
It's Time to Invest in Chile and Colombia - Latin America's Reigning 'Good Guys'

A Foundation of Failure

Latin America's traditional lousy government was due to a number of factors. The legacy of Spanish colonialism lacked the free-market focus that was a British legacy in North America. The Continent retained a tradition of government activism and corruption that has proved hugely damaging for Latin America.

Then there was the curse of natural resources: It was always impossible to establish an internationally viable industrial sector when abundant (albeit cyclical) resource income pushed exchange rates up too far. During the 1945 to 1980 period, the [World Bank](#) pushed policies of import substitution that made no economic sense, and encouraged the countries to run up debt. Only in the 1980s - when the international capital markets opened again to equity investments even as debt was cut off by [the Latin American debt crisis](#) - did economic policy in a few countries begin to improve.

A Rebound Pioneer

Chile [has been a pioneer](#) in that improvement. The dictator [Augusto Pinochet](#), who served from 1973-1990, established free-market norm, reduced the size of the state, and privatized the pension provision, for example.

When Pinochet left power, his democratic successors retained enough of his policies to ensure that Chile never built up much public spending or foreign debt. Consequently when the downturn arrived in 2008-2009, Chile had a \$19 billion trust fund - saved from the proceeds of copper sales - that it was able to spend on social programs.

The bottom line: Even during this period, Chile was better run than most of Latin America.

Since 2000, a stretch during which Chile was governed by the left, economic growth had been somewhat sluggish.

This January, billionaire businessman [Sebastián Piñera](#) was elected as the new president of Chile, making him the first right-of-center leader since Pinochet. Piñera has promised to increase the pace of economic growth by freeing up regulation and cutting taxes on business. The February earthquake has slowed the implementation of more free-market policies, but has not halted it.

Chile is a major producer of agricultural products and a number of commodities, particularly copper. That's an advantage in today's global economy, where rapid Asian growth has raised the value of commodities worldwide.

With good management, [Chile is destined for rapid growth](#). The current *Economist* estimate of 5.0% growth in 2010 and 4.7% in 2011 is almost certainly too low - and by a significant degree (especially the 2011 projection).

With a relatively small government and ample foreign-exchange reserves, the Chilean market should be an essential, albeit modest, part of any international investor's portfolio, even at its current Price/Earnings (P/E) ratio of 19.3.

And Chile no longer stands alone.

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The Newest Convert

If we take another, closer look at Latin America, we discover that Colombia is the newest convert to the school of shrewd government. The country has had a drug-and-terrorist problem for 30 years, and before that it endured a civil war.

However, Colombia President [Alvaro Uribe](#), in office since 2002, has greatly alleviated the security problem, although he has not solved it. Between 2002 and 2009, Colombia saw homicides decrease by 45%, kidnappings by 92%, terrorist attacks by 71%, and attacks on the country's infrastructure by 83%, [the U.S. State Department reports](#).

The Supreme Court declared in February that Uribe could not succeed himself, so Defense Minister Juan Manuel Santos ran as his designated successor. Santos was opposed by Antanas Mockus, a populist former Mayor of Bogotá. But after an opinion-poll scare in mid-campaign, Santos was elected on June 20 with 69% of the vote.

Santos has degrees in economics from London and an MBA from Harvard, and has promised to continue improving the security situation - understanding that he has to do so if Colombia's appalling poverty is to be alleviated. (Poverty problems are best addressed by foreign investment in high-employment manufacturing and service sectors; this can only happen if the security situation is tolerable.)

Colombia is rich in natural resources - with oil production currently increasing rapidly - although the country also has a vibrant agricultural sector.

The Economist's forecasters are more pessimistic about Colombia, estimating growth of only 2.4% in 2010 and 3.8% in 2011. Once again, however, those projections really appear to be low, especially if a new U.S. Congress in 2011 finally ratifies [the U.S./Colombia trade treaty, signed in November 2006](#), and never ratified.

Colombia is still at an earlier stage than Chile in its economic development, with a per-capita GDP of \$9,200 at purchasing power parity, compared with Chile's \$14,700. However, it is geographically better located, closer to major markets, and thus has considerable upside potential. There is not much we can invest in yet, but a modest purchase would seem attractive.

Two Stocks to Study Now

The media enjoys stories of the bombastic Venezuelan strongman Hugo Chavez, together with his followers Evo Morales of Bolivia and Rafael Correa of Ecuador. The corrupt and inept Kirchner regime in Argentina also gets substantial press.

Nobody with any sense would invest in any of those countries.

Colombia and Chile, however, are a very different matter, well worth our attention, and will perhaps provide models for the remainder of the continent. Even the vaunted «BRIC» emerging market - Brazil - let alone the large and highly corrupt Mexico, could learn a huge amount from their example.

When it comes to investing, a country is no different than a corporation: We always want to back good management. Therefore, for our Latin American investments, I recommend Colombia and Chile - both countries clearly possess the strong management that we seek.

There are only two Colombian shares with full American Depository Receipts (ADRs) on the New York Stock Exchange. Of the two, **Ecopetrol SA (NYSE ADR: EC)** is the more interesting. This oil-and-natural-gas player is participating fully in the expansion of the Colombian oil sector, where May production rose 19% on a year-over-year basis. It's trading at 22 times earnings, but only 13.5 times forecast 2011 earnings, and features a juicy 4.2% dividend yield.

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In Chile, I like **Vina Concha y Toro SA** (NYSE ADR: [VCO](#)), a producer of very-high-quality wine. It's currently trading at 20 times earnings, with a dividend of 4.3%. That's a somewhat premium valuation, but I like the dividend and Vina Concha is unquestionably a premium company.

Investing in Latin America has always been a high-risk proposition.

But in Colombia and Chile, it has recently become much less so.

[Editor's Note: Money Morning readers are often amazed by Martin Hutchinson's [profit-focused instincts](#) - as evidenced by his unerring ability to paint a picture of what's to come. He's able to show us the big profit opportunities that are still over the horizon - while also warning us about the potentially ruinous pitfalls hidden just around the corner.

So it's no surprise that Hutchinson has pulled off a string of forecasting successes in the face of the worst financial crisis since the Great Depression - a financial crisis that, not surprisingly, Hutchinson is widely [credited for having predicted](#) and [warned about](#) well ahead of time.

For those who aren't regular readers, and who might like an additional illustration of Hutchinson's abilities, consider dividends and gold, the perpetual safe-havens for the ultra-conservative-investing set.

With his «[Alpha Bulldog](#)» investing strategy - the crux of his *Permanent Wealth Investor* advisory service - Hutchinson has managed to combine dividends, gold and growth into a winning, but low-risk formula that has developed eye-popping returns for subscribers. For more information, [please click here.](#)]

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