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World's Assets Hit Record Value Of \$140 Trillion

By JOANNA SLATER

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The world's financial system is overflowing with stocks, bonds and other financial assets -- \$140 trillion worth, to be precise.

The figure was released in a study by McKinsey & Co. that maps financial assets around the globe and seeks to track the flows of these assets as they move from one region to another, putting hard numbers on the oceans of capital washing up around the globe.

At \$140 trillion in 2005, the value of the world's financial assets hit a new peak and was more than three times as large as the total output of goods and services produced across the planet that year.

The study, released today, paints a picture of a world in which investors and the banks that manage their money are spreading their bets more broadly. Flows of investment across borders hit \$6 trillion in 2005, McKinsey said, above levels reached at the height of the 1990s stock-market bubble and more than double the figure in 2002.

At the epicenter of these financial flows is the U.S., which takes in about 85% of the flows from countries that are net exporters of capital -- places like Japan, China and the Middle East. "It's a pretty striking thing," says Diana Farrell, director of the McKinsey Global Institute, an in-house think tank that produced the report. "Of all the savings that citizens world-wide are willing to put outside their countries, the U.S. gets 85% of it."

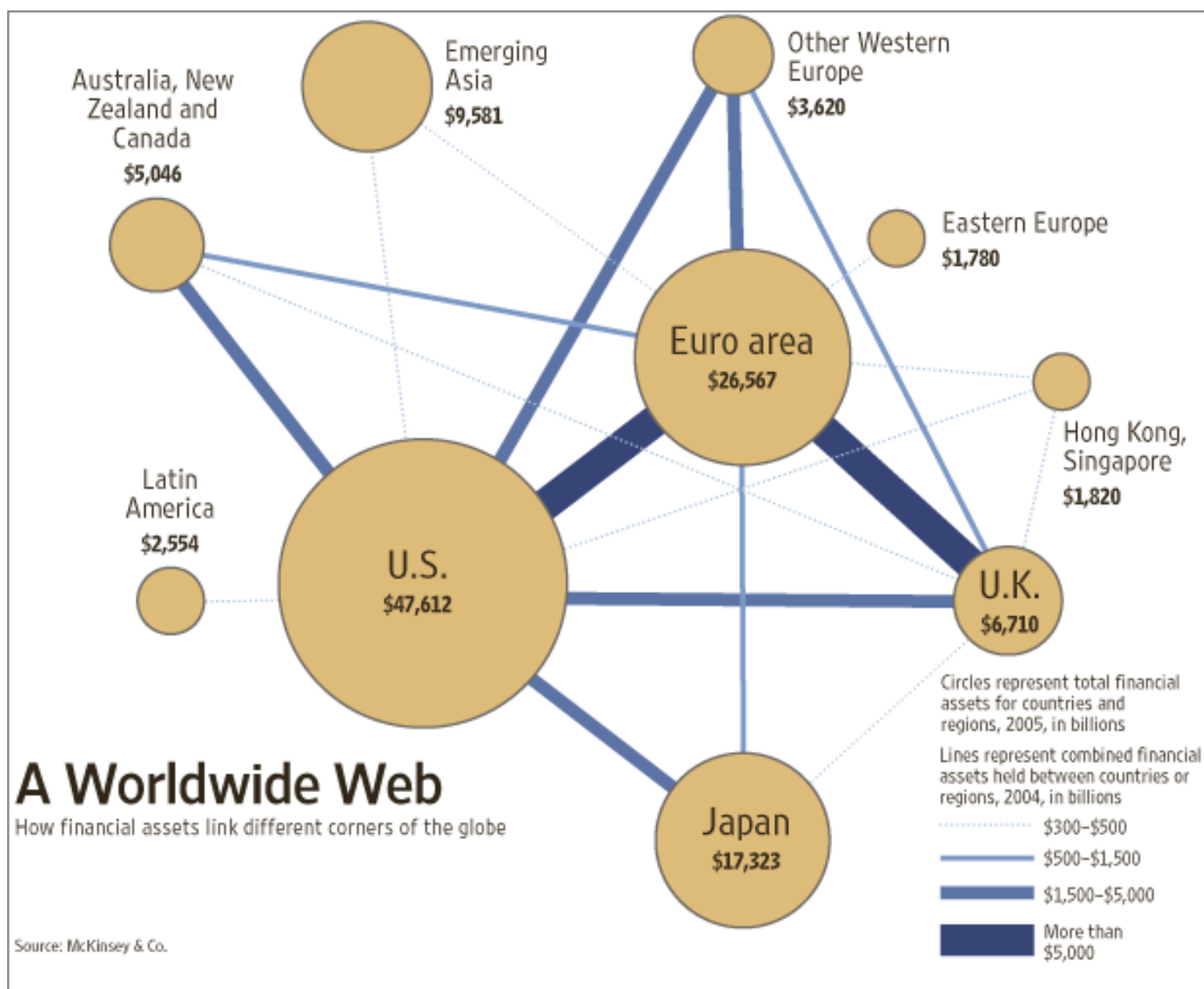
Global financial flows are likely to accelerate in the coming years. "The growth in trade in financial assets is proceeding about 50% faster than the growth in trade" in goods and services, says Kenneth Rogoff, an economist at Harvard.

Stocks were the key driver of the growth in global financial assets in 2005, accounting for nearly half of the increase, the report said. It pointed to improved earnings as the main catalyst for stock performance.

While investors still prefer to buy stocks in their own countries, they are also showing an increasing interest in other markets. About one in five stocks world-wide is owned by someone who lives outside the country where the stock was issued, according to McKinsey.

"There's clearly a slow erosion" of the preference for domestic assets, says Ms. Farrell. At the same time, she notes, investors in certain countries, such as Japan, retain a surprisingly strong bias in favor of their own market. McKinsey described Japan as still "strikingly isolated" for its size. Ninety percent of global capital flows run between three regions: the U.S., the United Kingdom and the European countries that use the euro, the report found. Capital flows in and out of Japan in recent years, according to McKinsey's data, were smaller than China's.

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