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Egypt Political Upheaval

Egypt has been a country with tremendous political upheaval in the last three weeks. We would like to take this opportunity to update you about the exposure to Egypt in some of the holdings we use for the majority of our investment clients. As of 12/31/2010, Vanguard FTSE All World EX-US (VEU) had 0.1% exposure to Egypt and Vanguard Emerging Markets (VWO) had exposure of 0.3% to Egypt. Clearly, the exposure is quite low.

Egypt is a part of the MSCI Emerging Markets (EM) Index, a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of December 31, 2010, the MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

While political risk remains throughout the world, we use diversification as a means to decrease political risk. For example, one would not expect political unrest in the 21 countries represented in the index at the same time. While diversification can help to decrease political risk, systematic risk (also known as market risk or un-diversifiable risk) remains. If the markets as a whole decrease in response to Egypt or political unrest in other countries, diversification will have little benefit since all of the markets could respond together.

While no one knows the direction that Egypt will take and the ripple effect it will have on their economy, this is one historic event in the midst of many for the world as a whole. We at Filomeno Wealth Management take a long-term investment perspective. We consider the risk of different asset classes when developing our recommended asset allocation in our clients' Investment Policy Statement (IPS). Because of the volatility of emerging markets, the recommended weighting of emerging markets in the IPS is currently 5% of the stock portion of the portfolio. Egypt is just one country represented in that asset class.

Please feel to call or email any one of our advisers if you would like to discuss further.

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