

# International Investor

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## Inside International Investor

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Editor and Research Director: James R Cornell (B.Com.)

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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	72%	Bullish	Bullish	Neutral	Bullish	-2.4%	+1.2%	+21.3%	4,193.80
Austria	74%	Bearish	Bullish	Bullish	Neutral	+6.0%	+14.4%	+46.9%	3,095.55
Belgium	64%	Neutral	Neutral	Bullish	Neutral	-9.3%	-5.4%	+21.8%	3,107.01
Canada	61%	Bearish	Bullish	Neutral	Bearish	+6.6%	+14.3%	+30.1%	10,177.86
Denmark	67%	Bearish	Bullish	Bullish	Bullish	-1.7%	+9.4%	+26.0%	349.41
Finland	82%	Neutral	Bullish	Bullish	Bullish	+3.1%	+7.5%	+22.8%	7,398.61
France	68%	Neutral	Bullish	Bullish	Neutral	-2.7%	+2.4%	+15.0%	2,990.26
Germany	59%	Neutral	Bullish	Bullish	Neutral	-3.0%	-2.6%	+12.8%	4,597.97
Ireland	68%	Bearish	Bullish	Bullish	Bullish	-1.5%	-6.4%	+15.4%	6,524.90
Italy	71%	Bullish	Bullish	Bullish	Bullish	-7.2%	-3.7%	+14.9%	25,056.00
Japan	54%	Bearish	Bearish	Bullish	Neutral	-5.6%	-5.4%	-2.3%	11,565.99
Netherlands	71%	Bullish	Bullish	Bullish	Bullish	-3.4%	+0.3%	+11.4%	388.60
New Zealand	48%	Bullish	Bearish	Neutral	Neutral	-6.2%	-8.7%	+10.9%	2,324.93
Norway	77%	Neutral	Bullish	Bullish	Neutral	+5.8%	+16.6%	+44.9%	1,002.69
Spain	73%	Neutral	Bullish	Bullish	Neutral	-2.4%	+1.1%	+20.2%	1,059.62
Sweden	61%	Bearish	Bullish	Bullish	Bullish	-5.3%	-1.5%	+16.9%	258.90
Switzerland	60%	Bearish	Bullish	Neutral	Neutral	-2.9%	+0.3%	+7.1%	6,312.16
Un. Kingdom	67%	Neutral	Bullish	Bullish	Bullish	-2.8%	+0.2%	+11.5%	5,232.20
USA	54%	Neutral	Bullish	Neutral	Bearish	+2.6%	+2.2%	+8.9%	1,211.86
Argentina	61%	Bearish	Bullish	Bullish	Bearish	+9.8%	+29.2%	+59.4%	3,690.69
Brazil	56%	Bullish	Neutral	Neutral	Neutral	+4.0%	+13.9%	+50.7%	24,422.91
Czech Rep.	58%	Neutral	Bullish	Neutral	Bearish	-5.2%	+5.3%	+56.9%	1,224.70
Chile	47%	Neutral	Bullish	Bearish	Bearish	-0.9%	+5.4%	+35.7%	9,472.34
China	26%	Bullish	Bearish	Bearish	Bearish	-26.8%	-22.4%	-31.3%	60.94
Greece	80%	Bearish	Bullish	Bullish	Bullish	-3.9%	-0.5%	+28.0%	3,098.61
Egypt	63%	Bearish	Bullish	Bullish	Bullish	+9.5%	+44.3%	+109.5%	1,773.37
Hong Kong	47%	Neutral	Bullish	Bearish	Neutral	+2.5%	+3.1%	+14.8%	13,964.47
Hungary	82%	Bearish	Bullish	Bullish	Bullish	+3.1%	+21.4%	+65.8%	19,447.51
India	40%	Bearish	Bullish	Bearish	Bearish	+11.8%	+12.6%	+52.7%	7,212.08
Indonesia	55%	Bullish	Bullish	Neutral	Bearish	-3.2%	+1.9%	+32.7%	1,110.56
Israel	30%	Bearish	Neutral	Bearish	Bearish	-8.0%	-3.1%	+6.4%	651.28
Korea	68%	Bearish	Bullish	Bullish	Bullish	-0.8%	+17.0%	+49.0%	1,021.95
Malaysia	55%	Bullish	Neutral	Neutral	Neutral	+4.6%	-1.4%	+5.8%	903.61
Mexico	69%	Bearish	Bullish	Bullish	Neutral	+15.1%	+17.9%	+48.1%	13,871.26
Philippines	65%	Neutral	Bearish	Bullish	Bullish	-4.2%	+1.5%	+17.3%	1,876.28
Poland	79%	Bearish	Bullish	Bullish	Bullish	-0.8%	+2.5%	+29.7%	28,925.62
Portugal	59%	Bullish	Bearish	Bullish	Bullish	-8.5%	-8.7%	+4.0%	2,273.91
Russia	77%	Bearish	Bullish	Bullish	Bullish	+2.5%	+14.3%	+26.4%	9,002.66
Singapore	62%	Bullish	Bullish	Neutral	Neutral	-1.0%	+3.0%	+19.0%	2,215.99
Sth Africa	72%	Neutral	Bullish	Bullish	Bearish	-2.8%	+0.2%	+26.7%	14,457.80
Taiwan	56%	Bullish	Bullish	Neutral	Neutral	+1.4%	+4.2%	+12.3%	6,201.40
Thailand	36%	Bullish	Bearish	Bearish	Neutral	-11.1%	-14.2%	-6.6%	643.31
Turkey	70%	Neutral	Bullish	Bullish	Bearish	+8.5%	+14.1%	+63.2%	27,842.43
Venezuela	40%	Bullish	Bearish	Bullish	Bearish	-16.8%	-24.5%	-15.8%	21,845.31

**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

Last week's London bombings resulted in the United Kingdom stockmarket falling 1% in value - then jumping back up 1% the next day while other world stockmarkets soared to new highs for the year.

This is a *normal* response to terrorism - which usually has little impact on politics, the economy or the stockmarket. When Kennedy was assassinated in 1963 the United States stockmarket fell 3%. The next day it rose 3%.

Clearly the September 2001 terrorist attack in New York was different. Or was it?

The September 11 attack was a spectacular sight, expertly planned for the TV audience. The terror was not in the actual attack but its constant repeat on television screens around the world - causing depression in people not directly affected by the attack. Fortunately, this type of attack is almost impossible to repeat. Almost four years later and terrorism has reverted to the low-tech bombs in a crowded underground commuter train - which has little to offer for the TV cameras!

The September 11 attack had only a very short term impact on stockmarkets. The US market fell 10-12%, then recovered the next week. Other world markets initially dipped 5-10%, then also recovered. As a result

of the attacks there was some worldwide increase in security - increasing the costs of trade and tourism - with some long term impact on the world economy.

The *major* impact on the economy and stockmarket came a year later - when consumers and investors were "terrorised" by intelligence reports predicting further attacks using Weapons of Mass Destruction and Anthrax. The economy - already in recession - dipped again as consumer spending slowed and the stockmarket plunged as investors (1) cashed up to protect themselves from the expected stockmarket decline and (2) deferred purchases until the next terrorist attack created the expected bargains.

So last week's - or the next - terrorist attack is unlikely to have any significant impact on the world economy or stockmarkets. The danger to the economy and stockmarket comes from creating the *expectation* of future terrorism and overstating the scale of such events.

Overall the world economy is in a period of recovery and steady growth - despite the high price of oil and steadily rising interest rates. This is a generally favourable environment for stockmarkets - so remain fully invested in the *Recommended Portfolio* which increased 5.5% in value over the last month.

United States



United Kingdom



Japan



Hong Kong



# Recommended International Investment Funds

## Fund News

**JP Morgan Fleming European Investment Trust plc** lifted its net asset value 41.4% for its financial year to 31 March 2005. This outperformed its benchmark index by 9.6% - with 4.6% of this excess gain from the use of moderate leverage. Debt levels ranged from 2-20% of the portfolio.

Despite its strong performance - both over the last year and over longer periods - JP Morgan Fleming European shares continued to trade at a discount to net asset value which ranged from 12.3-21.9%

The trust will seek shareholder approval to be able to re-purchase up to 15% of its capital over the coming year as the directors seek to prevent the shares trading at a large discount to net assets. Over the last year, however, the trust re-purchased only 950,000 shares (about 1½% of its capital). Future shares re-purchased

will not be cancelled but held as "treasury stock" and can be re-sold on-market "at a discount narrower than the weighted average discount at which purchases" were made.

To close the discount - so that the shares trade closer to their net asset value - the trust needs to increase the number of shares re-purchased. Buying back only 1½% of the capital when the shares are trading at a 15-20% discount had little impact last year. The intention to accumulate Treasury stock - that can be re-sold at a discount - also sends the wrong message to the market: That the directors are not serious about closing this large discount.

Re-purchasing shares at a 15-20% discount is the best way to further increase the net asset value of the remaining shares and to increase shareholder wealth. Treasury shares - or any shares - (Continued on Page 8)

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		
<b>Europe</b>									
BUY	Fidelity European Values plc	FEV	13/05/03	463.5p	1291.1	-5%	908.0p	2343.8	+82
BUY	JFM Fleming Euro Fledgeling IT plc	JFF	15/01/02	226.5p	765.8	-17%	406.5p	1049.3	+37
<b>United Kingdom</b>									
BUY	Aberforth Smaller Cos Trt plc	ASL	15/07/03	375.5p	1042.0	-7%	561.5p	1449.4	+39
HOLD	Eaglet Investment Trust plc	EIN	13/11/01	334.0p	1160.7	-17%	273.5p	706.0	-39
<b>Asian Regional</b>									
BUY	Aberdeen Asian Sm Co WARRANTS	AASW	09/09/03	75.3p	209.1		140.75p	363.3	+74
HOLD	Gartmore Pacific Growth Fund	*	29/10/85	41.4p	105.4		216.89p	559.9	+431
HOLD	HSBC Asian Fund	*	10/11/98	34.4p	106.3		49.02p	126.5	+19
HOLD	HSBC Hong Kong Growth Fund	*	07/04/98	159.4p	481.6		198.9p	513.4	+7
HOLD	Henderson Pacific Capital	*	08/08/00	342.2p	1122.6		317.8p	820.3	-27
BUY	Scot Oriental Sm Cos WARRANTS	SSTW	11/11/03	78.0p	211.5		105.0p	271.0	+28
HOLD	Schroder Asia Pacific WARRANTS	SDPW	13/07/99	25.5p	75.8		9.375p	24.2	-68
<b>Japan</b>									
BUY	Baillie Gifford Shin Nippon plc	BGS	11/01/94	156.0p	440.3	-12%	168.00p	433.7	-2
BUY	Invesco Japan Discovery Trust	JD	13/07/99	95.5p	284.0	-13%	105.25p	271.7	-4
<b>Korea</b>									
HOLD	Baring Korea Trust	*	12/04/94	81.1p	209.4		125.0-134.0p	334.3	+60
<b>International</b>									
BUY	Aberdeen Emerging Markets	*	13/08/91	61.7p	184.0		171.3p	442.2	+140
BUY	Herald Investment Trust	HRI	12/10/04	310.8p	820.1	-13%	330.0p	851.8	+4
HOLD	Private Equity Investor plc	PEQ	11/12/01	122.5p	420.2	-12%	111.5p	287.8	-32

\* United Kingdom based Unit Trust

The average Gains/Losses of all current investments from initial recommendation is +44.0%. This is equal to an average annual rate of +7.0%, based upon the length of time each position has been held. The average annual rate of gain of ALL recommendations (both the 17 current and 43 closed out) is +10.7%.

## Other Shares and Warrants

Alternative investments in the UK listed investment trust shares and warrants recommended above include **Aberdeen Asian Smaller Companies** shares at 240¾ (trading at 2% premium to net asset value), **Schroder Asia Pacific** shares at 105 pence (a 7% discount to net asset value) and **Scottish Oriental Smaller Companies** shares at 205 pence (a 5% discount to net assets)







Current Advice	Investment Fund	Risk Rating	Superiority Rating	Market Correlation	Performance		
					36 mth	12 mth	3 mth
	CS MM European Portfolio	Medium	+5%	0.78		12	3
	Cazenove European Portfolio	Medium	+3%	0.90	7	12	3
	DWS European Growth	High	-1%	0.87	-5	6	2
	DWS European Opportunities	Low	+5%	0.65		16	3
	F & C European 1	Very High	+3%	0.89	2	7	3
Buy	Fidelity European	Medium	+10%	0.86	33	20	6
Buy	Fidelity European Opps	Very High	+8%	0.85	17	16	5
	Framlington European	High	+3%	0.88	9	16	4
	Gartmore European	Medium	-1%	0.59	-5	8	3
Buy	Gartmore European Focus	Medium	+7%	0.84		11	3
	Gartmore European Sel Opps	High	+1%	0.88	-2	10	5
	HSBC Eurotrack 100	High	+1%	0.88	-4	6	1
	HSBC Splst European	Very High	+2%	0.90	-0	6	3
	Henderson Euro Cap Gth	High	+2%	0.85	-0	8	4
	Inscape Europe	Medium	+3%	0.87		9	3
	Insight Euro Discretionary	Medium	+3%	0.81		8	2
	Insight European	Medium	+1%	0.64	-1	7	-1
	Insight Pan Euro Sel Opps	Low	+1%	0.84		7	2
	Invesco Perp Euro Growth	Medium	-2%	0.83	-6	10	4
	Invesco Perp European Equity	High	+5%	0.81	3	12	3
	Investec European	Low	+3%	0.85		9	4
	JPMF European Growth	High	+2%	0.92	9	13	5
Buy	JPMF New Europe	Medium	+18%	0.37	74	19	7
	Jupiter European	Medium	+5%	0.76	14	7	4
	L & G (A & L) European	High	-2%	0.83	-7	4	3
	L & G Euro Index	High	+1%	0.89	-2	6	4
	L & G European	High	-3%	0.90	-9	6	4
	Lazard European Growth	Medium	+3%	0.89	7	10	4
	Lincoln European	High	+1%	0.86	0	9	3
	M & G European	Very High	+1%	0.89	-2	8	3
	M & G European Index Tracker	High	+1%	0.77	3	13	10
	MFS Continental European	Low	+5%	0.82		11	3
	MSDW Europe (exUK)	High	-2%	0.89		2	2
	Martin Currie European	Very High	+2%	0.90	-0	2	0
	Merrill Continental Euro	High	+1%	0.83		9	4
	Merrill European Dynamic	Very High	+4%	0.85		18	5
	Morley European Focus	Low	+1%	0.83		7	3
	Morley SF European Growth	Medium	+4%	0.95		10	3
Buy	New Star European Growth	Low	+7%	0.62		16	2
	New Star European Leaders	Medium	+3%	0.94		11	5
Buy	New Star European Portfolio	Low	+7%	0.77		13	3
	Newton Continental European	Medium	+1%	0.89	5	9	4
	Newton Pan-European	Medium	+0%	0.90	3	8	4
	Old Mutual European Equity	High	+0%	0.92		7	2
	Premier European Growth	Medium	+5%	0.81	16	17	5
	Prudential Euro Index	High	+1%	0.81	2	12	3
	Prudential European	High	-0%	0.83	-8	3	-1
	Royal London European Gth	High	+2%	0.86	-1	6	4
Buy	Ruffer European	Very Low	+8%	0.18		12	-1
	S & W European	High	+2%	0.89	-5	4	1
Buy	SG European	High	+14%	0.37	31	11	4
	SVM Continental European	High	+4%	0.61		17	6
	SWIP European	Low	+3%	0.62		9	4
	SWIP Pan Euro Equity	Low	+0%	0.64		5	1
	Schroder European	Medium	+5%	0.85	12	9	3
	Scot Life European	High	+1%	0.85	-1	6	4
	Scot Mutual European	Very High	+1%	0.88	-7	7	3

Current Advice	Investment Fund	Risk Rating	Superiority Rating	Market Correlation	Performance		
					36 mth	12 mth	3 mth
	Scot Wid. Euro Select Gth	Low	+3%	0.63		9	4
	Scot Wid. Euroland	Medium	+0%	0.79	-4	9	4
	Scot Wid. European Growth	Medium	+1%	0.80	6	11	5
	Sing & Fried European Growth	Medium	+4%	0.83		16	5
	Skandia Continental European	Medium	+0%	0.95		6	3
	Sovereign European Gth	Very High	+1%	0.88	-3	7	2
	St James's Gtr Euro Prog.	Medium	+3%	0.84	6	7	5
	Stan Life Euro Equity Gth	Medium	+1%	0.82	6	9	4
	TU European	Medium	+1%	0.79		6	3
	Threadneedle Euro Growth	High	+4%	0.85	5	11	5
	Threadneedle Euro Sel Growth	High	+4%	0.85	3	9	4
	Threadneedle Pan Euro Gth	Medium	+1%	0.91	-2	5	4
	Tilney European Growth	High	+3%	0.85	-1	9	-0

**UNITED KINGDOM BASED LISTED INVESTMENT TRUSTS**

Buy	Artemis Alpha	Very High	+20%	0.18		28	-10
Buy	Baring Emerging Europe	Medium	+20%	0.26	93	25	5
	Blue Planet Gth & Inc	Very Low	-2%	0.01	-19	4	-12
	Charter Pan European	High	+4%	0.84	11	11	3
Buy	Eastern European	Medium	+26%	0.31	115	39	7
Buy	European Assets	Very High	+10%	0.60	19	22	-0
	F & C European	Very High	+2%	0.84	-8	11	3
	Gartmore European	High	+0%	0.73	-4	15	4
	Gartmore Irish Small	High	+29%	0.32	99	31	-7
	Henderson Eurotrust	Medium	+6%	0.37		18	-2
Buy	Invesco Perp European	Very High	+11%	0.64	25	27	6
Buy	JPMF Cont. Euro.	Very High	+3%	0.74		16	6
Buy	JPMF Russia	Medium	+18%	0.09		5	8
Buy	Jupiter European Opps	High	+14%	0.45	35	20	3
Buy	Martin Currie European	Very High	+8%	0.76	-0	7	-6
Buy	SR Europe	Medium	+8%	0.40	25	24	-2

**EUROPE SMALLER COS**

**UNITED KINGDOM BASED UNIT TRUSTS**

Buy	BG Euro Small Coys	High	+7%	0.59	18	20	5
Buy	DWS European Smaller Cos	High	+7%	0.74	16	15	3
Buy	Henderson European Small Cos	Medium	+10%	0.66	30	22	4
Buy	Insight European Small Cap	Low	+9%	0.54		15	4
	Invesco Perp Euro Smaller Cos	Medium	+6%	0.69	14	27	8
Buy	JPMF European Smaller Coys	Medium	+13%	0.73	42	30	7
Buy	Jupiter Euro Spec Sits	Medium	+8%	0.76	20	18	4
Buy	M & G European Smaller Coys	Medium	+10%	0.74	36	18	5
	SWIP Pan-Euro Small Companies	Very High	+4%	0.64		13	3
Buy	Schroder Euro Small Coys	Medium	+9%	0.67	22	23	5
Buy	Threadneedle Euro Small Cos	Medium	+16%	0.71	47	27	6

**UNITED KINGDOM BASED LISTED INVESTMENT TRUSTS**

Buy	F & C Smaller Companies	High	+10%	0.52	32	23	3
Buy	Fidelity Euro V.	High	+13%	0.60	32	31	5
Buy	JPMF Euro Fledgling	Very High	+19%	0.51	45	48	4
Buy	TR European	High	+18%	0.57	59	31	3

**GERMANY**

**UNITED KINGDOM BASED UNIT TRUSTS**

Baring German Growth	Low	+1%	0.82	4	12	5
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**France**

**Germany**



**Switzerland**

**Italy**



**Recommended International Funds***(Continued from Page 3)*

should not be sold at a discount but only at a *premium* to net asset value.

Clearly the directors' main concern is that share re-purchases *reduce* the funds under management on which the Fund Manager is paid an annual fee - not maximising shareholder wealth.

Nevertheless, JP Morgan Fleming European Investment Trust offers an excellent investment in smaller European companies - albeit rather volatile at times - and the large discount is attractive for investors buying into the trust.

**Aberdeen Asian Smaller Companies**

**Investment Trust plc** has issued and sold 100,000 shares at 231 pence and a further 100,000 shares at 234 pence during June. These shares were issued at a 2-2½% *premium* to net asset value - so this expands the size of the trust and, ever so slightly, *increases* the net asset value of *all* the shares.

**Eaglet Investment Trust plc** re-purchased 100,000 shares at 256¾ pence and 75,000 shares at 257½ pence on-market during June.

**Fidelity European Values plc** has borrowed a further • 40 million from **Lloyds TSB Bank** for 5 years at a fixed interest rate of 3.23%. The trust already has borrowings of • 90 million (at an average rate of 5.25%) repayable on 29 December 2006.

## *Best Managed Funds*

**British Empire Securities and General Trust plc** (code BTEM) is a £586 million investment trust that seeks "capital growth" from a "focused portfolio of investments" in "companies whose share prices stand at a discount to estimated underlying net asset value". In practice, this means the trust favours investments in investment holding companies, other investment trusts, property companies and selected individual shares.

Many funds that invest in other funds are poorly diversified and British Empire Securities' "focused" portfolio statement would suggest this is the case here. The top ten investments, however, account for only 26.1% of the portfolio, so this fund is not poorly diversified.

Geographically most of the investments are in the United Kingdom (22.0% of the portfolio) and Japan (13.0%), with smaller investments in France (7.0%), Singapore (6.1%), Belgium (5.9%), Canada (5.4%), Turkey (4.4%), Hong Kong (4.1%), Sweden (3.8%), Luxembourg (3.1%), Germany (3.0%), Hungary (2.3%), Netherlands (2.1%), Cayman Islands (1.0%), South Africa (1.0%), Australia (1.0%) and Italy (1.0%), with a relatively high cash holding (13.9%) at the present time. The most remarkable feature of this spread would have to be the lack of United States shares. This newsletter expects the US stockmarket and US dollar to underperform relative to other markets, so British Empire Securities is an international investment trust that reflects our own investment strategy (i.e. investing globally in non-US equities).

The trust uses slight leverage, equal to about 6% of its portfolio.

The trust declined only moderately during the global stockmarket decline of 2001 and 2002, and it has appreciated strongly in value over the last year. This performance has earned the trust a *Superiority Rating* of +20% in our quarterly *Investment Fund Survey*. The trust has a high *risk rating*.

The annual management fee is a relatively low

0.55% per annum - although performance fees can increase this to a maximum of 1.0% per annum. Capital appreciation is the main objective, but small interim and final dividends are paid and provide a yield of around 0.6% per annum.

**Summary and Recommendation**

British Empire Securities and General Trust plc is a large, diversified and well managed international investment fund that should continue to be a sound long term investment. These shares would be suitable for investors seeking a long term investment in non-US global equity markets.

**British Empire Securities and General Trust plc**

### *Next Issue*

The next issue of *International Investor* will be posted in four weeks time on Tuesday August 9, 2005 (and delivered in most areas on Wednesday 10).

Subscribers who have updated their account online with an e-mail address will also receive the Electronic version in their e-mail Tuesday morning.