New Way to Play Emerging Markets

Cheap within BRICS Markets :

Russia :with the Russian market trading at just five times earnings and energy giant Gazprom (GAZP.Russia) trading at three times, it's cheap enough to warrant a look, even though it's 50% government-owned.

Brazil :Brazilian stocks will get a reprieve if the government backs away from recent interventionist measures. Brazilian energy giant Petrobras (PBR) rallied 15% earlier this month after the company raised diesel prices -- a move it was able to make as government pressure to keep energy prices low eased. Some managers are looking at banks and real-estate investment trusts in Brazil as indirect consumer plays that are cheaper than retailers and other more obvious consumer stocks.

China : The Chinese A-share market is denominated in the local currency and restricts foreign investment - focusin on “new China” stories. Just a handful of U.S. managers invest in A-Shares, including the tiny $43 million Aberdeen China Opportunities (GOPAX), which has the highest exposure at 5% of assets, according to Morningstar.

Dividend Payers

As investors move into smaller markets where information is harder to find, dividends may be one of the best road maps available, since they telegraph a management's confidence in the future, ie : **Forward Select EM Dividend Fund** (FSLRX).

iShares Emerging Markets Dividend ETF (DVYE) yields 3.5%, though 29% of its portfolio is in developed markets. The WisdomTree Emerging Market Income Fund (DEM) yields 3.4%, but one thing to note: After its latest rebalancing, it's more heavily skewed toward Chinese financials

What is most remarkable is the astonishing consensus among political parties in support of these reforms. The anti-trust laws were passed with 414 yeas and only 50 nays. Even the new labor laws were passed with support from the main opposition party, the PAN. And more is in the making. Mexico is willing to address another taboo: the declining national income from oil production due to an inefficient nationalized industry. Measures to open up the oil industry to private and even foreign investments are now envisioned.

Bonds

Yield isn't the only reason to include bonds in your emerging-markets portfolio. Emerging-market debt offers greater geographic diversification. What's more, bonds can provide access to economies in the earliest stage of development -- like Senegal or Angola -- through their government bonds, often before there is a sufficiently liquid and vibrant stock market.

Developing countries have more robust reserves and a fraction of the debt -- China, for instance, has $3.6 trillion in reserves -- setting the stage for stronger currencies in the long term.

Corporate bonds are also attractive, with improvements in credit quality and a greater variety of companies looking for financing. Bond investors can tap industries like railways in Georgia and telecoms in Panama that don't have many liquid publicly traded stocks. Bonds can also be more resilient than stocks, especially in times of government intervention