

International Investor

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China's economy grows strongly,
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World Stockmarket Forecasts

Stockmarket	One-Year Forecast	Fundamental Indicators	Technical Indicators	Monetary Indicators	Economic Indicators	Historical Performance (in US\$)			Share Index
						3 mths	6 mths	12 mths	
Australia	62%	Bullish	Bullish	Neutral	Bearish	+5.8%	+3.1%	+20.2%	3,696.00
Austria	64%	Bearish	Bullish	Bullish	Neutral	+4.5%	+10.5%	+61.5%	2,117.79
Belgium	66%	Neutral	Bullish	Bullish	Neutral	+12.6%	+14.7%	+37.6%	2,759.62
Canada	57%	Bearish	Bullish	Neutral	Bearish	+9.9%	+5.9%	+22.2%	8,814.89
Denmark	68%	Bearish	Bullish	Bullish	Neutral	+6.2%	+9.7%	+19.0%	282.54
Finland	68%	Bullish	Neutral	Bullish	Neutral	+2.5%	-2.4%	+5.0%	5,935.23
France	71%	Bullish	Bullish	Bullish	Bearish	+2.2%	+2.3%	+19.0%	2,553.89
Germany	61%	Bearish	Bullish	Bullish	Neutral	+2.5%	+2.6%	+21.7%	4,015.54
Ireland	77%	Neutral	Bullish	Bullish	Bullish	+3.5%	+7.4%	+27.7%	5,625.85
Italy	78%	Bullish	Bullish	Bullish	Neutral	+3.0%	+5.9%	+19.5%	21,590.00
Japan	45%	Neutral	Bullish	Neutral	Bearish	-2.0%	-7.9%	+4.1%	11,349.35
Netherlands	60%	Bullish	Neutral	Bullish	Neutral	-0.1%	-2.1%	+3.8%	334.91
New Zealand	60%	Neutral	Bullish	Neutral	Bearish	+9.3%	+13.0%	+32.6%	2,258.22
Norway	71%	Bearish	Bullish	Bullish	Bearish	+14.6%	+13.4%	+49.6%	803.38
Spain	74%	Neutral	Bullish	Bullish	Neutral	+3.8%	+3.0%	+25.1%	879.60
Sweden	48%	Bearish	Neutral	Neutral	Bearish	+7.2%	+3.9%	+26.6%	219.06
Switzerland	44%	Bearish	Bearish	Neutral	Neutral	-2.6%	-2.6%	+11.1%	5,503.70
Un. Kingdom	63%	Neutral	Bullish	Bullish	Bearish	+3.5%	+2.3%	+17.3%	4,698.90
USA	50%	Neutral	Neutral	Bullish	Bearish	+0.8%	-1.5%	+8.1%	1,122.14
Argentina	67%	Bearish	Bullish	Bullish	Bearish	+19.4%	-1.3%	+36.8%	2,853.87
Brazil	73%	Bullish	Bullish	Bullish	Bearish	+23.4%	+7.3%	+35.9%	23,926.85
Czech Rep.	82%	Bullish	Bullish	Bullish	Bullish	+13.2%	+10.6%	+51.7%	884.50
Chile	57%	Bearish	Bullish	Bullish	Bearish	+21.0%	+14.9%	+27.3%	8,606.93
China	41%	Neutral	Bearish	Neutral	Bearish	+6.7%	-19.1%	-10.6%	94.73
Greece	75%	Neutral	Bullish	Bullish	Neutral	+3.5%	+0.8%	+20.1%	2,408.68
Egypt	51%	Bearish	Bullish	Bearish	Bullish	+18.6%	+19.1%	+36.3%	1,080.86
Hong Kong	41%	Neutral	Bullish	Bearish	Bearish	+8.7%	+2.7%	+10.1%	13,241.46
Hungary	76%	Neutral	Bullish	Bullish	Neutral	+15.7%	+17.7%	+45.0%	12,954.69
India	49%	Neutral	Bullish	Bearish	Bearish	+16.5%	-5.7%	+20.2%	5,776.85
Indonesia	76%	Bullish	Bullish	Bullish	Neutral	+10.3%	+3.7%	+22.3%	855.72
Israel	53%	Bearish	Bullish	Bullish	Bearish	-3.9%	-0.8%	+29.2%	569.82
Korea	79%	Neutral	Bullish	Bullish	Neutral	+18.0%	-3.0%	+16.2%	881.38
Malaysia	56%	Bullish	Bullish	Neutral	Bearish	+0.8%	-2.5%	+8.9%	861.08
Mexico	77%	Neutral	Bullish	Bullish	Neutral	+11.4%	+1.2%	+37.3%	10,920.97
Philippines	63%	Bearish	Bullish	Bullish	Neutral	+14.3%	+20.7%	+32.7%	1,836.47
Poland	63%	Bearish	Bullish	Bullish	Neutral	+11.5%	+15.5%	+32.2%	25,451.00
Portugal	74%	Bearish	Bullish	Bullish	Neutral	+3.6%	+4.3%	+30.3%	2,177.23
Russia	65%	Bearish	Bullish	Bullish	Bearish	+23.0%	-6.1%	+23.9%	8,896.91
Singapore	65%	Neutral	Bullish	Bullish	Bearish	+8.9%	+5.2%	+17.7%	2,004.30
Sth Africa	79%	Bearish	Bullish	Bullish	Neutral	+12.2%	+8.0%	+35.9%	12,115.36
Taiwan	54%	Bullish	Neutral	Neutral	Bearish	+5.1%	-10.1%	+3.8%	6,102.16
Thailand	63%	Bullish	Bullish	Bullish	Neutral	+0.1%	-7.4%	+9.9%	676.15
Turkey	74%	Bearish	Bullish	Bullish	Bearish	+21.2%	+5.7%	+33.9%	22,951.38
Venezuela	69%	Bullish	Bullish	Bullish	Bearish	+26.3%	+37.8%	+10.6%	30,704.87

One Year Forecasts predict the probability that a stock-market will rise over the next year. Investors should seek to invest in markets with forecasts of 60-100%, while avoiding markets with forecasts of 0-40%. Bullish = Favourable. Bearish = Unfavourable.

Stockmarket Outlook

Over recent years we have argued that investors should look not to the over-extended US consumer to drive future world economic growth but to the emergence of China. This year the world is expected to record its highest economic growth rate in 30 years - owing mainly to strong growth from China.

The US consumer remains over-extended, but US consumer spending has remained higher than we anticipated owing to the *wealth effect* of a house price boom driven by low interest rates. With low economic growth in the US, easy monetary conditions have flowed through to a financial asset boom in house prices.

Unfortunately, we have not been able to turn our correct expectation about the growth in the Chinese economy into superior investment returns. China's stockmarket is small and much of it is not open to foreign investors. Legal structures and investor protection are also inadequate, so direct investment in China is not particularly attractive. Furthermore, many businesses in China are owned by foreign companies, so not available to individual investors.

So we have largely been restricted to investing in other Asian markets and regional Asian funds. Many regional funds have increased their investment in Chinese shares as opportunities have become available - but this accounts for only 0-12% of assets of most funds. Indirectly we have invested in China through Hong Kong, Taiwanese and Japanese companies, many of which have subsidiaries or operations in China.

Nevertheless, strong economic growth in China has not been reflected in *strong* appreciation of either Chinese, Hong Kong, Taiwanese or Japanese share

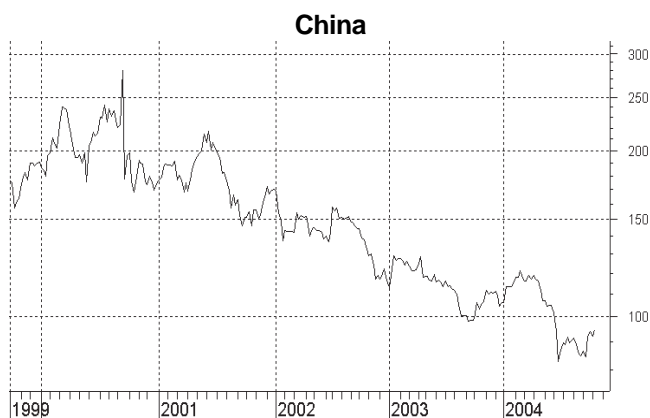
prices. These markets have recovered - but investors remain cautious owing to rising interest rates and the high price of oil.

Economic growth in China will, of course, fluctuate but overall will continue to grow rapidly over the next twenty years and become increasingly important in the global economy.

So how do we invest to seek to profit from this long term development in China?

Firstly, we shall *continue* to seek to invest in China and in countries that benefit directly from its development. As noted above, many of our regional Asian funds have small investments in China - and these will increase as further domestic companies list on the Chinese stockmarket. While there are risks involved in China, ultimately there should be some good growth opportunities. Similarly we shall continue to invest in Hong Kong (i.e. as many Hong Kong listed companies have significant businesses in China) and in Taiwan and Japan (i.e. as many companies in these countries are benefiting from outsourcing production to low cost operations in China).

Secondly, China's emergence as a low cost manufacturing centre for the world offers opportunities for other countries (e.g. the UK, Europe, the US) to develop knowledge based and technology based businesses. Developed economies need to provide a highly educated workforce, focusing upon research, development, design, high-tech manufacturing and marketing - while outsourcing low-tech manufacturing to China.



Recommended International Investment Funds

Templeton Emerging Markets Warrants

In our track record we shall record our **Templeton Emerging Markets** warrants as sold at 8.62 pence, a loss of 80% (in NZ dollar terms) as shown in the newsletter last month. We actually sold our own warrants on-market during September at prices around 10-14 pence.

In total, 10,791,725 warrants (11.7%) were not exercised. The trustee, Law Debenture Trust Corporation, will exercise these warrants, sell the resulting shares on-market and then distribute the net proceeds after costs to warrant holders.

Fund News

Eaglet Investment Trust plc re-purchased 235,000 of its own shares on 1 October at £2.85 each - around a 17% discount to net asset value.

Aberdeen Asian Smaller Companies Invest-

ment Trust plc will pay a final dividend of 3.1 pence on its shares to produce an annual income yield of 1.6%. We hold the warrants so do not receive this dividend.

The Fund Manager is optimistic about China owing to "rising incomes" and "savings rates at 30-40%", so "growth can be sustained at high levels for some time yet". "More concerning is Korea" owing to an economic slowdown and a credit bubble, but "the recovery in the rest of South East Asia has only really started" and "balance sheets are healthy almost everywhere".

Government reserves have increased and current accounts are in surplus, so "the ability to withstand external shocks has much improved" but investors "driven by short-term returns, can be insensitive" to these improving fundamentals. "Exaggerated mood swings", however, "do at least create opportunities" for the fund!

Current Advice	Investment Fund	EPIC Code	Initial Recommendation		Prem/ Disc to Net Assets	Recent Price		Gain or Loss %	
			--- Date ---	Offer Price		Bid-Offer or Last Sale	NZ Cents		
Europe									
BUY	Fidelity European Values plc	FEV	13/05/03	463.5p	1291.1	-4%	714.50p	1885.7	+46
BUY	JFM Fleming Euro Fledgeling IT plc	JFF	15/01/02	226.5p	765.8	-18%	271.0p	715.2	-7
United Kingdom									
BUY	Aberforth Smaller Cos Trt plc	ASL	15-07-03	375.5p	1042.0	-10%	458.25p	1209.4	+16
BUY	Eaglet Investment Trust plc	EIN	13/11/01	334.0p	1160.7	-17%	293.0p	773.3	-33
Asian Regional									
BUY	Aberdeen Asian Sm Co WARRANTS	AASW	09/09/03	75.3p	209.1		103.0p	271.8	+30
HOLD	Gartmore Pacific Growth Fund	*	29/10/85	41.4p	105.4		190.9p	503.8	+378
HOLD	HSBC Asian Fund	*	10/11/98	34.4p	106.3		41.77p	110.2	+4
HOLD	HSBC Hong Kong Growth Fund	*	07/04/98	159.4p	481.6		164.0p	432.8	-10
HOLD	Henderson Pacific Capital	*	08/08/00	342.2p	1122.6		275.70p	727.6	-35
BUY	Scot Oriental Sm Cos WARRANTS	SSTW	11/11/03	78.0p	211.5		83.0p	219.1	+4
HOLD	Schroder Asia Pacific WARRANTS	SDPW	13/07/99	25.5p	75.8		8.0p	21.1	-72
Japan									
BUY	Baillie Gifford Shin Nippon plc	BGS	11/01/94	156.0p	440.3	-10%	152.5p	402.5	-9
BUY	Invesco Japan Discovery Trust	JD	13/07/99	95.5p	284.0	-10%	92.25p	243.5	-14
Korea									
HOLD	Baring Korea Trust	*	12/04/94	81.1p	209.4		100.90-107.20p	274.6	+31
International									
BUY	Aberdeen Prolific Emerging Markets	*	13/08/91	61.7p	184.0		136.4p	360.0	+96
BUY	Herald Investment Trust	HRI	12/10/04	310.8p	820.1	-16%	310.75p	820.1	
HOLD	Private Equity Investor plc	PEQ	11/12/01	122.5p	420.2	-18%	105.75p	279.1	-34

* United Kingdom based Unit Trust

Other Shares and Warrants

Alternative investments in the UK listed investment trust shares and warrants recommended above include **Aberdeen Asian Smaller Companies** shares at 189½ (which trades at net asset value), **Schroder Asia Pacific** shares at 88½ pence (-5%, i.e. 5% below net assets), **Scottish Oriental Smaller Companies** shares at 174¼ pence (-1%), **Baillie Gifford Shin Nippon** warrants at 6¼ pence and **Invesco Japan Discovery** warrants which trade at 3.375 pence.

Fund Recommendation:

Buy Herald Investment Trust plc

BUY Herald Investment Trust plc (code HRI).

Herald Investment Trust plc invests in a very widely diversified portfolio of smaller, mainly UK, Technology companies. Unlike many other technology funds which own pharmaceutical and biotechnology shares, Herald Investment Trust focuses upon "the convergence of the various forms of technology, communications and media" and invests in companies involved in "information technology, broadcasting, printing and publishing and the supply of equipment and services to these companies".

The trust believes that "the multimedia revolution is still at a very early stage" and will "evolve for a significant period of time" offering "strong overall growth" and offers a "significant investment opportunity". Furthermore the trust believes that "the nature of the emerging media and technology industries" favours smaller companies "more able to respond to new methods, new technologies and new applications". Smaller companies also have better potential to "experience greater leverage" to grow their revenues, profits and share valuations.

As a result, Herald Investment Trust holds a very widely diversified portfolio, with its £325.2 million of assets invested in 256 different companies! The ten largest companies make up 22.7% of the portfolio. This *extremely* wide spread of investments diversifies away most of the *company specific* risk involved in technology shares to give investors an exposure to a rapidly developing sector.

Most of the portfolio is invested in United Kingdom listed shares which make up 69% of the portfolio. The Manager intends to "reduce this in coming months" as the UK has become a less attractive place to do business owing to the higher exchange rate and low unemployment. There are smaller investments in the United States (15%), Japan and Asia (8%) and Europe (6%), with 2% of the portfolio in cash.

The trust has slight leverage - with bank debt of US\$47.4 million (£26.1 million) or about 8% of assets drawn from a £33.0 million multi-currency facility.

By sector, the trust has its biggest investments in Software & Computer Services companies (32% of assets), Media & Entertainment (22%), IT Hardware (18%) and Electronic & Electrical Equipment (14%). There are smaller holdings in Distributors (5%), Support Services (4%), Telecom Services (2%) and other industries (3%).

The annual management fee is a relatively low 1.0% per annum with the total expense ratio just 1.12%. There are no performance fees - which can significantly deplete the assets of many other technology funds in the years when share prices rise. The trust seeks long term capital appreciation and emerging technology shares generally pay low dividends, so the income yield is a negligible 0.1%.

The issued capital consists of 87,691,010 ordinary shares - giving a market capitalisation of £272.5 million.

At a market price of 310¾ pence, the shares trade at an attractive 16.2% discount to net asset value. The company has authority to re-purchase up to 14.99% of its own capital - which should help to narrow the discount to net asset value. Two small on-market share buy-backs, of 77,500 shares and 38,838 shares were made in August.

Herald Investment Trust rates favourably in our *Investment Fund Survey*. The shares performed well over the last three years relative to the rest of the Technology sector. Herald Investment Trust rose 3% over the three years (in NZ dollar terms), compared with losses of 30-45% for most Technology funds.

While the portfolio's excellent diversification removes individual company risk, the trust still rates as "Very High Risk" and can experience volatility as the technology sector fluctuates in value.

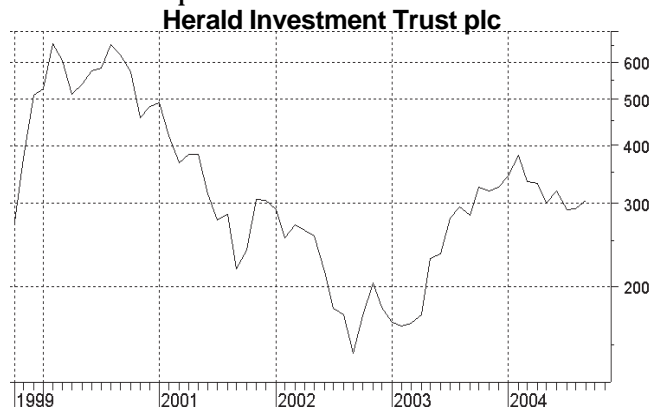
The *Superiority Rating* - the measure of the fund's risk-adjusted performance - is a very strong +23%. This indicates superior management and performance (after adjusting for its risk exposure to general fluctuations in Technology share prices).

Herald Investment Trust was established in 1994 by Katie Potts, who remains the lead manager. The shares are actively traded, although the current bid/offer of 306-316 pence is a fairly wide 3.2% spread. A spread around 2% would be more normal. The "normal market size" is 5000 shares - which means the "market-makers" will willingly trade 5000 shares (and often several multiples of that amount) at their quoted prices. Investors can, of course, make *smaller* purchases!

Summary and Recommendation

As China is becoming the low cost manufacturing centre for the world then other countries need to focus on knowledge based industries. Herald Investment Trust does this by investing in companies involved in creating new technologies in multimedia and information industries for which there is a large consumer market.

While technology based investments do involve high risks and can fluctuate in value they do offer the best long term growth potential. Share prices in this sector were inflated in the boom in the late 1990's, but now offer good value as businesses start to produce real revenues and profits.



Current Advice	Investment Fund	Risk Rating	Superiority Rating	Market Correlation	Performance		
					36 mth	12 mth	3 mth
	Norwich European	Medium	+4%	0.90	-17	10	-5
	Premier European Growth	Low	+3%	0.78	-14	14	-2
	Prudential European	High	+0%	0.90	-28	11	-5
	Prudential Euro Index	Medium	-1%	0.88	-26	7	-6
	Royal London European Gth	Medium	+2%	0.85	-18	11	-4
	S & W European	High	+3%	0.90	-20	8	-4
Buy	SG European	Very High	+7%	0.34	2	43	-3
	Schroder European	Medium	+4%	0.89	-11	16	-3
	Scot Amic European	Medium	+1%	0.87	-25	8	-6
	Scot Life European	Medium	+1%	0.85	-18	11	-4
	Scot Mutual European	High	+1%	0.87	-27	5	-5
	Scot Wid. Euroland	Medium	-2%	0.86	-27	8	-6
	Scot Wid. European Growth	Low	+0%	0.81	-19	7	-5
	Sovereign European Gth	High	+1%	0.89	-24	10	-5
	St James's Gtr Euro Prog.	Medium	+3%	0.81	-17	4	-8
	Stan Life European	Medium	+1%	0.80	-22	4	-7
	Threadneedle Euro Growth	Medium	+4%	0.84	-17	8	-4
	Threadneedle Euro Sel Growth	Medium	+4%	0.85	-17	8	-4
	Threadneedle Pan Euro Gth	Medium	+1%	0.88	-20	6	-4
	Tilney European Growth	Medium	+1%	0.88	-21	11	-3

UNITED KINGDOM BASED LISTED INVESTMENT TRUSTS

Buy	Artemis Alpha	Very High	+4%	0.25	33	-1	
	Baring Emerging Europe	Very Low	+16%	0.22	22	1	
	Blue Planet Gth & Inc	Very Low	-6%	0.04	-30	-12	-3
	Charter Pan European	High	+4%	0.85	-12	11	-2
Buy	Eastern European	Low	+28%	0.30	98	30	6
Buy	European Assets	Very High	+7%	0.53	-22	20	-6
	F & C European	Very High	+2%	0.82	-29	13	-2
Buy	Fidelity Euro V.	Medium	+14%	0.65	13	32	5
	Gartmore European	Medium	-1%	0.74	-23	12	-1
Buy	Gartmore Irish Small	Low	+29%	0.36	73	40	3
	Henderson Eurotrust	High	+2%	0.35	13	-1	
Buy	Invesco Perp European	Very High	+10%	0.75	19	0	
Buy	JPMF Russia	Very Low	+28%	0.01	22	-2	
Buy	Jupiter European Opps	Medium	+15%	0.49	21	-2	
Buy	Martin Currie European	Very High	+8%	0.79	-15	20	1
Buy	Merrill European	High	+2%	0.70	-27	8	-11
Buy	SR Europe	Low	+7%	0.41	9	-3	

UNITED KINGDOM BASED INVESTMENT TRUSTS - SPLIT CAPITAL

Avoid	Govett Euro Enhanced	Very High	%-102%	0.14	-100	-99	-98
Avoid	Morley Absolute Growth	Very High	-20%	0.23	-20	-4	

France



Switzerland



Current Advice	Investment Fund	Risk Rating	Superiority Rating	Market Correlation	Performance		
					36 mth	12 mth	3 mth
EUROPE SMALLER COS							
UNITED KINGDOM BASED UNIT TRUSTS							
Buy	BG Euro Small Coys	High	+7%	0.66	-3	19	-1
	DWS European Smaller Cos	High	+6%	0.78	-14	15	-5
Buy	First State European Small	Medium	+9%	0.78	-2	15	-4
Buy	Henderson European Small Cos	Medium	+8%	0.72	-1	19	-2
	Invesco Perp Euro Smaller Cos	Medium	+1%	0.74	-12	12	-2
Buy	JPMF European Smaller Coys	Low	+9%	0.68	4	23	0
Buy	Jupiter Euro Spec Sits	Medium	+7%	0.80	-4	22	0
Buy	M & G European Smaller Coys	Medium	+6%	0.76	-1	18	-2
Buy	Schroder Euro Small Coys	Medium	+8%	0.77	-6	23	-2
Buy	Threadneedle Euro Small Cos	Low	+16%	0.69	27	21	0
UNITED KINGDOM BASED LISTED INVESTMENT TRUSTS							
Buy	F & C Smaller Companies	Medium	+10%	0.46	-6	20	-0
Buy	Henderson Euro Micro	Medium	+9%	0.33	-1	24	1
Buy	Invesco Continental Sm	Very High	+12%	0.55	12	32	-4
Buy	JPMF Euro Fledgling	High	+14%	0.60	19	25	3
Buy	TR European	High	+9%	0.67	-6	36	0

GERMANY

UNITED KINGDOM BASED UNIT TRUSTS

Buy	Baring German Growth	Low	-3%	0.85	-26	15	-5
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Germany



Next Issue

The next issue of *International Investor* will be posted in four weeks time on Tuesday November 9, 2004 (and delivered in most areas on Wednesday 10).

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