

The recent financial drama in the eurozone raises two urgent questions: Is the crisis in Europe big enough to sidetrack the U.S. economy and wipe out all my stock market gains of the last 15 months? If it is, I want out. The much more interesting question—and the one that should have been asked long ago—is why am I exposed in a direct way to the Europeans at all, and if I must be is there an alternative to such direct exposure? After all, what do most U.S. investors really know about European (or for that matter global) sovereign and credit risks? The European meltdown is yet another reminder that we live in an age in which risk is being dramatically redefined.

The collapse of 2008 proved that investors had lost touch with any realistic measure of risk. The problem had grown up incrementally over several generations of investors, from extreme risk aversion during the Great Depression to an almost complete lack of risk acknowledgment in the past 20 years. What was passed off as financial sophistication and innovation was nothing of the sort, and was instead the accumulation of unquantified and even unquantifiable risk.

I have been in the investment business for close to 30 years. Throughout this time two phenomena have been almost constant: Investors almost never ultimately get compensated for the additional risk assumed when they stretch for additional return, and whatever the trendy investment is will ultimately fail in its objective.

During these 30 years the financial services industry has taken the lead in making investing seem like brain surgery. They have created massively complex products that rely on scale to exist. For the first time in many years the investing public has come to question whether more complicated is necessarily better. In fact, it is time that we investors, whether we act for our own account or for the accounts of entities we have been entrusted to protect, would be well advised to seek out simple, easy-to-understand and easier-to-explain investments. There is nothing wrong with keeping it simple.

Investing is not brain surgery or rocket science. It's about common sense and staying on top of events. It's about not lending money to those who cannot pay you back with interest. It's about investing in large, well-known, self-financing companies that make products people want to buy—companies that have the assets to survive the worst of times and the management smarts to figure out how to prosper when things get better.

After the financial panic of 2008-09, investing is getting back to the basics. There is a renewed interest in large companies with relatively predictable earnings patterns, stable balance sheets, diversified product lines and access to the credit markets. It is becoming accepted wisdom that being old-fashioned is actually more profitable. Finally, recent history has pushed investors toward less risky ways to participate in the high-growth foreign markets.

There are two ways to participate in these markets. One can invest directly in the country or region through a fund or foreign stocks. Using this method the investor assumes all the currency, political, and business risks. This is the most direct way to invest, but it

subjects the investor to large swings in returns—and high risk. This method has been the preferred one for the last 15 years.

The second way to invest in the emerging markets is by investing in large global companies, most of which have exposure to the emerging markets. Big is better and almost always less risky. Large multinational companies take the currency decisions out of the individual investor's hands and make them at the local levels by investing in the expansion of their existing business. Investing in large companies with existing product lines with foreign market exposure is far less risky than other forms of direct equity investments in these markets. When the inevitable tough times come these companies have far more of the flexibility needed to survive and prosper. The use of large multinational companies to balance out the exposure in a global portfolio has re-emerged as a leading strategy in managing global risk.

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