



Capital Markets

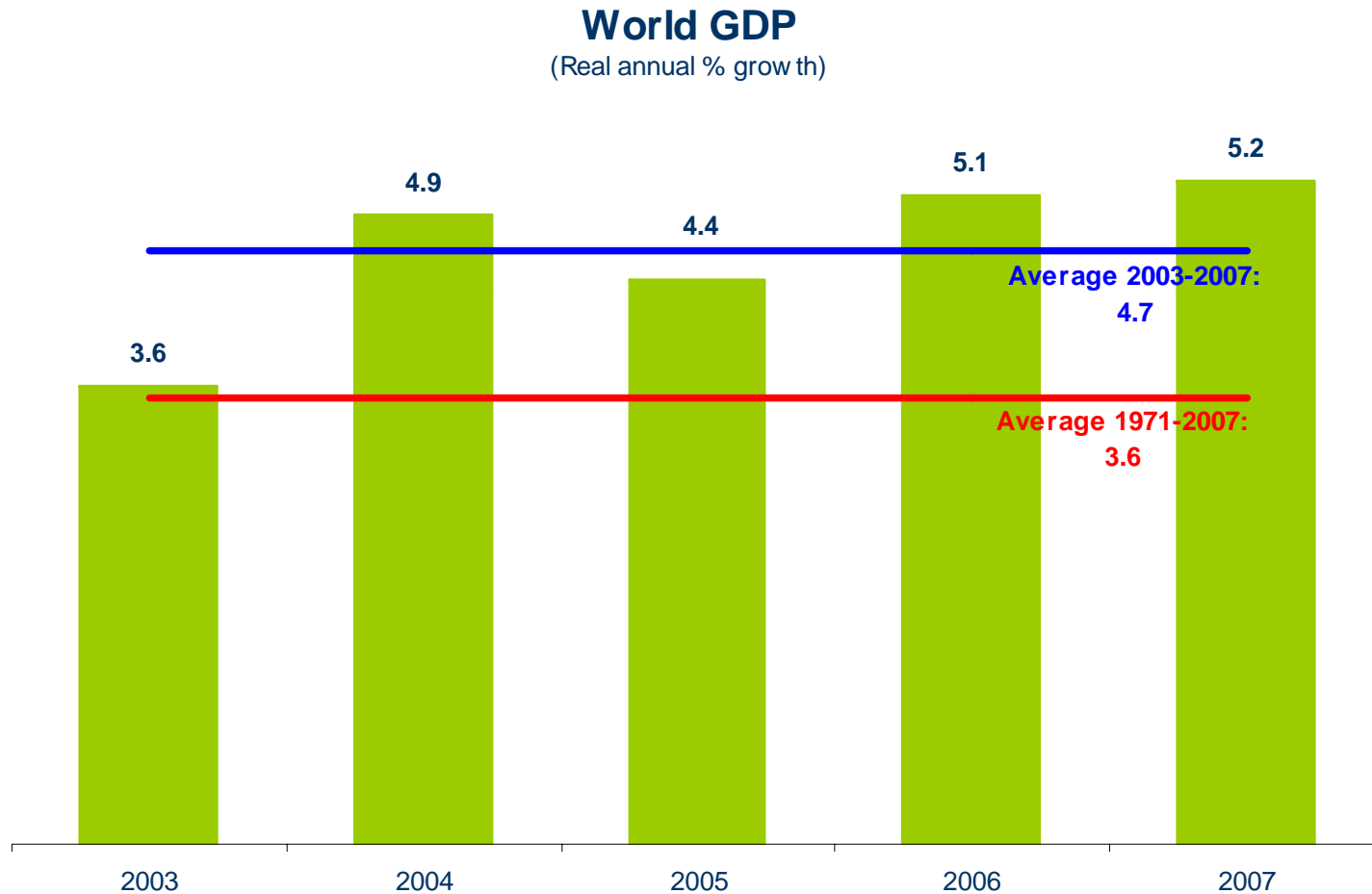
How are investors reacting to the crisis?

What to expect in the coming years?

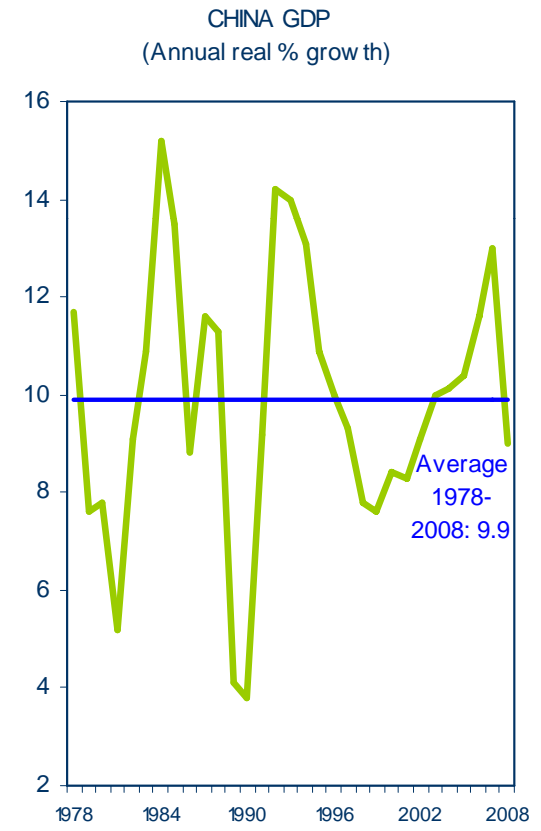
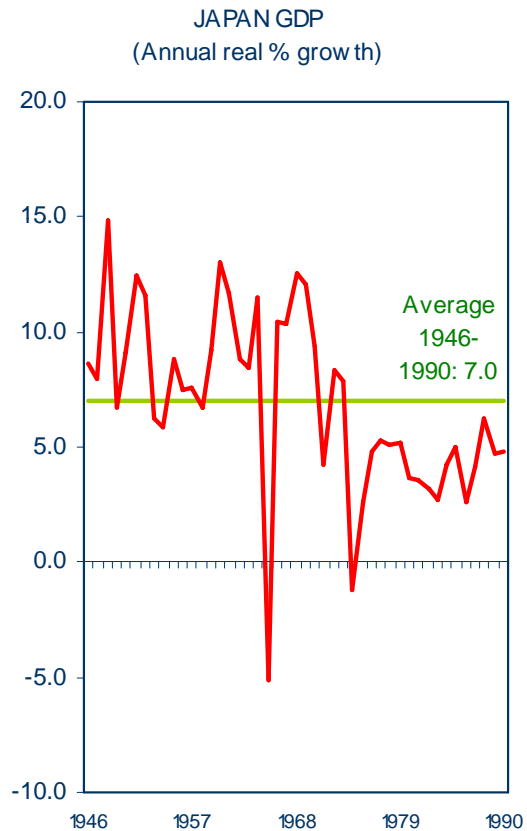
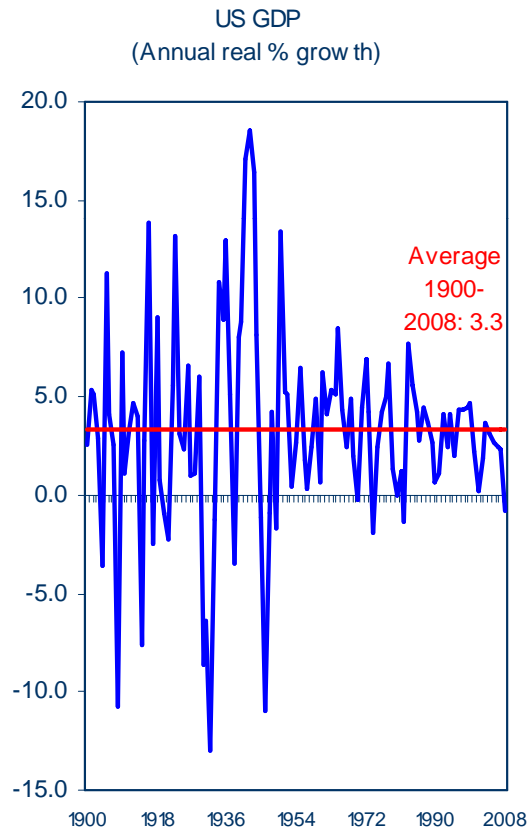
José Ramón Valente

March, 2009

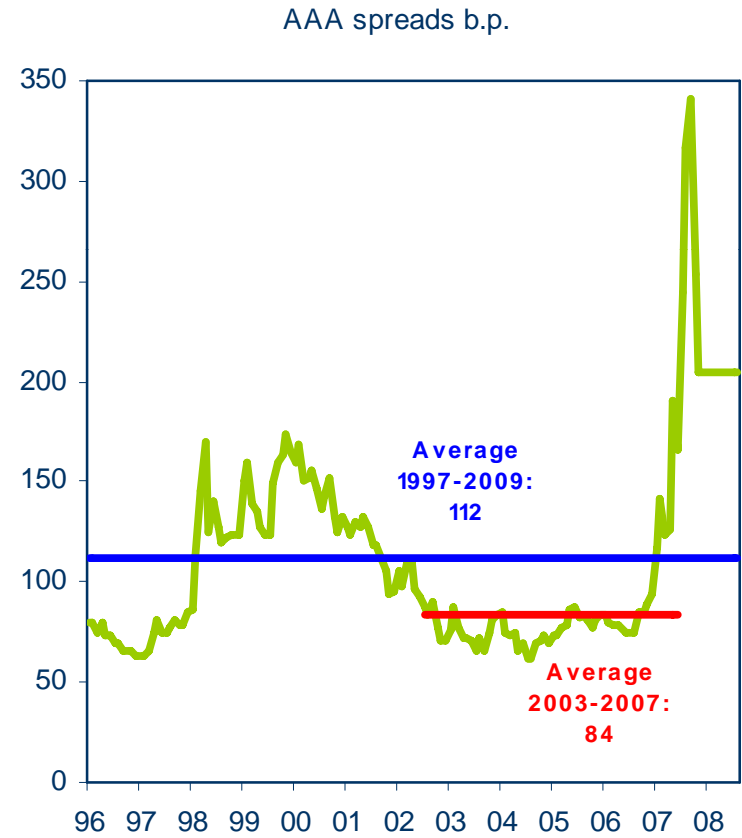
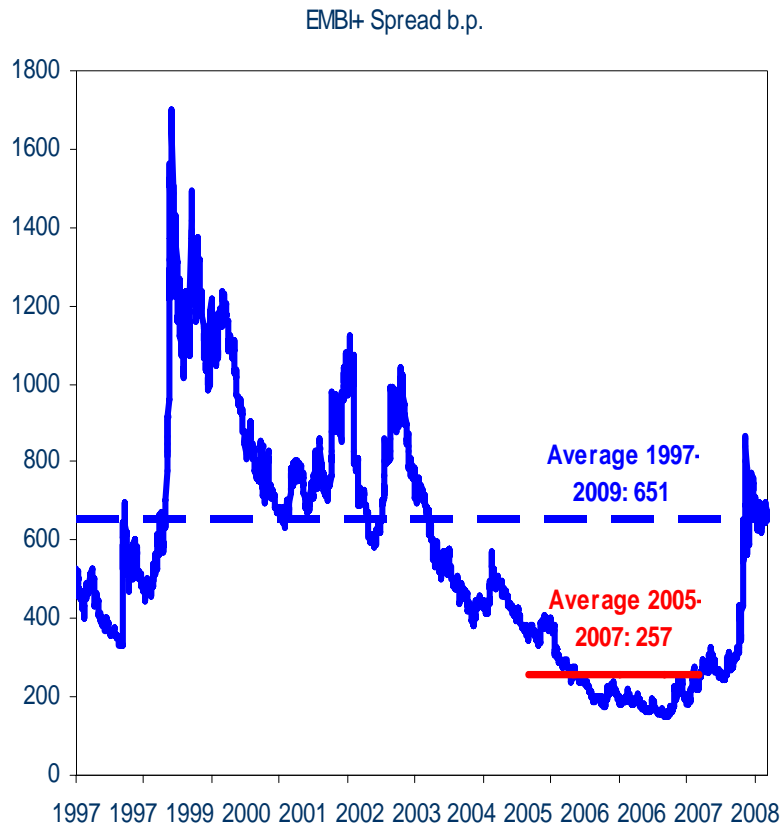
World growth over its historical rate



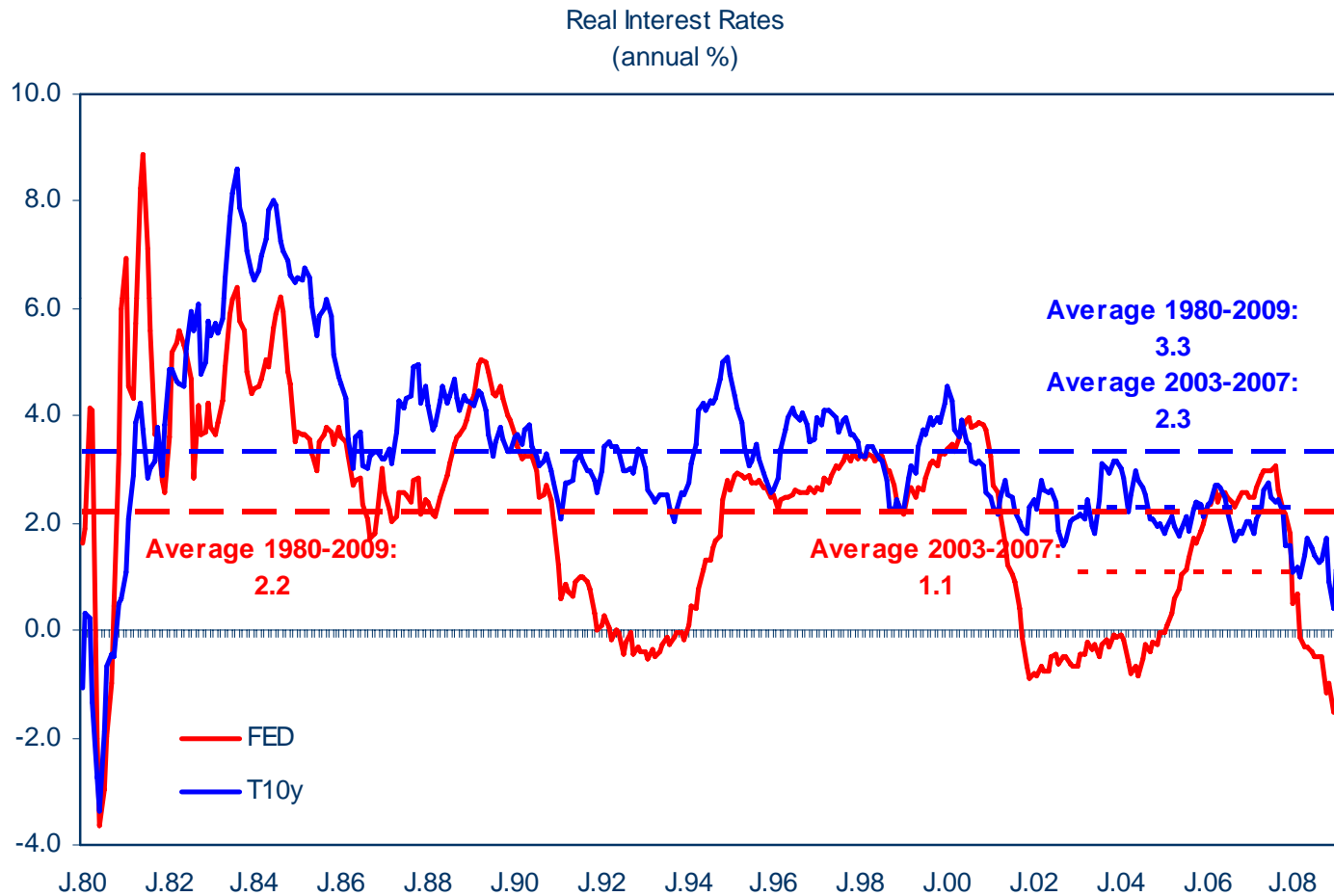
Historical world growth rate



Risk



Interest rates went permanently lower



What is the effect in stock prices?

$$P_x = \frac{F}{r - g}$$

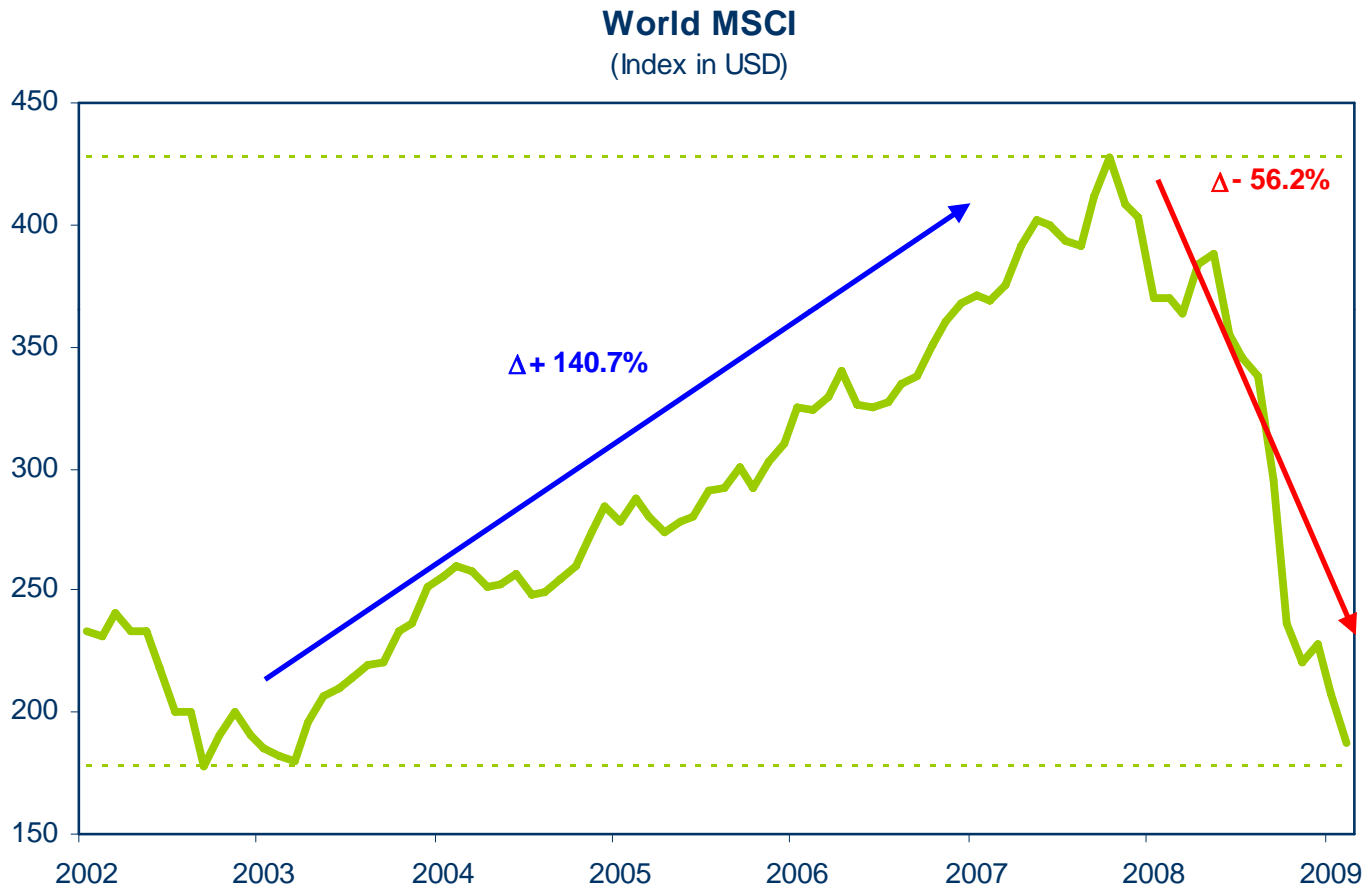
Assumptions

- Increase in GDP growth (g): 1.5%
- Drop in risk premium: 200 b.p.
- Decline in risk free interest rate (R_f): 100 b.p.

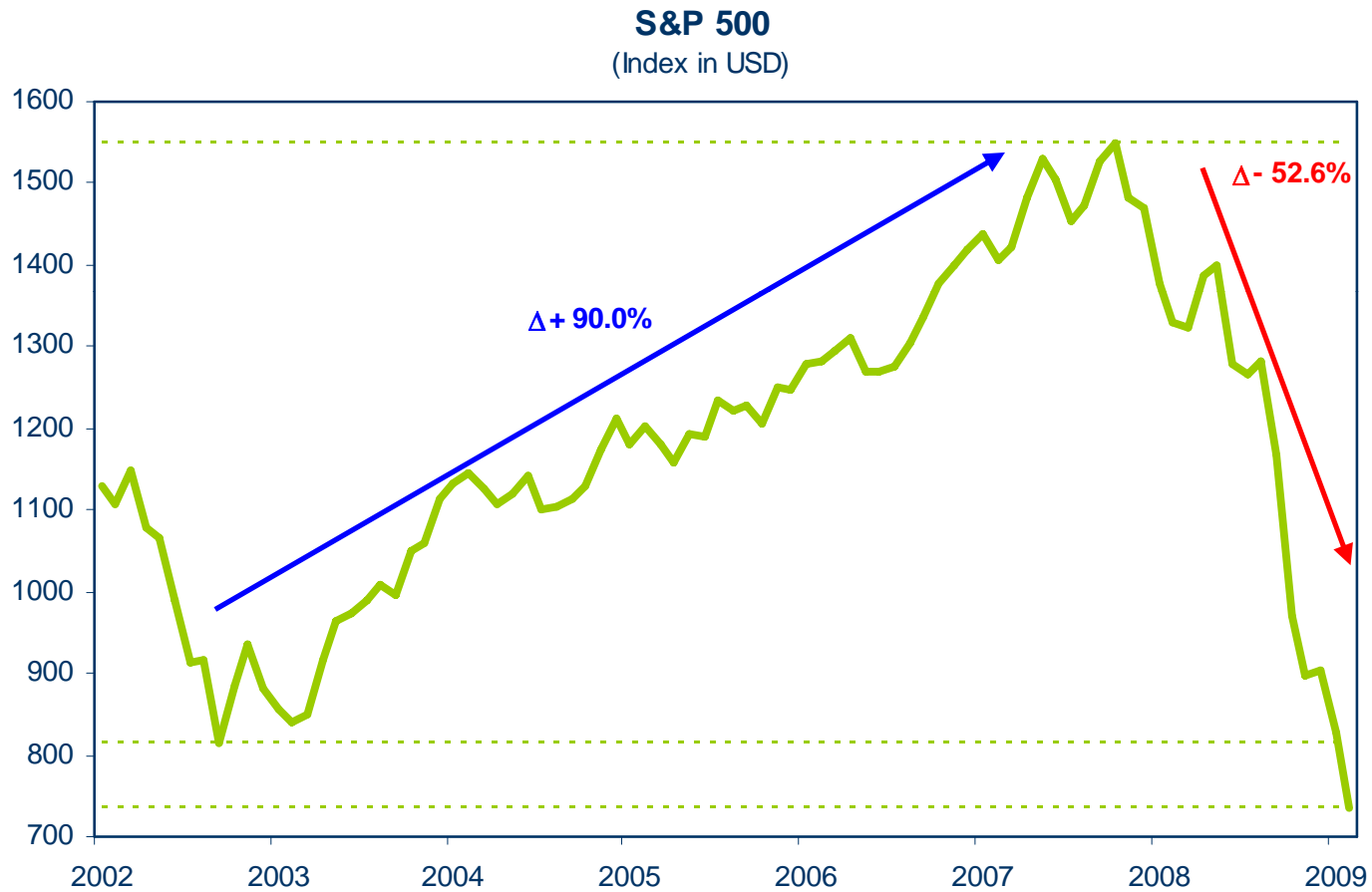
- **Then stock prices should have increased**

140.6%

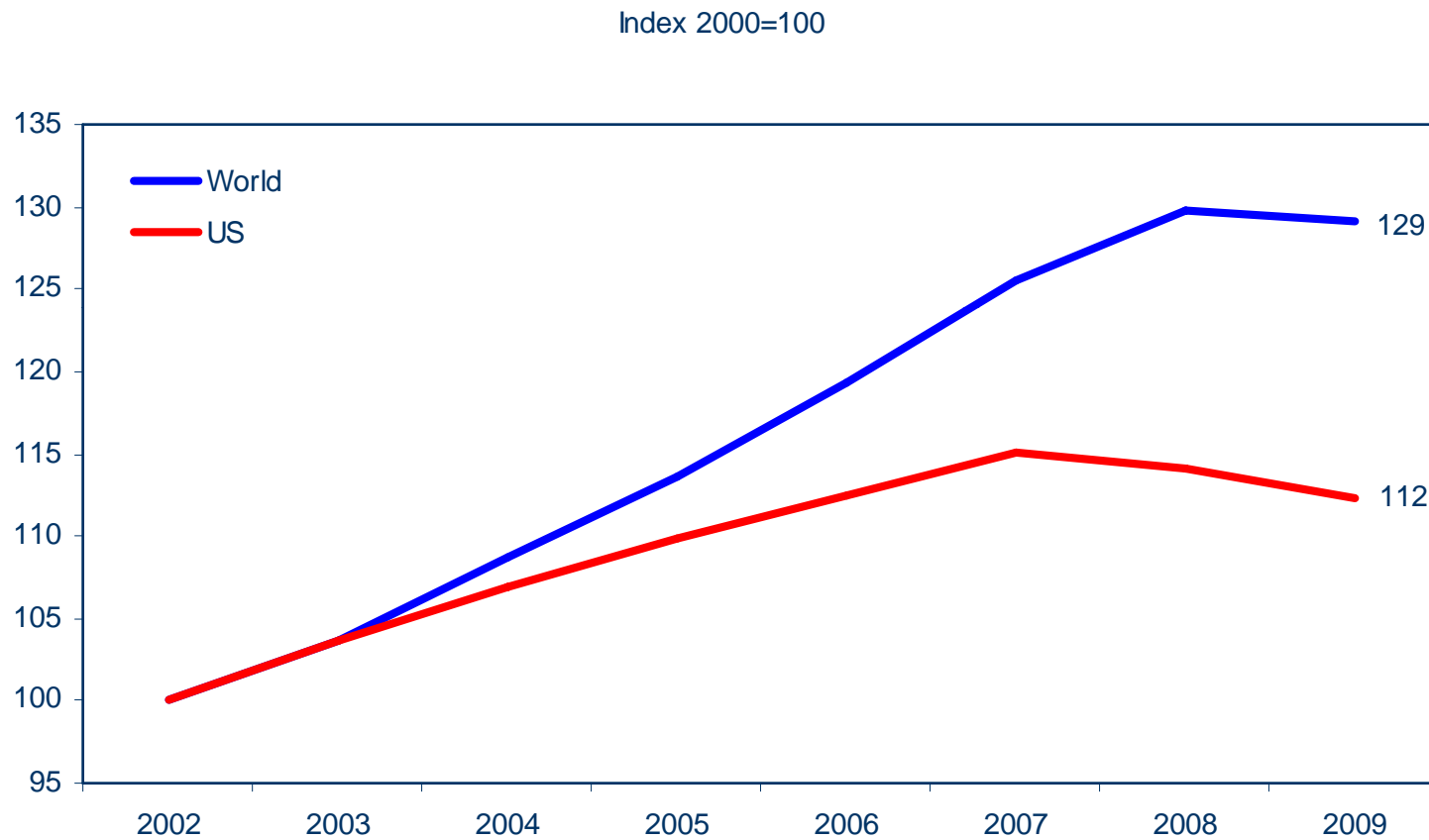
What happened in the markets?



What happened in the markets?



Value creation



What to expect for the future?

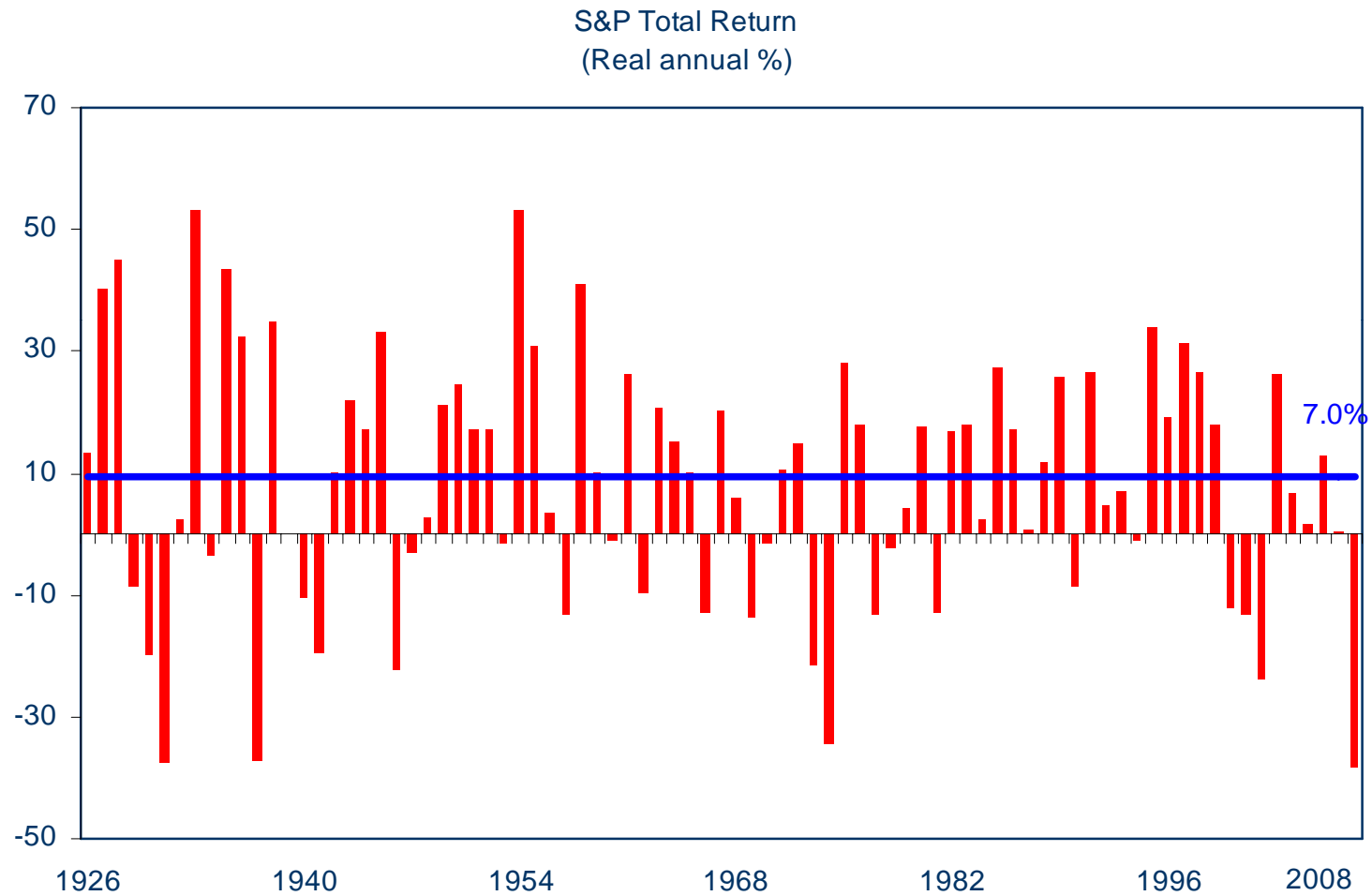
According to historical data (1928 – 2008)

- $R_f =$ 2.2%
- $R(m) - R_f =$ 5.9%
- $\beta_m =$ 1.0
- $R_k =$ 8.1%

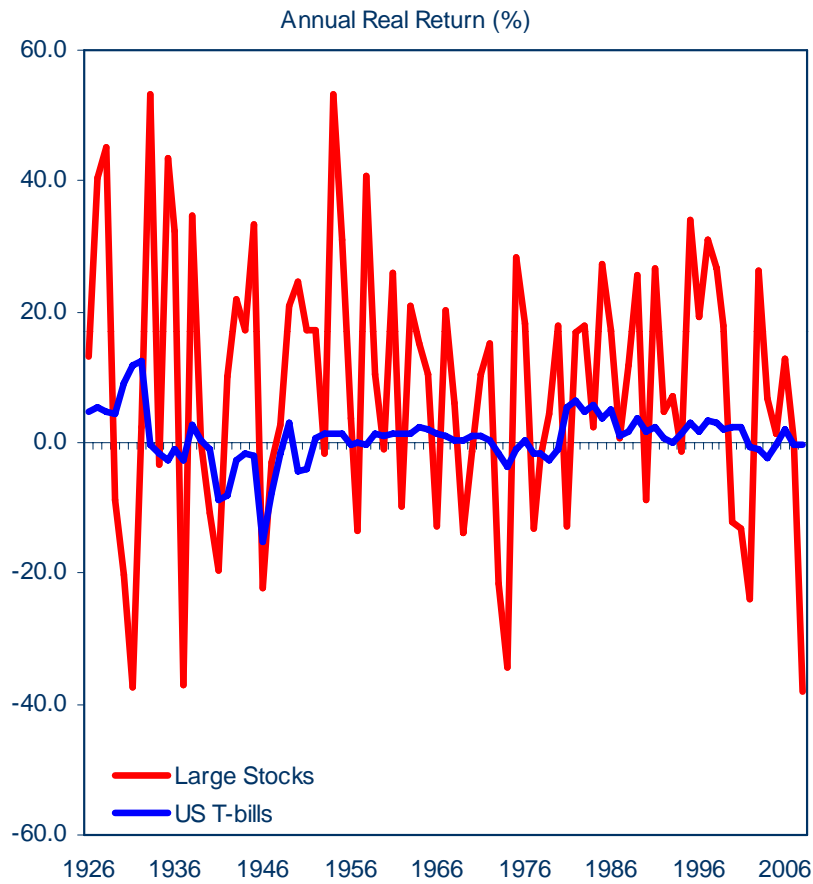
According to Fama

- $R_f =$ 2.2%
- $R(m) - R_f =$ 3.5%
- $\beta_m =$ 1.0
- $R_k =$ 5.7%

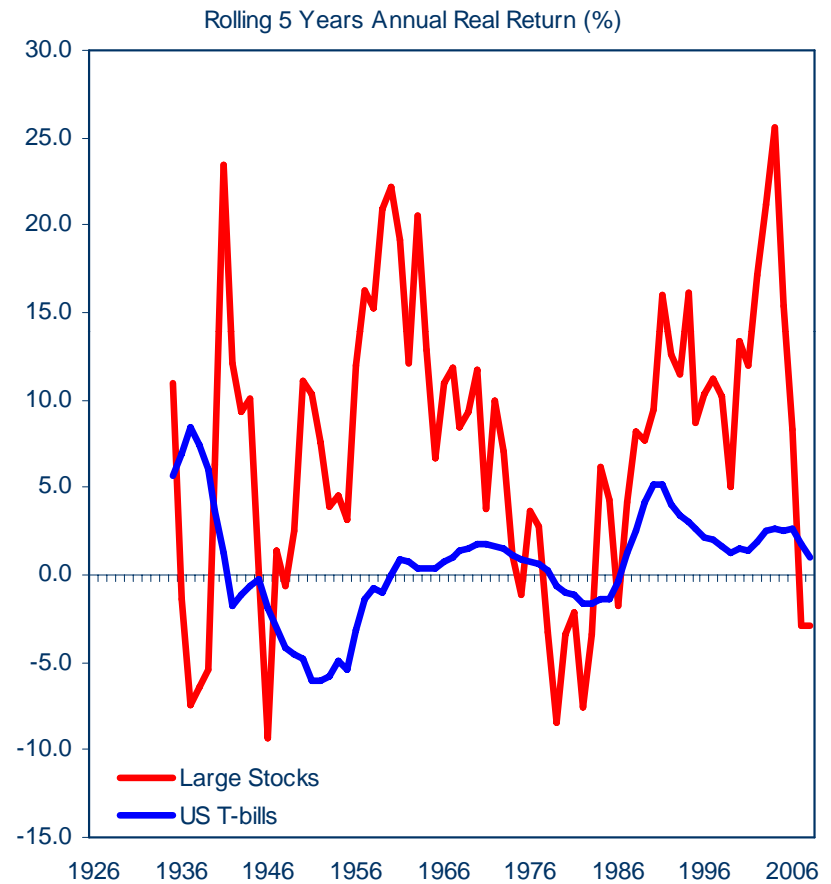
What to expect for the future?



What about the asset allocation?



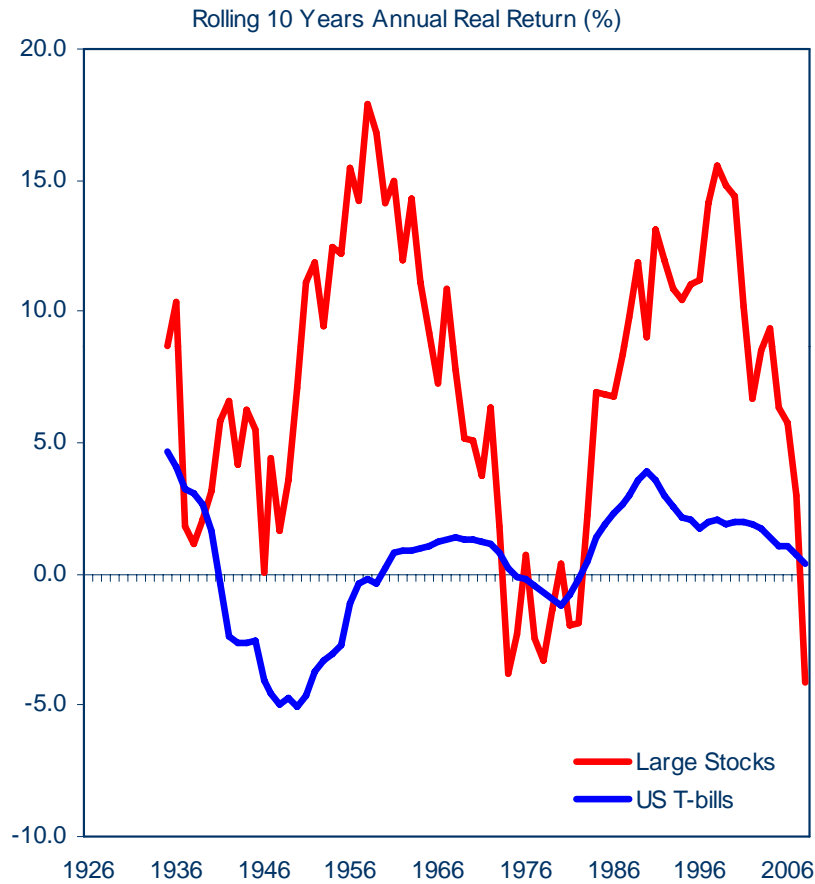
Probability of Negative Return	Stocks	US T Bills
Before 2008	31.7%	36.6%
After 2008	32.5%	37.3%
Change in probability	0.8%	0.8%



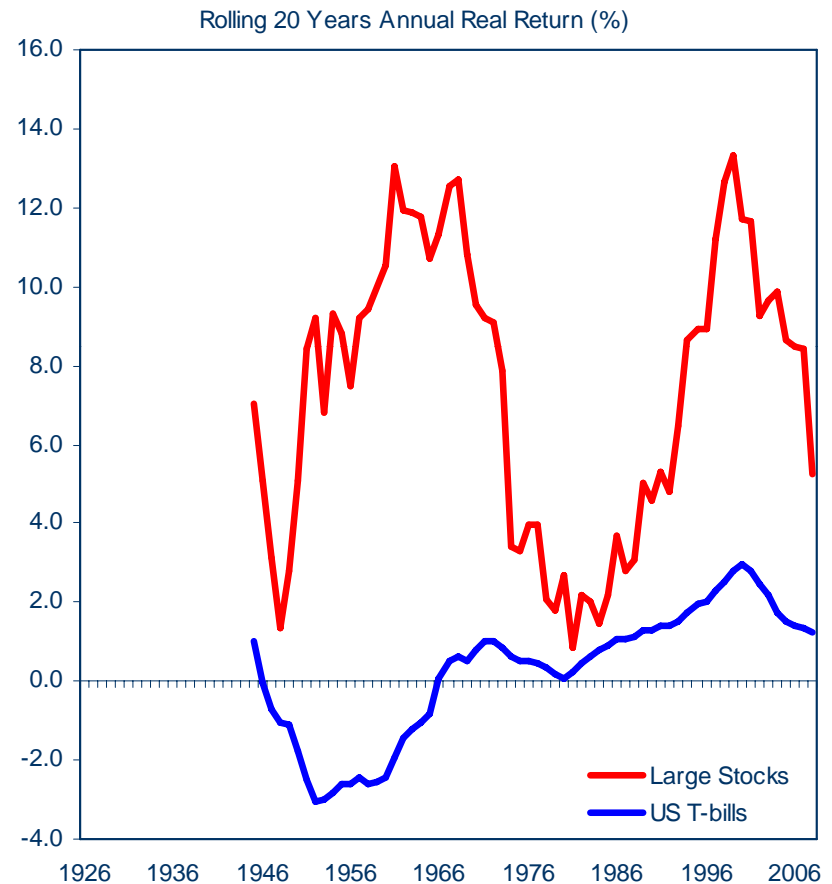
Probability of Negative Return	Stocks	US T Bills
Before 2008	19.5%	33.8%
After 2008	20.5%	33.3%
Change in probability	1.0%	-0.4%



What about the asset allocation?



Probability of Negative Return	Stocks	US T Bills
Before 2008	9.7%	37.5%
After 2008	11.0%	37.0%
Change in probability	1.2%	-0.5%



Probability of Negative Return	Stocks	US T Bills
Before 2008	0.0%	32.3%
After 2008	0.0%	31.7%
Change in probability	0.0%	-0.5%

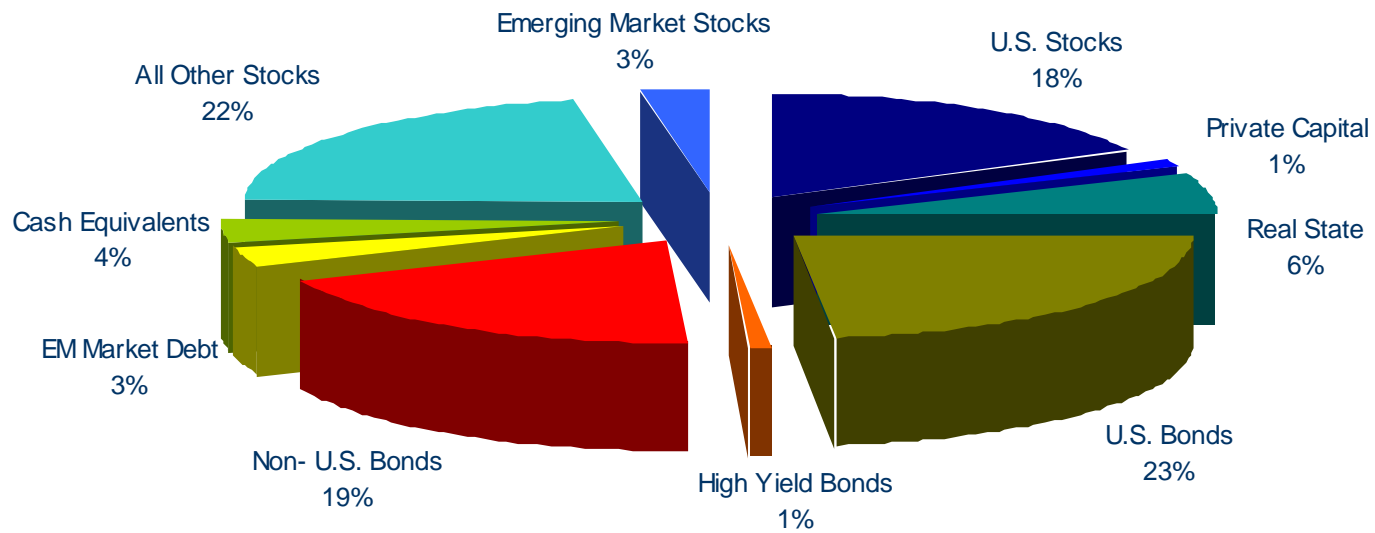


Effects on asset allocation

- Permanent increase on fixed income weight on portfolios
- Permanent reduction on high yield and emerging market debt
- Permanent reduction on hedge funds

Effects on asset allocation

World Capital Market
December 2007
US\$109.6 tr.



Effects on asset allocation

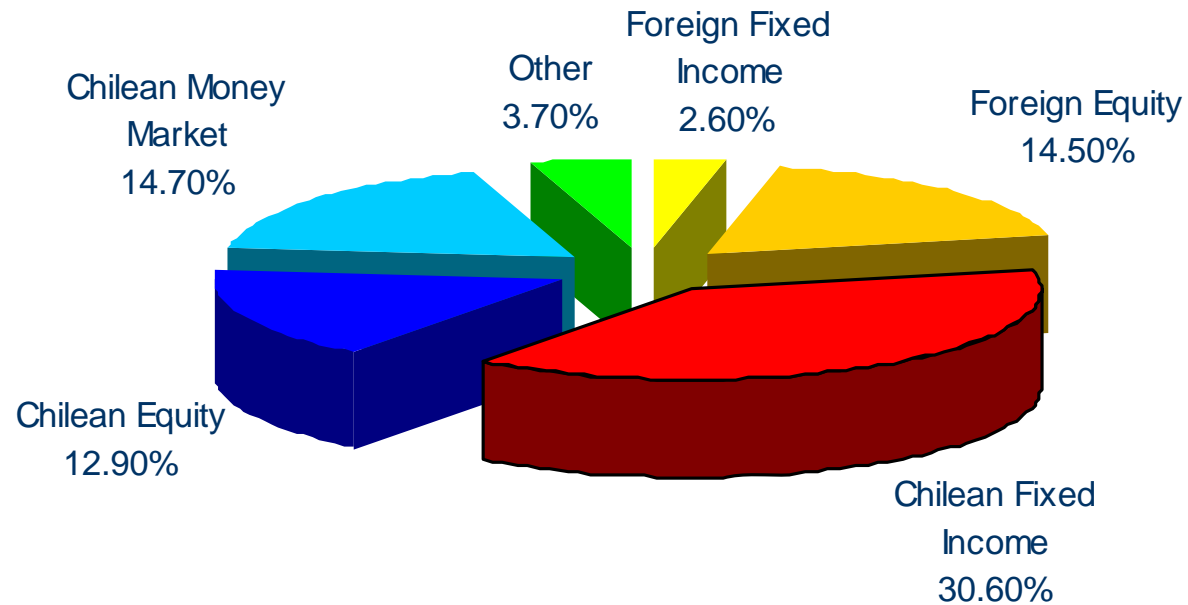


Chilean Pension Funds

	Dec. 2007	Jan.2009	Variation
Fund A	23.7%	15.8%	-7.9%
Fund B	22.8%	18.7%	-4.1%
Fund C	42.0%	44.0%	2.0%
Fund D	10.1%	13.3%	3.2%
Fund E	1.4%	8.2%	6.8%
Total	100.0%	100.0%	

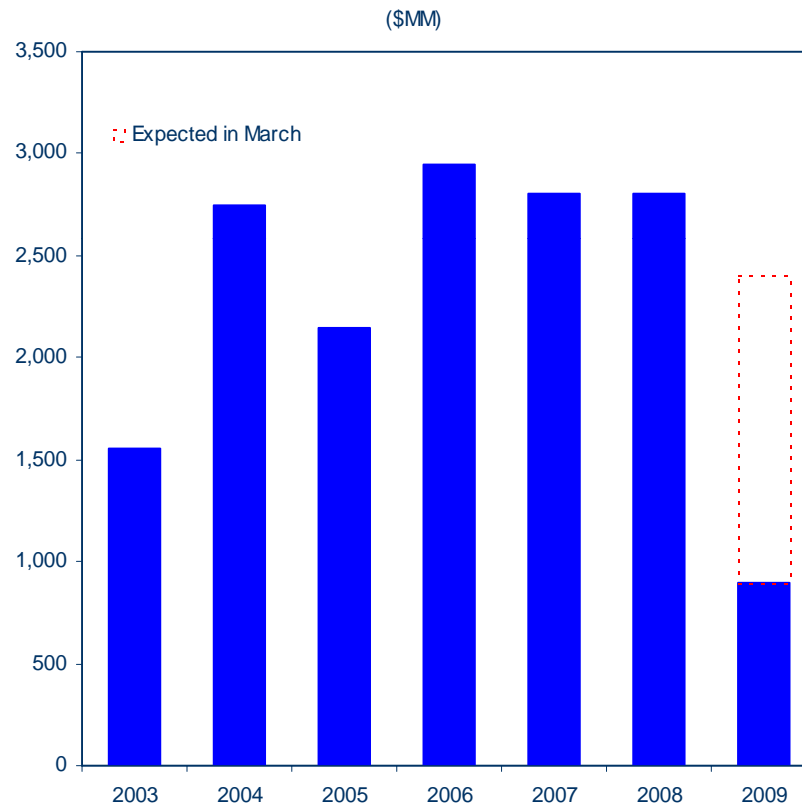
Chilean Pension Funds

Chilean AFPs Asset Allocation
(January 2009)



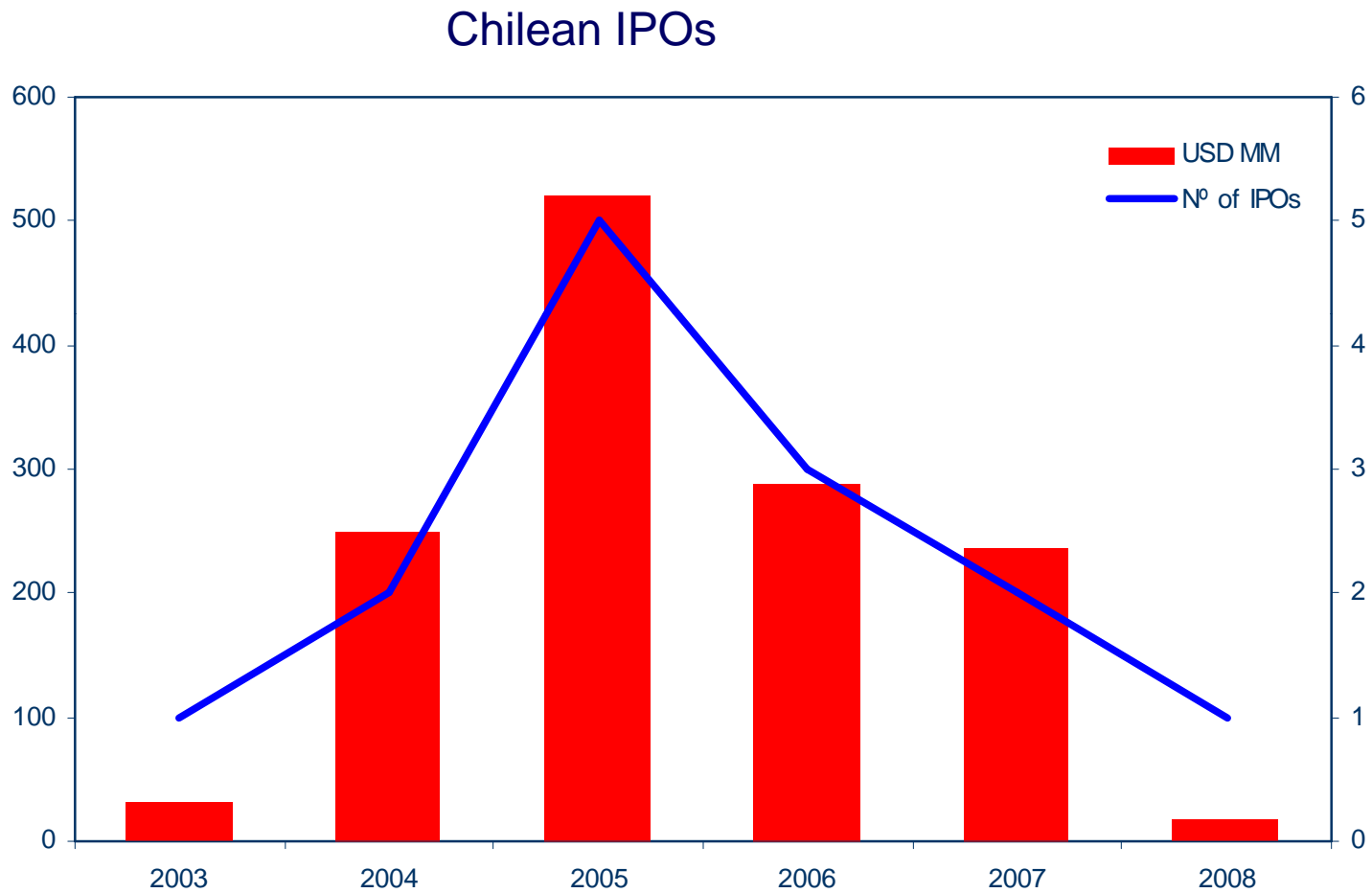
Bond issues vs. IPOs

Chilean Bond Issues



2008		MM
Arauco	UF	1.00
Arauco	UF	5.00
Cementos Bio Bio	UF	1.50
Endesa	UF	10.00
Saesa	UF	4.00
2009		MM
Masisa	UF	3.00
SQM	UF	4.00
SQM	UF	21,000
Enap	UF	9.75
Sodimac	UF	32,170
Indura	UF	0.50
Indura	UF	3.00
Cencosud	UF	3.00
Esval	UF	0.50
Esval	UF	2.00

Bond issues vs. IPOs





What to expect in the coming
years?

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Economic policies for the future

- Chile faces a presidential election at the end of this year
 - What to expect?
- The difference between candidates will be the way in which they approach much needed long term reforms
 - Education quality

Education quality

Matemáticas

Ciencias

Máximo
605

Máximo
578

Promedio
Internacional
467

Promedio
Internacional
474

Chile
387

Chile
413

Países	Promedio Matemáticas		Países	Promedio Ciencias	
Singapur	605	▲	Singapur	578	▲
Corea del Sur	589	▲	China Taipei	571	▲
Hong Kong SAR	588	▲	Corea del Sur	558	▲
China Taipei	585	▲	Hong Kong SAR	556	▲
Japón	570	▲	Japón	552	▲
Bélgica*	537	▲	Estonia	552	▲
Holanda	536	▲	Hungría	543	▲
Estonia	531	▲	Holanda	536	▲
Hungría	529	▲	Australia	527	▲
Malasia	508	▲	Estados Unidos	527	▲
Letonia	508	▲	Suecia	524	▲
Federación Rusa	508	▲	Nueva Zelanda	520	▲
Eslovaquia	508	▲	Eslovenia	520	▲
Australia	505	▲	Lituania	519	▲
Estados Unidos	504	▲	Eslovaquia	517	▲
Lituania	502	▲	Bélgica*	516	▲
Suecia	499	▲	Federación Rusa	514	▲
Escocia	498	▲	Letonia	512	▲
Israel	496	▲	Escocia	512	▲
Nueva Zelanda	494	▲	Malasia	510	▲
Eslovenia	493	▲	Noruega	494	▲
Italia	484	▲	Italia	491	▲
Armenia	478	▲	Israel	488	▲
Serbia	477	▲	Bulgaria	479	●
Bulgaria	476	▲	Jordania	475	●
Rumania	475	●	Promedio Internacional	474	
Promedio Internacional	467		Moldavia	472	●
Noruega	461	▼	Rumania	470	●
Moldavia	460	●	Serbia	468	▼
Chipre	459	▼	Armenia	461	▼
Macedonia	435	▼	Irán	453	▼
El Líbano	433	▼	Macedonia	449	▼
Jordania	424	▼	Chipre	441	▼
Irán	411	▼	Bahrein	438	▼
Indonesia	411	▼	Palestina	435	▼
Túnez	410	▼	Egipto	421	▼
Egipto	406	▼	Indonesia	420	▼
Bahrein	401	▼	Chile	413	▼
Palestina	390	▼	Túnez	404	▼
Marruecos	387	▼	Arabia Saudita	398	▼
Chile	387	▼	Marruecos	396	▼
Filipinas	378	▼	El Líbano	393	▼
Botswana	366	▼	Filipinas	377	▼
Arabia Saudita	332	▼	Botswana	366	▼
Gana	276	▼	Gana	255	▼
Sudáfrica	264	▼	Sudáfrica	244	▼



Economic policies for the future

- Chile faces a presidential election at the end of this year
 - What to expect?
- The difference between candidates will be the way in which they approach much needed long term reforms
 - Education quality
 - Entrepreneurship

Difficulties to start and close a business

Rankings Doing Business 2009

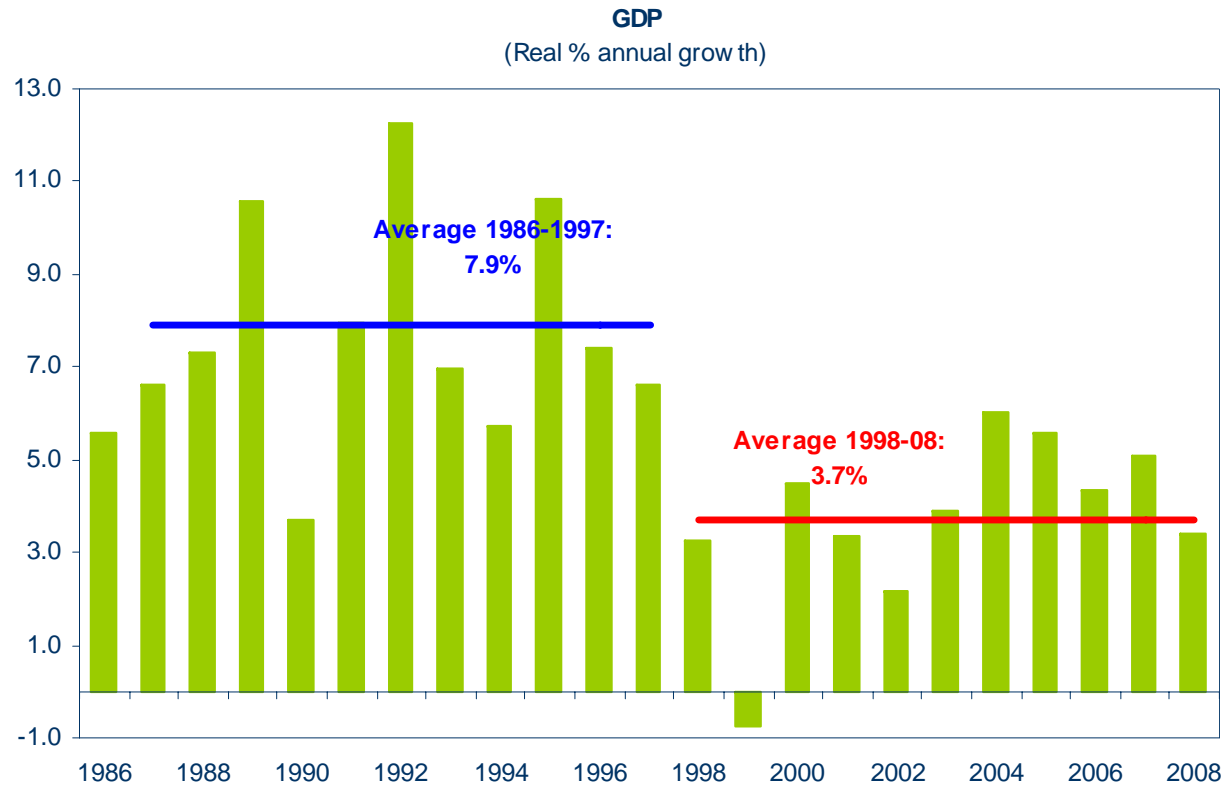
	Ease of Doing Business	Starting a Business	Closing a Business
Singapore	1	10	2
New Zealand	2	1	17
United States	3	6	15
Hong Kong	4	15	13
Denmark	5	16	7
United Kingdom	6	8	9
Ireland	7	5	6
Canada	8	2	4
Australia	9	3	14
Norway	10	33	3
Iceland	11	17	16
Japan	12	64	1
Thailand	13	44	46
Finland	14	18	5
Chile	40	55	112
Colombia	53	79	30
Mexico	56	115	23
Peru	62	116	96
El Salvador	72	103	78

Economic policies for the future

- Chile faces a presidential election at the end of this year
 - What to expect?
- The difference between candidates will be the way in which they approach much needed long term reforms
 - Education quality
 - Entrepreneurship
 - State Reform
 - Bureaucracy (environmental impact, etc.)
 - Project evaluation (Ferrocarriles del Estado)
 - Corporate governance (Enap)

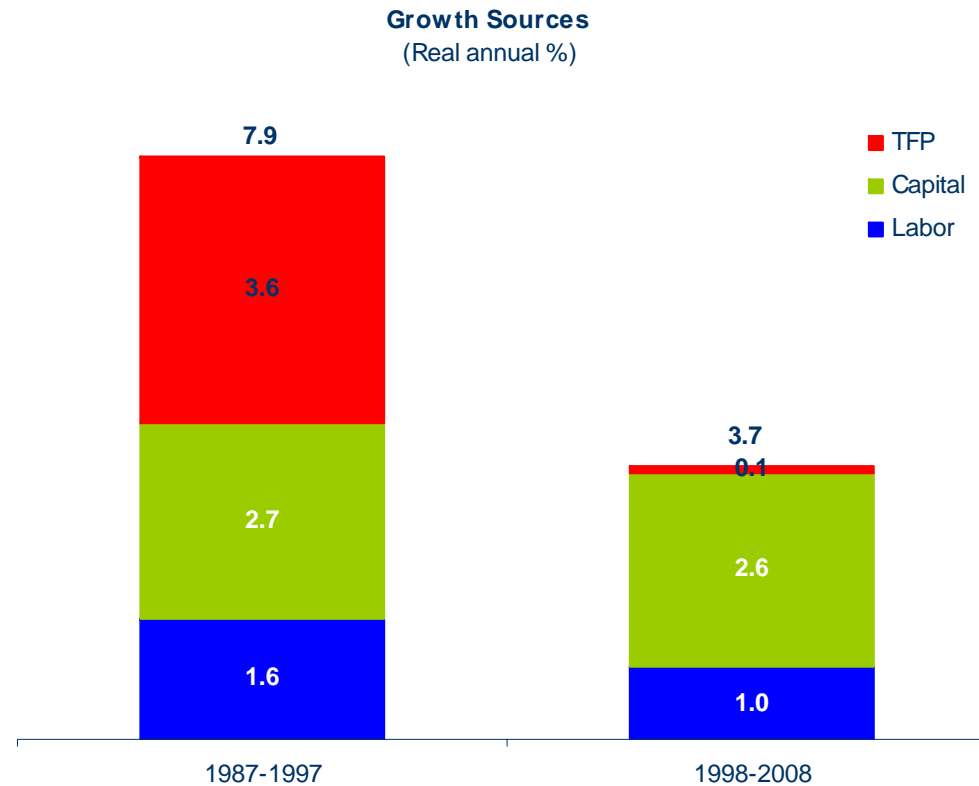
Economic policies for the future

- The difference is on the GDP potential growth rate, not in the annual growth
 - The government term is inconvenient for this objective. You need to seed during several years to harvest later.



Economic policies for the future

- The difference is on the GDP potential growth rate, not in the annual growth
 - The government term is inconvenient for this objective. You need to seed during several years to harvest later.





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