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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 _____	73%	Bullish	Bullish	Bullish	Neutral	+2.4%	-13.5%	-8.4%	5,830.45
Austria _____	70%	Neutral	Bullish	Bullish	Bullish	-1.5%	-9.5%	-21.7%	2,548.30
Belgium _____	73%	Neutral	Bullish	Bullish	Neutral	-1.2%	-2.9%	-5.5%	3,732.58
Canada _____	61%	Bullish	Bearish	Bullish	Bearish	-6.3%	-17.1%	-8.1%	14,952.50
Denmark _____	77%	Neutral	Bullish	Bullish	Bearish	+1.1%	+0.4%	-2.5%	886.28
Finland _____	78%	Bullish	Bullish	Bullish	Neutral	-0.8%	-2.9%	-5.9%	8,988.39
France _____	75%	Neutral	Bullish	Bullish	Bullish	-0.2%	-6.3%	-10.7%	3,825.96
Germany _____	79%	Neutral	Bullish	Bullish	Neutral	+1.2%	-0.7%	-3.5%	11,550.97
Ireland _____	69%	Bearish	Bullish	Bullish	Neutral	-0.1%	+1.8%	-6.9%	6,021.17
Italy _____	68%	Neutral	Bullish	Bullish	Neutral	-0.3%	-11.5%	-15.1%	23,925.79
Japan _____	72%	Neutral	Bullish	Bullish	Bullish	+6.5%	+5.4%	+6.3%	18,971.00
Netherlands _____	69%	Bearish	Bullish	Bullish	Neutral	+0.4%	-2.5%	-3.4%	489.84
New Zealand _____	43%	Bullish	Neutral	Bearish	Bearish	-4.3%	-7.5%	-8.0%	1,598.01
Norway _____	56%	Bullish	Neutral	Neutral	Bearish	-1.1%	-22.6%	-17.7%	665.51
Spain _____	66%	Bullish	Neutral	Bullish	Bearish	-10.0%	-17.0%	-15.4%	1,125.49
Sweden _____	69%	Bullish	Bullish	Bullish	Neutral	+1.1%	+0.6%	-4.0%	861.42
Switzerland _____	75%	Bullish	Bullish	Bullish	Neutral	-2.1%	-2.3%	-3.4%	9,080.03
Un. Kingdom _____	63%	Bullish	Bullish	Bullish	Neutral	-1.1%	-7.2%	-7.4%	6,911.80
USA _____	62%	Neutral	Bullish	Neutral	Bearish	-0.2%	+3.2%	+10.3%	2,071.26
Argentina _____	66%	Bullish	Bullish	Bearish	Bullish	+3.7%	-6.0%	+55.9%	10,180.99
Brazil _____	55%	Bullish	Bearish	Neutral	Bullish	-18.5%	-39.6%	-17.1%	49,981.19
Czech Rep. _____	64%	Bullish	Bullish	Bullish	Bearish	-8.0%	-12.0%	-19.0%	1,037.35
Chile _____	61%	Bullish	Bearish	Bullish	Bullish	-3.1%	-9.0%	-4.8%	19,163.92
China _____	68%	Neutral	Bullish	Bearish	Bullish	+8.4%	+36.6%	+54.0%	3,241.19
Greece _____	23%	Bearish	Bearish	Neutral	Bearish	-27.3%	-40.5%	-50.5%	850.27
Egypt _____	42%	Bearish	Bullish	Bearish	Bearish	-5.1%	-7.0%	+9.9%	9,575.98
Hong Kong _____	78%	Bullish	Bullish	Bullish	Bullish	+0.6%	-4.3%	+6.7%	24,164.00
Hungary _____	64%	Bullish	Neutral	Bullish	Bearish	-9.0%	-15.3%	-14.7%	18,283.40
India _____	62%	Bearish	Bullish	Neutral	Neutral	+2.1%	+4.5%	+31.0%	29,448.95
Indonesia _____	60%	Neutral	Bullish	Neutral	Bullish	+0.8%	-5.0%	+2.9%	5,514.79
Israel _____	77%	Bullish	Bullish	Bullish	Neutral	+2.0%	-5.7%	-8.1%	1,356.85
Korea _____	65%	Neutral	Bullish	Bullish	Neutral	+2.2%	-9.5%	-2.4%	2,012.94
Malaysia _____	53%	Bullish	Bearish	Neutral	Neutral	-1.3%	-15.8%	-12.2%	1,806.96
Mexico _____	41%	Bearish	Bearish	Bullish	Bearish	-7.2%	-21.3%	-5.3%	43,280.81
Philippines _____	67%	Bearish	Bullish	Bullish	Neutral	+9.6%	+6.7%	+21.3%	7,861.33
Poland _____	61%	Bullish	Bearish	Bullish	Neutral	-11.5%	-16.8%	-18.2%	53,381.80
Portugal _____	54%	Bullish	Neutral	Bullish	Bearish	-4.0%	-21.3%	-34.3%	2,529.27
Russia _____	49%	Bullish	Neutral	Bearish	Bullish	-0.8%	-28.4%	-22.1%	1,728.55
Singapore _____	60%	Bullish	Neutral	Bearish	Bullish	-1.5%	-7.1%	+0.1%	3,417.51
Sth Africa _____	53%	Neutral	Bullish	Bearish	Neutral	+1.8%	+2.1%	-0.5%	53,346.99
Taiwan _____	72%	Neutral	Bullish	Bullish	Bullish	+3.3%	-3.0%	+6.0%	9,645.77
Thailand _____	65%	Bullish	Bullish	Neutral	Bullish	-0.6%	-2.8%	+14.5%	1,568.29
Turkey _____	41%	Bearish	Bearish	Bearish	Bullish	-19.0%	-19.7%	+6.9%	80,310.16
Venezuela _____	54%	Bearish	Bullish	Neutral	Neutral	+38.6%	+60.6%	+55.1%	4,258.50

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.

World Stockmarket Outlook

Forecasting stockmarkets is extremely difficult as *future* changes in stock prices are driven by (1) future growth rates in corporate revenues, profits and dividends and (2) changes in valuation levels.

Future growth rates are close to unpredictable. In fact, as this newsletter has often commented, *expectations* of future growth rates are often inaccurate and biased by emotional factors relating to the immediate past. After a period of growth, investors *expect* a new Golden Age of high economic growth. After an economic contraction, investors often *expect* further negative growth and a Depression.

Changes in share valuations in the future are difficult to predict, but at least we do know the starting point - the current Price/Earnings ratio and Dividend Yield (see Pages 4 and 5 of this newsletter). But even if we know that the United States stockmarket trades on a P/E of 20 today, we don't know whether it will trade on a P/E of 15, 20 or 30 in 5-10 years time. Any such forecasts are likely to suffer from the same (incorrect) emotional bias as economic growth forecasts.

Current P/E and Yield levels are determined by current share prices, current earnings and current dividends - all of which can be individually volatile and therefore produce a volatile and perhaps meaningless statistic.

There are some attempts to produce a more stable, accurate measure. For example, the "Shiller ratio" compares current share prices with average earnings over the last ten years (adjusted for inflation). The theory here is to average out earnings over a long period to eliminate fluctuations caused by economic cycles. There may be some logic in that, but a very steep recession and/or a very long recession will probably still result in a *low average earnings* figure and/or fail to cover a full economic cycle of boom and bust. So a relatively high "Shiller ratio" may not be showing that current share prices are high, but that earnings have been depressed for a long time.

In fact, a deep and long term recession is a major

factor in forcing (surviving) companies to lower costs and become more efficient. It can also force weaker companies to fail or be acquired by stronger competitors. When economic conditions improve, then efficient, low cost businesses should be able to earn higher than expected profit margins and higher than expected net profits!

Higher profit margins and higher net profits are also the likely result of weaker companies failing and removing excess competition from the market. Over the last decade this has happened in a number of sectors, including semi-conductors. Historically this has been a high fixed cost, cyclical business. At every downturn in demand, weaker competitors would lower selling prices (to maintain revenues), killing profitability across the whole industry. This has changed over the last several years. Where previously there might be 5-8 large companies resulting in intense competition, now many semi-conductor niche markets are dominated by just three large companies (with a combined market share of 70-80%). This is what economists call an oligopoly. In this situation, selling prices should be much more stable over the economic cycle. Prices might also be 10% higher (over the full cycle), but that could *double* profitability (i.e. earnings per share, return on capital, etc), which in turn could result in a *doubling* or *quadrupling* of average P/E ratios (e.g. from a P/E of 5 for a highly cyclical business, to a P/E of 10 or 20 for a stable business with a high return on capital). Those two factors would increase share prices 4-8 fold. If companies also increase revenues 50% (by winning market share from failed competitors) then share values could be 6-12 fold higher.

The "Shiller ratio" would take no account of the *improved business economics* in the sector and suggest that share prices were significantly over-valued.

Our view is that a steep and long recession can create significant value for the survivors - both by driving efficiency and by removing excess competition from the market. It can be easy to overlook the significant impact of these factors.

Recommended International Investment Funds

Fund Report

Herald Investment Trust plc lifted its net asset value 1.3% over the year to 31 December 2014. The company compares its performance against a UK technology index which fell 7.1% and a US technology index which rose 14.3% (in UK terms).

8% of the trust's investments were subject to takeover during the last year, realising £53 million. Most of this was re-invested in new issues and cash issues by existing portfolio companies. The trust recorded an income account deficit (i.e. management fees and other expenses exceeded dividend income). Dividend yields on technology shares are low - and often nil - and many profitable, dividend paying shares were taken over during the year.

The Fund Manager worries about the lack of capital invested in equities and the resulting failure of the stockmarket to correctly value many companies. Twenty years ago, pension funds and insurance companies owned 60% of the UK equity market but have been "persistently selling holdings in order to reduce exposure to UK equities". Now they own only 10% of the market.

Herald Investment Trust is a sound, long term technology fund investment. The trust has a very well diversified portfolio, with the ten largest holdings making up only 19.6% of the portfolio. The shares trade at a high 19% discount to net assets. Since the trust was formed 21 years ago, net assets have increased 750% (11% p.a. compounded). That compares with gains of 110% and 150% (3½-4½% p.a.) for its benchmark indices.

Share Repurchases

Aberforth Smaller Companies Trust plc made one on-market share repurchase over the last four weeks, acquiring 60,000 shares at 1067.4 pence (£640,440).

Current Advice	Investment Fund	EPIC Code	Initial Recommendation --- Date ---	Offer Price		Prem/ Disc to Net Assets	Recent Price		Gain or Loss %
				Foreign	NZ Cents		Bid-Offer or Last Sale	NZ Cents	
Europe									
BUY	Fidelity European Values plc	FEV	13/05/03	46.4p	129.1	-7%	174.4p	356.2	+176
BUY	JPM European Smaller Cos	JESC	15/01/02	45.3p	153.2	-11%	225.63p	460.8	+201
United Kingdom									
BUY	Aberforth Smaller Cos Trt plc	ASL	15/07/03	375.5p	1042.0	-11%	1085.0p	2216.1	+113
Asian Regional									
BUY	Aberdeen Asian Small Coys	AAS	09/09/03	89.2p	247.8	-10%	887.0p	1811.7	+631
HOLD	HSBC Asian Fund	*	10/11/98	34.4p	106.3		96.36p	196.8	+85
BUY	Henderson Asia Pac Capital	*	08/08/00	342.2p	1122.6		791.9p	1617.4	+44
BUY	Scot Oriental Smaller Coy	SST	11/11/03	121.9p	330.5	-7%	852.0p	1740.2	+427
China									
BUY	Henderson China Opportunities	*	09/07/07	548.9p	1410.4		865.3p	1767.4	+25
India									
HOLD	First State Indian Sub-Cont.	*	13/12/10	209.2p	442.0		367.37p	750.3	+70
Japan									
BUY	Baillie Gifford Shin Nippon plc	BGS	11/01/94	156.0p	440.3	-6%	341.5p	697.5	+58
BUY	Fidelity Japan Values plc	FJV	10/01/06	126.0p	322.7	-16%	76.5p	156.3	-52
HOLD	Invesco Perp Japan Small Coys	*	13/07/99	61.3p	182.3		66.66p	136.2	-25
Korea									
HOLD	Baring Korea Trust	*	12/04/94	81.1p	209.4		262.9-278.6p	553.0	+164
International									
HOLD	Aberdeen Emerging Markets	*	13/08/91	61.7p	184.0		566.3p	1156.7	+529
BUY	Herald Investment Trust	HRI	12/10/04	310.8p	820.1	-19%	680.5p	1389.9	+69
BUY	Private Equity Investor plc	PEQ	11/12/01	114.8p	393.8	-23%	187.0p	381.9	-3

* United Kingdom based Unit Trust

The average Gains/Losses of all current investments from initial recommendation is +157.0%. This is equal to an average annual rate of +11.6%, based upon the length of time each position has been held. The average annual rate of gain of ALL recommendations (both the 16 current and 48 closed out) is +12.3%.

Other Shares

An alternative investment to those recommended above includes **Aberdeen Asian Smaller Companies Trust** 2019 convertible notes at 114 pence. **Fidelity Japanese Values** subscription shares are 3¼ pence.

"Clean" unit prices are: Henderson Asia Pacific Capital 867.5 pence, Henderson China Opportunities 122 pence, First State Indian Sub-Continent 182.13 pence, Invesco Perpetual Japanese Smaller Companies 200.45 pence and Aberdeen Emerging Markets 612.82 pence.

World Stockmarket Valuations

Country	Dividend Yield	Price/Earn. Ratio
Australia	4.2	17.0
Austria	2.3	58.5
Belgium	2.5	23.8
Canada	2.8	19.8
Denmark	1.6	24.6
Finland	3.4	24.5
France	2.8	21.1
Germany	2.5	18.5
Ireland	1.5	65.9
Italy	2.7	32.5
Japan	1.7	17.6
Netherlands	1.8	27.1
New Zealand	4.1	18.5
Norway	4.8	11.1
Spain	5.0	21.0
Sweden	3.1	16.9
Switzerland	2.8	20.3
Un. Kingdom	3.5	15.0
USA	1.9	20.2
Argentina	1.4	7.0
Brazil	4.6	14.8
Czech Rep.	5.7	15.0

Country	Dividend Yield	Price/Earn. Ratio
Chile	3.4	20.6
China	2.0	14.8
Greece	0.6	NE
Egypt	2.0	32.9
Hong Kong	3.1	11.9
Hungary	3.2	15.5
India	1.2	21.4
Indonesia	2.0	21.3
Israel	2.6	15.3
Korea	1.4	11.7
Malaysia	3.1	15.8
Mexico	1.4	25.3
Philippines	1.5	21.8
Poland	4.2	15.9
Portugal	3.6	21.7
Russia	4.2	7.2
Singapore	3.6	13.9
Sth Africa	2.7	20.1
Taiwan	2.8	15.9
Thailand	2.9	16.3
Turkey	1.9	12.2

United States Dividend Yields



United Kingdom Dividend Yields



Japan Dividend Yields



Canada Dividend Yields



France Dividend Yields



China Dividend Yields



Switzerland Dividend Yields



Brazil Dividend Yields



Australia Dividend Yields



South Korea Dividend Yields



Germany Dividend Yields



India Dividend Yields



Listed Investment Trust

Warrant Analysis

Warrant	Current Share Price	Warrant Exercise Prices	Years & Months to Expiry	Current Warrant Price	Black-Scholes Value	Warrant Over/Under Valued (%)	Share Volatility	Warrant Leverage	Warrant Share Price 5%pa	Return(%p.a.) from 10%pa	Return(%p.a.) from 20%pa	Break-Even Rate
<u>LATIN AMERICA</u>												
Aberdeen Latin American	64.9p	120.0p	0-9	1.00p	0.00p	+999	0.196	77.5	-100.0	-100.0	-100.0	+130%
<u>UNITED KINGDOM</u>												
Artemis Alpha	275.0p	345.0p	2-9	27.50p	10.14p	+171	0.147	9.4	-100.0	-25.1	+65.0	+12%
<u>EUROPE</u>												
Blackrock Greater Europe	241.0p	248.0p	1-1	12.00p	16.45p	-27	0.174	9.1	-46.6	+54.4	+243.1	+7%
<u>JAPAN</u>												
Fidelity Japan Values	77.0p	86.5p	0-9	3.25p	2.65p	+22	0.211	12.2	-100.0	-100.0	-55.1	+23%

Recommended Funds

Geographic Portfolio Spread

Fund Name	Size (Mil)	Leverage (%debt)	Top 10 Hldgs (%)	Portfolio invested in (%):												
				Cash	HK	Australia	Malay	Taiwan	Korea	Sing.	Thail'd	Phil.	China	India		
Aberdeen Asian Sm Coy	£439	Nil	26.6	2.6	14.2	2.7	17.5			0.6	9.5	13.5	6.4	3.2	14.6	Indo 6.3
Baring Korea	£110	Nil	42.2	3.7						96.3						
First State Indian Sub-Cont	£308	Nil	48.3	9.7											84.7	Sri Lanka 4.6
Henderson China Opps	£595	Nil	49.9	2.6	79.3								8.4			US 9.7
HSBC Asian Fund	£49	Nil	35.4	6.2	18.5		2.4	13.2	23.7	6.1	2.5		12.4			Indo 3.6
Hend Asian Pacific Cap	£200	Nil	29.0	1.6	10.5	11.1		8.0	13.5	7.9	4.2	2.6	22.6	14.9		Indo 3.1
Scottish Oriental Sm Coys	£301	7	18.3	11.9	8.1			11.9	4.9	17.1	2.9	1.0	14.7	25.1		Indo 2.5
				Cash USA UK Europe Japan Other												
Aberforth Small Cos Trust	£1050	3	26.3				100.0									
Baillie Gifford Shin Nippon	£137	14	24.5	5.1											94.9	
Fidelity European Values	£726	8	36.0				100.0									
Fidelity Japan Values plc	£87	22	30.8												100.0	
Herald Investment Trust	£526	10	19.6	5.5	21.4	63.8				9.3						
JPMorgan Euro Small Coys	£361	11	21.4	4.0			96.0									
Invesco Perp Japan Small	£40	Nil	38.9	4.5						95.5						
Private Equity Investor plc	£50	Nil	-	13.6	86.4											
				Cash Brazil HK/China India Mexico Turkey Korea S.Africa Thail'd Taiwan												
Aberdeen E/Markets	£2200	Nil	32.4	Nil	10.7	16.8	16.0	7.4	5.5	5.9	7.9	5.3	4.7			

Fidelity European Values plc has over 63% of its investments in three countries: France (26% of the portfolio), Switzerland (22%) and Germany (16%). It has smaller holdings in Belgium (7%), Denmark (6%), Finland (6%), UK (5%), Norway (5%), Spain (4%) and others (5%).

JPMorgan European Smaller Companies has its largest investments in France (21% of the portfolio), Sweden (20%), Germany (16%), Italy (13%), Netherlands (7%), Switzerland (6%), Denmark (4%), Spain (4%) and others (6%).

World Stockmarket Capitalisations

The world's total stockmarket capitalisation was virtually unchanged over the three months to the end of January 2015. China's capitalisation rose US\$1.356 billion, lifting its share of the total from 7.12% to 9.10%.

Country	Market Capitalisation (US\$ Billions)	Percentage of Total	Country	Market Capitalisation (US\$ Billions)	Percentage of Total
United States	26,053	37.81	Israel	197	0.29
China	6,271	9.10	Qatar	173	0.25
Japan	4,485	6.51	Colombia	140	0.20
United Kingdom	2,693	3.91	Poland	162	0.24
Hong Kong	3,325	4.82	Ireland	137	0.20
India	3,323	4.82	Austria	92	0.13
France ¹	1,780	2.58	Portugal ¹	80	0.12
Canada	1,939	2.81	Peru	77	0.11
Germany	1,762	2.56	Argentina	60	0.09
Switzerland	1,516	2.20	New Zealand	72	0.10
Australia	1,272	1.85	Egypt	70	0.10
South Korea	1,251	1.82	Luxembourg	61	0.09
Nordic Exchanges ²	1,212	1.76	Greece	41	0.06
Spain	942	1.37	Morocco	54	0.08
Brazil	824	1.20	Vietnam	50	0.07
South Africa	951	1.38	Czech Republic	46	0.07
Taiwan	945	1.37	Romania	40	0.06
Singapore	755	1.10	Oman	39	0.06
Netherlands ²	648	0.94	Jordan	25	0.04
Italy	577	0.84	Sri Lanka	23	0.03
Russia	392	0.57	Kazakhstan	21	0.03
Saudi Arabia	511	0.74	Bahrain	22	0.03
Mexico	460	0.67	Hungary	14	0.02
Malaysia	451	0.65	Mauritius	9	0.01
Thailand	461	0.67	Slovenia	7	0.01
Indonesia	421	0.61	Bulgaria	4	0.01
Belgium ¹	814	1.18	Slovakia	5	0.01
Philippines	280	0.41	Malta	4	0.01
Norway	220	0.32	Cyprus	3	0.00
Chile	225	0.33	Bermuda	2	0.00
UAE	201	0.29			
Turkey	222	0.32			
			TOTAL	\$68,912	100.00%

Notes:

1. Estimated split of EuroNext data between France, Netherlands, Belgium and Portugal.

2. Mainly Denmark, Sweden and Finland.

Next Issue:

The next issue of *International Investor* will be emailed in five weeks time on Monday April 13, 2015.

The print version will be delivered later that week, depending upon printing and postal delivery times.

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