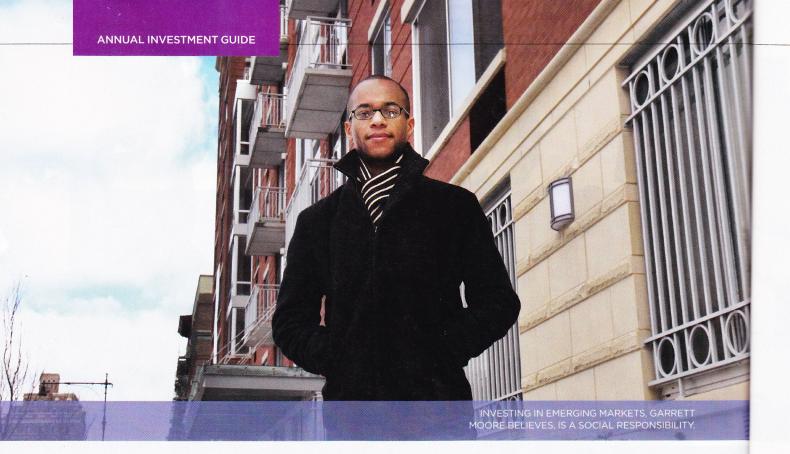


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There are myriad reasons why investors look to emerging markets. Dominique Moore, 42, an attorney in Baltimore, became convinced of the viable investment prospects abroad after seeing a few of these vibrant markets up close. "I lived in South Africa for four years, and I traveled throughout the continent. I got to see how trade works, with raw materials going out and finished goods coming in," says Moore. "Now that I'm back in the U.S., I notice that most of the things we buy come from other countries. I think the emerging markets will probably continue to have high growth, compared with developed economies." Putting her investment dollars behind her beliefs, Moore has owned Driehaus Emerging Markets Growth Fund (DREGX) for several years. The widely diversified fund's holdings go beyond the more familiar emerging countries to also include stocks from places such as South Africa, Egypt, Indonesia, and Israel. In 2009, the fund gained more than 70%.

Justin Garrett Moore (no relation to Dominique Moore), an urban designer with the New York City Department of City Planning, is investing in growing economies out of a sense of moral obligation to help less developed markets, in addition to the projected financial benefits. He has invested in a number of emerging overseas markets through his 457 retirement plan. The 30-year-old holds the TIAA-Cref International Equity (TRERX), the Aberdeen Global SRI Equity Fund, and New Alternatives (NALFX) fund, all of which have roughly 12% of their holdings in emerging markets. Although investing overseas was once seen as high risk, Moore recognizes the superior growth prospects. Besides, he says, "I'm young, so I can take on more risk." Moore also devotes a small portion of his investment dollars to microfinance ventures in developing nations.

Multiple Choices

If emerging markets appeal to you, there are several types of funds in which you can invest:

Diversified emerging markets funds. As you'd expect, these funds buy companies based anywhere in the world, outside of the industrialized nations. Recently, the funds in this category invested largely (14.36% of assets) in Brazil, followed by China (13.55%), South Korea (9.34%), Taiwan (8.03%), and South Africa (6.21%). "For most investors, the best way to participate in emerging markets is through a diversified fund," says Rocco. "Let the manager decide on the countries and stocks that seem most attractive." Large mutual fund families often have researchers and analysts who focus on a specific emerging nation or region.

Latin American stock funds. These funds have been extraordinary performers. The average 10-year annualized return in this category is 15.23% through the end of January 2010. "They're basically Brazil and Mexico funds," says Rocco, "because most of the assets in these funds are invested in those two countries, especially in Brazil. They've profited recently from the strength in oil and metals companies based there."

Pacific/Asia ex-Japan funds. Except for Japan, all Asian countries may be considered emerging markets; holdings in this category differ but they tend to focus on China, Hong Kong, India, and Korea. For the past 10 years, the average annual return for this category was 8.41% through January.

Rocco is generally not enthusiastic about regional or single-country emerging markets funds. "They may be more volatile than diversified funds," he says. The Asian financial crisis of 1997–1998 punished regional stock funds there, while Latin American funds have posted losses in five of the past 12 years, including a 59% slide in 2008.

Do regional emerging markets funds ever make sense? "Perhaps," says Rocco, "if you have a large portfolio that already includes domestic stock funds, an international fund for developed markets, and a diversified emerging markets fund. In that