“Premium carmakers’ results roar ahead to pre-crisis highs”

Financial Times, October 29, 2010

Given that unemployment has barely budged from its 30-year highs and that the economy is barely growing—even by the government’s sometimes rosy estimates—the headline above might seem a little improbable.

The numbers, however, speak for themselves. High-end European automakers are at or near record levels of profitability, even as the European and American economies continue to muddle along at best and while European governments ponder aggressive new fiscal austerity measures.

What gives?

One word: China.

According to the Financial Times, “Mercedes car sales increased 17% to more than 317,000 units in the third quarter [of 2010], to a large extent driven by a 140% rise in China to 40,748 vehicles. Mercedes sold one in eight cars in China during this period.”

Think about that for a minute. Mercedes, the number one luxury auto in the world, already sells one out of every eight of its cars in China. And this says nothing about its sales to other fast-growing emerging markets.

Of course, it is not just fancy autos that the new rich in China are buying. Luxury fashion, handbags, watches and jewelry are also booming in this emerging market juggernaut. According to the Economist writes, Chinese luxury sales grew 20% during 2009, one of the worst global retail years in history, and sales are forecast to grow by another 30% in 2010. In five years China will likely be the third-biggest market for luxury goods (see “Bling is Back,” The Economist, October 23, 2010).

Even during an extremely difficult economic climate at home, European and American luxury brands and retailers are enjoying some of their best years in history by following the money to China and other up-and-coming countries. As investors, we too need to follow the money.

The Baby Boomers, the largest and wealthiest generation in history, are trading down and scaling back their lifestyles in order to save for retirement. Companies that have grown rich catering to the Boomers—be they large, publically-traded multinationals or modest “mom and pop” businesses—need to look elsewhere for customers.

Companies that can figure out how to profit from the Echo Boomers—the children of the Baby Boomers—are potentially building a great business model for the next 20 years. And of course, companies that can figure out how to profit from the rise of the new middle class in China and other emerging markets are also putting themselves in a fine position to prosper.

There is no “one size fits all” approach to investing, of course. But by learning to “follow the money,” we can seize good investment opportunities as they arise.

Sincerely,

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