

As the Rescue of the Chilean Miners Shows, this South American Country is Superbly Managed and an Enticing Investment

The Chilean miners' experience reminded us once again of the huge gulf between countries that work and countries that don't. Just as the Chilean earthquake last February caused only 521 casualties compared to the 200,000 in Haiti the previous month, so the Chilean mine disaster brought together expertise from all over the world in a remarkably effective and competently managed rescue effort. It is a distinction that does not simply measure the difference between rich countries and poor countries: the 2008 Sichuan Chinese earthquake killed an estimated 90,000 people, while the Russian coal mine disaster in May killed 90 people both in countries of comparable wealth per capita to Chile.

Earthquakes are terrifying and mining is a dangerous job anywhere, but you're much more likely to survive an earthquake or a mine disaster in some countries than in others. Indeed Chile's performance both in the earthquake and this mine disaster was of the highest quality probably only in Germany, Scandinavia and maybe [Singapore](#) could one reliably expect public rescue services to work so effectively.

For investors, the Chilean earthquake and mine disaster experiences have an important lesson: [Countries with really good management](#) should be promoted sharply up investor league tables, for a number of reasons.

First, they are likely to enjoy better economic results. Their efficiency will use resources and labor better, there will be fewer sink-holes of value destruction in the public sector and the uncompetitive private sector and they will generally be more open to new ideas and new techniques. The mine rescue for example used people and equipment from all over the world a drill rig and drill bits from Schramm of Pennsylvania, a German-designed rescue pod and video equipment from Japan. Chile's ability to

assemble a state-of-the-art operation for a unique situation demonstrated the country's ability to flourish in a competitive globalized market.

While there are other countries with Chile's management capability though not many they do not have [Chile's wealth of natural resources](#) and they generally have labor costs a substantial multiple of Chile's. Chile has shown itself well managed under governments of both its political parties, but its current pro-business regime seems likely to be more active in removing obstacles to growth and encouraging the investment needed for it. Since it has the capabilities and resources of a much richer country, Chile seems likely to become one in pretty short order, and investors in Chile should benefit from the rapid growth that this emergence will bring.

Investors seeking exposure to the overall Chilean economy should first consider the **iShares MSCI Chile Investible Market Index Fund (NYSE: ECH)**, which invests in the overall Chilean market index. At \$500 million, this is large enough to be decently liquid and has an expense ratio of only 0.86%, very reasonable for a single country fund. Its main disadvantage, as for the Chilean market in general, is a price/earnings (P/E) ratio of 25 and a yield of only 1.1%, but you should remember that Chilean trailing earnings currently include the recession of 2009 and the difficult post-earthquake period, so even without rapid economic growth an earnings rebound would be likely.

For a higher yield, you should look at **Vina Concha y Toro SA (NYSE:VCO)** the country's largest wine producer, which although trading on 21 times earnings has a dividend yield of 3.9%. Chilean wine has a quality advantage over most other producers in that the country's remoteness allowed it to avoid the

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[1873 phylloxera blight](#), so its grapes are generally considered of exceptional quality. VCO is thus a leader in the country's exceptional agribusiness sector, selling a product that is marketable at a premium above other commoditized wine producers.

It's difficult to get direct exposure to Chilean mining because the dominant copper producer, Codelco, is state owned, while the smaller Chilean mining companies like the San Esteban company which owned the San Jose mine where the rescue took place have generally suffered from low investment and have sub-standard safety records. However one major participant in Chile's mining is **Freeport McMoran Copper and Gold** (NYSE: [FCX](#)) which has three copper/gold mines in Chile and is investing \$700 million in expansion of its El Abra project. FCX's stock price has run up in the last few weeks, as with most mining companies, but at a 12.64 times trailing P/E ratio it remains good value.

Chile isn't just a spice for your investment portfolio; it's an essential ingredient!

Action to Take: As the rescue of the Chilean miners demonstrates, this Latin American country has come a long way. Chile is superbly managed and it's a major commodities exporter. With the U.S. economy and many other developed economies struggling, investors simply can't miss out on this emerging economic powerhouse. At the very least they should consider gaining general exposure through the iShares MSCI Chile Investible Market Index Fund (NYSE: [ECH](#)). To cash in on the country's vibrant export sector consider Vina Concha y Toro SA (NYSE: [VCO](#)) and Freeport McMoran Copper and Gold (NYSE: [FCX](#)).

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