Information and Advice on World Stockmarkets from Securities Research Company's . . .

International Investor

Issue No. 42 P.O. Box 34-162, Auckland June 8, 1999.

Inside International Investor

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

World Stockmarket Forecasts

Stockmarket	One-Year Forecast	Fundamental Indicators	Technical Indicators	Monetary Indicators	Economic Indicators	Historical Performance (in US$) 3 mths	6 mths	12 mths	Share Index
Australia	61%	Neutral	Bullish	Bullish	Neutral	+5.9%	+14.6%	+17.6%	2,929.30
Austria	69%	Bullish	Bearish	Bullish	Bullish	-1.7%	-5.7%	-28.2%	1,201.98
Belgium	46%	Bearish	Bearish	Bullish	Neutral	-10.2%	-14.2%	-10.6%	3,135.04
Canada	52%	Bearish	Bullish	Neutral	Neutral	+11.8%	+14.3%	-8.2%	6,940.14
Denmark	60%	Neutral	Bearish	Bullish	Bullish	+2.5%	-4.5%	-18.3%	633.55
Finland	68%	Bearish	Bullish	Bullish	Bullish	+11.3%	+21.3%	+32.8%	6,918.00
France	60%	Bearish	Bullish	Bullish	Bullish	+1.6%	+4.0%	-2.7%	2,792.00
Germany	51%	Bearish	Bearish	Bullish	Bullish	+1.2%	-4.9%	-15.2%	5,107.81
Ireland	49%	Neutral	Bearish	Bullish	Neutral	-12.5%	-4.9%	-9.7%	4,918.67
Italy	55%	Bearish	Bullish	Bullish	Neutral	-2.7%	+1.0%	-4.0%	24,410.00
Japan	66%	Bearish	Bullish	Bullish	Bullish	+9.9%	+8.4%	+20.1%	16,300.75
Netherlands	50%	Bearish	Bullish	Bullish	Bearish	+3.4%	+3.6%	-6.7%	779.90
New Zealand	79%	Bullish	Bullish	Bullish	Bullish	+6.9%	+17.1%	+15.5%	2,112.55
Norway	54%	Bearish	Bullish	Bearish	Bullish	+8.2%	+16.4%	-19.6%	590.64
Spain	49%	Bearish	Bullish	Bullish	Bearish	-2.4%	-2.4%	-4.6%	905.82
Sweden	70%	Neutral	Bullish	Bullish	Neutral	+4.1%	+9.9%	-7.4%	3,760.69
Switzerland	46%	Bearish	Neutral	Neutral	Neutral	-4.7%	-6.3%	-10.8%	7,156.40
Un. Kingdom	73%	Bearish	Bullish	Bullish	Bullish	+2.8%	+10.2%	+5.1%	6,361.50
USA	44%	Bearish	Bullish	Neutral	Bearish	+4.1%	+12.8%	+19.2%	1,327.75
Argentina	86%	Bullish	Bullish	Bullish	Bullish	+26.0%	+17.4%	+0.0%	20,851.18
Brazil	67%	Bullish	Bullish	Neutral	Bullish	+31.7%	+2.0%	-28.2%	11,233.70
Czech Rep.	65%	Bearish	Bullish	Bullish	Bullish	+31.4%	+8.6%	+1.2%	1,558.00
Chile	65%	Neutral	Bullish	Neutral	Bullish	+17.8%	+16.7%	-2.4%	4,526.55
China	73%	Neutral	Bullish	Bullish	Neutral	+39.4%	+15.1%	-6.0%	598.07
Greece	58%	Bearish	Bullish	Bullish	Bearish	+18.8%	+48.5%	+55.8%	4,063.15
Hong Kong	86%	Neutral	Bullish	Bullish	Bullish	+21.1%	+24.5%	+44.8%	12,415.54
Hungary	41%	Bearish	Bullish	Neutral	Bearish	+16.4%	+2.8%	-30.1%	6,408.44
India	78%	Neutral	Bullish	Bullish	Bullish	+9.6%	+40.3%	+14.0%	4,042.52
Indonesia	85%	Neutral	Bullish	Bullish	Bullish	+71.2%	+44.3%	+92.1%	612.38
Israel	69%	Bearish	Bullish	Bullish	Bullish	+18.8%	+32.6%	+2.5%	332.60
Malaysia	69%	Bearish	Bullish	Bullish	Neutral	+43.2%	+40.3%	+48.4%	739.80
Mexico	61%	Bearish	Bullish	Bullish	Neutral	+28.1%	+49.0%	+8.3%	5,371.26
Philippines	73%	Bearish	Bullish	Bullish	Bullish	+20.4%	+33.1%	+23.7%	2,354.60
Poland	61%	Bearish	Bullish	Neutral	Bullish	+17.0%	+17.0%	-11.8%	15,800.30
Portugal	58%	Neutral	Bearish	Bullish	Neutral	-9.1%	-14.5%	-25.0%	2,278.05
Russia	48%	Bearish	Bullish	Neutral	Neutral	+55.2%	+81.5%	-52.7%	887.69
Singapore	61%	Bearish	Bullish	Neutral	Bullish	+33.0%	+36.5%	+59.6%	1,928.37
Sth Africa	78%	Neutral	Bullish	Bullish	Bullish	+9.9%	+24.3%	-24.1%	6,769.28
Korea	58%	Bearish	Bullish	Bullish	Bearish	+57.9%	+78.2%	+183.2%	797.50
Taiwan	69%	Bearish	Bullish	Bullish	Bullish	+22.3%	+5.8%	+6.8%	7,669.35
Thailand	74%	Bearish	Bullish	Bullish	Bullish	+42.8%	+36.8%	+59.9%	476.47
Turkey	52%	Bearish	Bullish	Bearish	Bullish	+18.7%	+52.6%	-19.9%	5,247.00
Venezuela	76%	Bearish	Bullish	Bullish	Bullish	+42.8%	+34.5%	-18.6%	5,469.63

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

Stockmarket Forecasts to improve over the last month include **China** (up from 60% to 73%, aided by an increase in the rate of Real Money Supply growth), **Indonesia** (up from 76% to 85%, with profit and dividend increases improving the stockmarket's Fundamental valuation) and the **Czech Republic** (up from 56% to 65%, with improved Monetary conditions).

Stockmarket Forecasts to be downgraded include **Ireland** (down from 68% to 49%, with a deterioration in Technical indicators as the stockmarket may have peaked and started to fall), **Malaysia** (down from 75% to 69%, owing to deteriorating Fundamental valuations as a result of share prices rising so rapidly), and **South Korea** (down from 67% to 58%, owing to a *very sharp* jump in economic activity).

Of particular interest is the Forecasts between the **United Kingdom** (Bullish at 73%) and the **United States** (Neutral at 49%). For investors looking for a mature, stable economy offering a wide range of possible investments the United Kingdom stockmarket is looking significantly more attractive that the United States.

Our Forecast for the United States is also supported only by Technical indicators (i.e. the market is *trending* higher), so any deterioration in that technical situation would see the Forecast turn Bearish. However, we do not share a widely held view that a decline in the United States stockmarket would result in a much greater collapse in other world stockmarkets. We also do not share the view that a United States stockmarket decline would turn into a major, long term Bear Market. We would expected that a decline - when it eventually happens - would be relatively quick and limited to a 20-25% decline in the broad market.

Recommended International Investment Funds

Asian stockmarkets have staged a small *correction* over the last month - but with little impact on the value of our investment funds.

Fidelity Asian Values warrants remain the most attractive buying: The warrants have a long time (seven years, two months) until their exercise date (at a price of 100 pence) so do not involve unacceptably high risks. The warrants are trading at a substantial 35-40% discount to their *fair value* (i.e. their Black-Scholes valuation). Fidelity Asian Values shares trade at a 15% discount to net asset value, and this trust rates as a top performing fund in our quarterly *Investment Fund Survey*.

Discounts/Premiums on UK Investment Trusts

Baillie Gifford Shin Nippon shares currently trade at a 26% discount to net assets, **I & S UK Smaller Companies** shares trade at a 22% discount and **Jupiter International Green** shares at a discount of 32%. **Fidelity Asian Values** shares trade at a 15% discount, **Martin Currie Trust** at a 16% discount and **TR European Growth** at a 9% discount.

Other Shares and Warrants

Martin Currie Pacific shares trade at 122¾ pence while **Fidelity Asian Values** shares are at 74¼ pence. **BG Shin Nippon** warrants are trading at 18¾ pence, **I & S UK Smaller Companies** warrants at 76½ pence and **TR European Growth** warrants at 54 pence.

Current Advice	Investment Fund	EPIC Code	Initial Recommendation - Date -	Initial Recommendation - Offer Price - Foreign	Initial Recommendation - Offer Price - NZ Cents	Recent Price Bid-Offer	Recent Price NZ Cents	Gain or Loss
	Europe							
BUY	TR European Growth Trust plc	TRG	11/02/97	157.5p	(374.7)	198.25p	(606.0)	+62
	Asia							
HOLD	AIB Govett Greater China Fund	*	13/08/96	212.9p	(480.4)	197.92 - 211.67p	(626.0)	+30
BUY	Fidelity Asian Values WARRANTS	FASW	10/03/98	17.5p	(49.7)	22.75p	(69.5)	+40
HOLD	Gartmore Pacific Growth Fund	*	29/10/85	41.4p	(105.4)	172.98 - 185.01p	(547.1)	+419
BUY	HSBC Asian Fund	*	10/11/98	34.4p	(106.3)	43.41 -46.33p	(137.2)	+29
BUY	HSBC Hong Kong Growth Fund	*	07/04/98	159.4p	(481.6)	154.80 - 165.00p	(488.8)	+1
HOLD	Martin Currie Pacific WARRANTS	MCPW	10/02/98	21.0p	(59.3)	14.25p	(43.6)	-26
	Japan							
HOLD	Baillie Gifford Shin Nippon plc	BGS	11/01/94	156.0p	(440.3)	93.0p	(284.3)	-35
HOLD	Gartmore Japan Trust	*	12/04/94	270.5p	(698.2)	187.44 - 198.23p	(589.4)	-16
	Korea							
BUY	Baring Korea Trust	*	12/04/94	81.1p	(209.4)	66.09 -70.96p	(209.5)	+0
	Thailand							
BUY	Old Mutual Thailand Trust	*	08/12/98	49.0p	(155.9)	73.55 -79.39p	(233.7)	+50
	International							
HOLD	Aberdeen Prolific Emerging Markets	*	13/08/91	39.0p	(116.1)	54.01 -57.15p	(169.9)	+46
HOLD	Jupiter International Green IT plc	JUP	08/10/96	36.0p	(80.7)	40.5p	(123.8)	+53
	United Kingdom							
HOLD	Hill Samuel UK Emerging Coys	*	13/04/93	56.2p	(159.1)	130.58 - 136.73p	(408.5)	+157
HOLD	I & S UK Smaller Coys IT plc	ISU	11/02/97	160.0p	(380.6)	161.0p	(492.1)	+29

* United Kingdom based Unit Trust

World Stockmarket Survey

Every quarter we plan to have a look at some of the country stockmarket indicators that are used to determine our One-Year stockmarket Forecasts that feature on the front cover of every issue of "International Investor". We classify all of the indicators into four broad categories: Fundamental (based upon whether shares are cheap or expensive), Economic (based upon the economic cycle and its impact on corporate profits and share prices), Monetary (which measures the trend in interest rates and money supply) and Technical (which measure the *trend* in the stockmarket indices).

Ranked by Fundamental indicators

We are currently in a period of *high* stockmarket valuations. This could be a normal cyclical high - indicating that share prices will either (1) fall at some stage in the future or (2) under-perform their long term historical rates of return over an extended period of time (i.e. over the next 5-10 years). An alternative explanation is that demographic trends in the developed world are inflating stock prices. The post-Second World War baby boom has boosted the number of people 30-45 years old in the population - and this is the age at which people are saving and accumulating financial assets for retirement. This explanation would tend to keep share prices at "high" valuations for the next 20-35 years - until the baby boomers reach retirement and start liquidating assets.

Our Forecasting model calculates a stockmarket's degree of under-valuation or over-valuation by comparing its current Dividend Yield and Price/Earnings ratio against *other countries* and with its own historical levels.

While fundamental valuations are important, these statistics impact most strongly on *very long term* stockmarket returns (i.e. over the next 2-5 years). In the short to medium term, *over-valued* stockmarkets can continue to rise and become more over-valued, while under-valued stockmarkets can remain depressed!

On that basis, the stockmarkets that offer the *best* fundamental *value* are **Brazil** (average Dividend Yield 4.7%, average Price/Earning ratio 11.9), **New Zealand** (Yield 4.6%, PE 20.7), **Argentina** (Yield 4.0%, PE 13.8), **Austria** (Yield 2.1%, PE 13.3), **Australia** (Yield 3.4%, PE 22.7), **South Africa** (Yield 3.1%, PE 10.3), **Denmark** (Yield 1.8%, PE 24.8), **Portugal** (Yield 2.2%, PE 25.8), **Sweden** (Yield 1.9%, PE 25.9) and **China** (Yield 2.1%, PE 15.0).

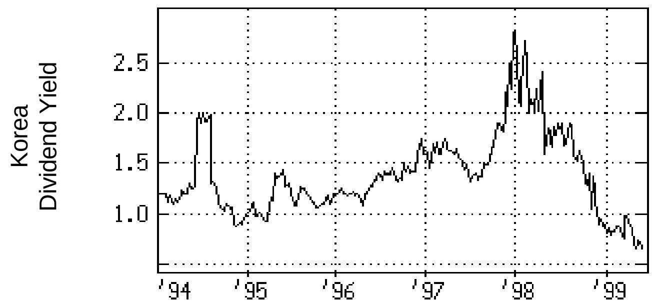
At the other extreme, the *most over-valued* stockmarkets are the **Czech Republic** (Yield 0.1%, PE 62.9), **Korea** (Yield 0.7%, PE 19.1), **Thailand** (Yield 0.5%, PE 10.2), **Singapore** (Yield 1.1%, PE 29.8), **Poland** (Yield 0.7%, PE 19.3), **United States** (Yield 1.2%, PE 30.8), **Greece** (Yield 1.2%, PE 34.6), **Venezuela** (Yield 1.1%, PE 17.6), **Finland** (Yield 1.5%, PE 25.8) and **Mexico** (Yield 1.1%, PE 17.6).

In the case of the Asian stockmarkets (i.e. Korea, Thailand, and Singapore) the current apparent *over-valuation* may be a result of low post-crisis earnings and dividends, rather than high share prices. Nevertheless, share prices have risen rapidly in these markets over the last year. Unless corporate earnings and dividends rebound sharply in the near future, then these markets will be getting a little too expensive.

Examples: In Brazil and Argentina Dividend Yields are high relative to other countries and high relative to their historical levels . . .

. . . while Dividend Yields are very low in the United States . . .

. . . and in Korea . . .



Ranked by Economic indicators

Economic indicators also tend to be important at predicting *longer term* stockmarket returns (i.e. over the 1-3 years). Here our Forecasting model looks at whether a country's economy is in recession (which is rated *Bullish* as this is when shares prices are usually depressed) or booming (which is *Bearish* as share prices are usually inflated). *(Continued on Page 4)*

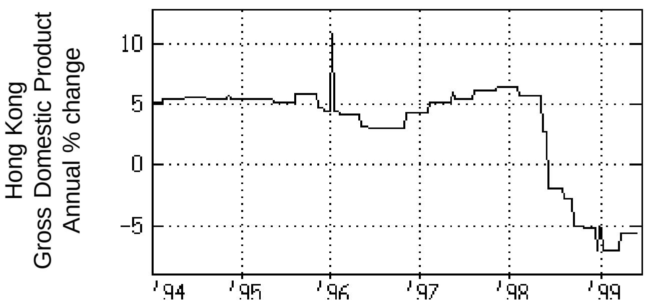
World Stockmarket Survey *(Continued from Page 3)*

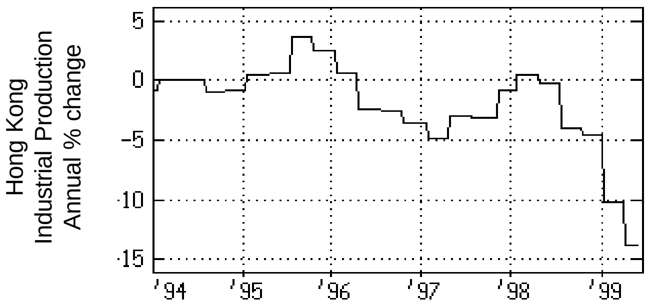
The most attractive economies (i.e. those in recession) are **Israel**, **Hong Kong**, **Finland**, **South Africa**, **United Kingdom**, **Venezuela**, **Chile**, the **Philippines**, **Norway** and the **Czech Republic**.

Economies that are booming and perhaps *over-heated* - and therefore unattractive for stockmarket investment - include **Korea**, **Hungary**, **Spain**, **Greece**, **Netherlands**, **United States**, **Ireland**, **Portugal**, **Russia** and **Mexico**.

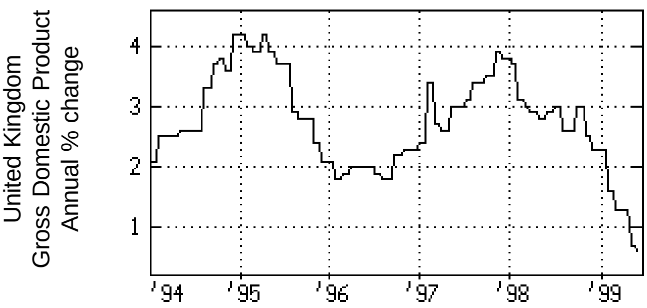
Korea's current growth (GDP up +4.6%, Industrial Production up +18.5% and Retail Sales up +5.4%) is off a low post-crisis base, so the economy is probably not as over-heated as the statistics would suggest. The Russian economy is showing *negative* growth (GDP *down* 4.0%, Industrial Production *down* 4%) but is still rated as *over-heated*, being close to the best economic performance that country has been able to achieve in recent years!!

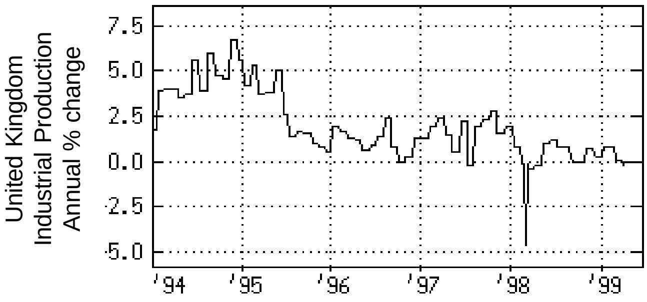
Examples: Share prices are usually depressed during a recession, so the economic slowdown in Hong Kong . . .





. . . and in the United Kingdom . . .





. . . are favourable for their stockmarkets.

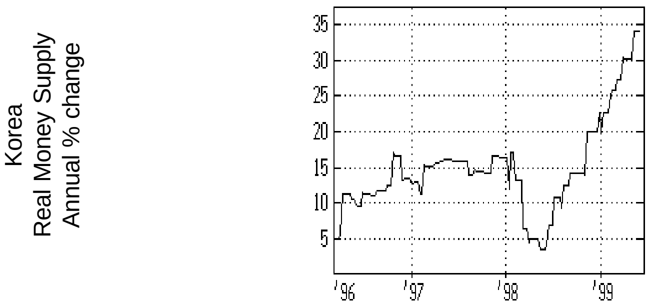
Ranked by Monetary indicators

In the short to medium term, stockmarket trends are often determined by monetary indicators - especially the *level* and *trend* in Real Money Supply and *trends* in Interest Rates. At present the world is enjoying favourable monetary conditions - so the immediate outlook for stock prices is relatively favourable worldwide.

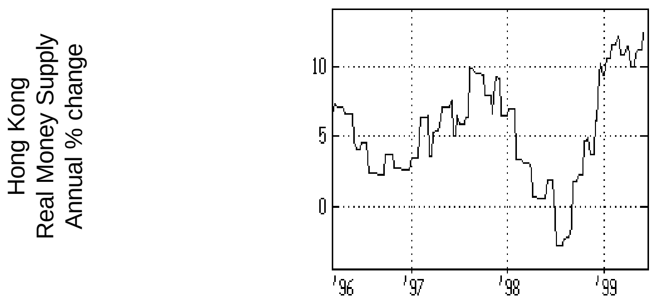
The countries with the most favourable monetary conditions are **Korea**, **Indonesia**, **Hong Kong**, **Thailand**, **Portugal**, **Venezuela**, **Austria**, **Argentina**, **India** and **China**.

At the other end of the spectrum monetary conditions are not so much *unfavourable* but *less favourable*. The least attractive monetary conditions are currently found in **Turkey**, **Norway**, **Russia**, **Canada**, **Brazil**, **Chile**, **United States**, **Switzerland**, **Hungary** and **Poland**.

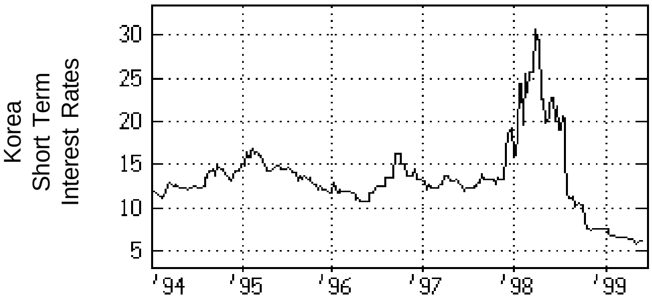
Examples: Real (i.e. inflation adjusted) Money Supply is growing - and at an accelerating rate - in Korea . . .



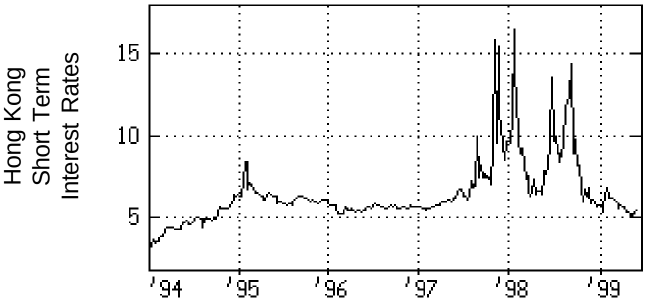
. . . and in Hong Kong . . .



. . . and Interest Rates are also falling rapidly in Korea . . .



. . . and Hong Kong . . .



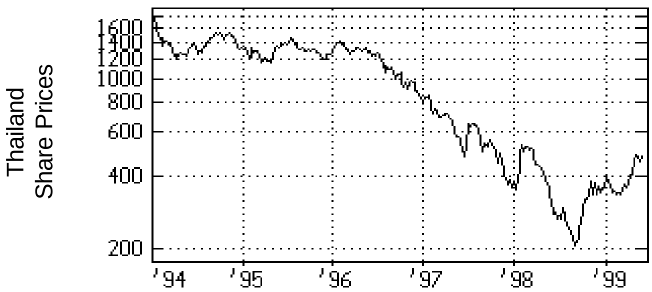
Ranked by Technical indicators

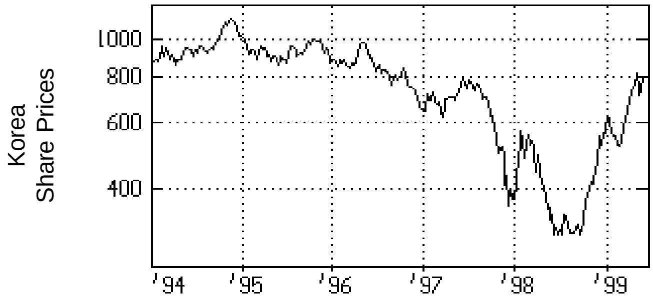
Technical indicators are also important in predicting *short term* stockmarket trends (i.e. up to the next year).

The stockmarkets that are in *strong uptrends* include **Thailand**, **Greece**, **Korea**, **Indonesia**, **Singapore**, **Philippines**, **Malaysia**, **Hong Kong**, **India** and **Taiwan**.

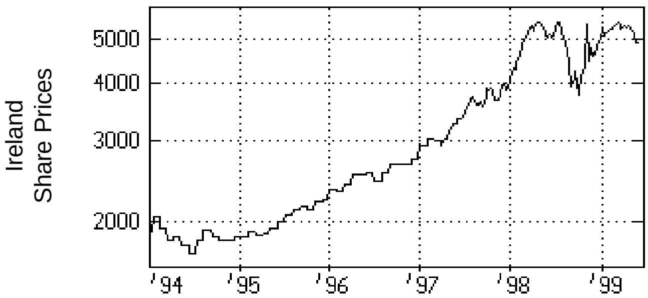
With most world stockmarkets performing well at the present time it is difficult to find stockmarkets in *down trends*. The long term uptrends in **Belgium**, **Portugal**, **Ireland** and perhaps **Austria** are, however, weakening and these stockmarkets are rated as unattractive by the range of technical and trend following indicators that we follow.

Examples: Stockmarkets in Thailand, Greece and Korea are in strong uptrends . . .





. . . while Belgium and Ireland could be about to peak and decline . . .



Summary

If you have got this far without your brain turning to jelly, well done! Making sense out of the Fundamental, Economic, Monetary and Technical indicators is certainly not easy - especially as many of these indicators seem to be in conflict! Stockmarket trends, however, are driven by a range of conflicting forces.

The human brain is not very good at evaluating situations that involve more than a few variables, so to analyse the range of indicators, we have constructed a computer model that produces the Forecasts in the table on the front cover of every issue of "International Investor".

In a few cases, the human brain can identify favourable or unfavourable situations. For example, **Hong Kong** appears three times in the *most attractive* lists above (i.e. with favourable Economic, Monetary and Technical indicators). Turning to our Forecasts on Page One shows that Hong Kong's Fundamental indicators are rated Neutral and its Forecast is a very favourable 86%.

The **United States** and **Hungary** also appear three times in the *least attractive* lists and are rated at 44% and 41%, respectively, on Page One. Those are Neutral Forecasts, but still the lowest of the 43 countries that we follow.

Readers Ask . . .

Question: Using the *Warrant Analysis* in the May 1999 newsletter, how does one choose between similar warrants such as **Guinness Flight Extra Income** and **Dartmoor**? Both warrants have similar discounts (to their Black-Scholes valuation), similar expiry dates, similar leverage and similar break-even rates!

Question: The *most important* thing that you have over-looked is to refer back to the *Investment Trust Survey* in the previous newsletter to see how well or how poorly each of these funds have performed!

The *Warrant Analysis* is designed to be used together with the *Investment Trust Survey*, to enable us to identify under-valued warrants in the best managed funds.

Unfortunately, in this particular case, the *Investment Trust Survey* does not allow us to choose between these two funds: Guinness Flight earns a *Superiority Rating* of +4%, while Dartmoor earns a similar +3% rating - indicating that both funds have performed reasonably well.

The next place you can look for more information would be on the internet at the Trustnet site (www.trustnet.co.uk) or the Financial Times site (www.ft.com).

From the Financial Times site you can find each trust's discount or premium to net asset value and from the Trustnet site you can find the winding up date. A trust should trade close to its net asset value as the winding up date approaches, so a trust trading at a large discount *and* just one to three years way from winding up would be particularly attractive.

Dartmoor doesn't have a winding up date (i.e. the trust will continue forever, unless a decision is made to liquidate at some stage), while Guinness Flight will be wound up in October 2002 - which is four months *after* the expiry date of its warrants. Both trusts trade at a *premium* to net asset value: Dartmoor at a 19% premium and Guinness Flight at an 8% premium. In this situation, Guinness Flight's *lower* premium would be more attractive.

Overall, however, there isn't a lot to choose between these two trusts. The best thing to do in this situation - especially with warrants which are very volatile investments - would be to make a small investment in *both* rather than a large investment in only one. Through a UK discount broker the brokerage fee will be low, so making two purchases is not expensive.

Question: How is the "break-even" rate calculated in the *Warrant Analysis*? For **Jupiter Extra Income** the newsletter shows a break-even rate of -4%, but the share price is 149¾ pence and the exercise price only 100 pence in one year and four months.

Answer: The "break-even" rate is the annual rate of appreciation (or in this case, annual rate of *decline*) at which an investor buying the warrant will "break-even" on the investment. If the share price rises more than the "break-even" rate then the warrant investment will start to earn a profit.

The important figures are not only the current share price, the exercise price and the length of time until the warrant expiry, but also the *current price of the warrant*.

In this example the calculation is complicated as the warrant holder will be able to buy 1.011 shares for £1.00 with every warrant - rather than one share per warrant which is usually the case.

Last month the warrants could be purchased at 44 pence. So to "break-even" the warrants would need to be worth 44 pence at the expiry date in one year and four months. As the exercise price is 100 pence, the warrant will be worth 44 pence at the expiry date *if* the share price is 142.4 pence. At that share price, the 1.011 shares that can be purchased with each warrant will be worth 144 pence, and deducting the 100 pence exercise cost will give each warrant a value of 44 pence.

The share price at the time of last month's *Warrant Analysis* was 149¾ pence, so the price could *decline* by 4.9% over the next 16 months for an investor buying the warrants to still break-even on his investment That is a *compound* rate of -3.7% per annum - which is rounded to -4% in the table.

You are probably confusing the fact that the share price could fall 33.9% before the warrant would become *worthless*.

Internet Password

"International Investor" is published on the Internet in full but password protected to prevent unauthorised access by non-subscribers.

June's Password July's Password

See Print Newsletter

Please keep these passwords confidential!

Next Issue

The next issue of "International Investor" will be posted in five weeks time on Tuesday July 13, 1999.

INTERNATIONAL INVESTOR is published 12 times per year by Securities Research Company Limited, P.O. Box 34-162, Auckland. (66 Stanaway Street. Telephone 64-9-4199 427 Facsimile 64-9-4199 428 Internet: www.stockmarket.co.nz Email: james@stockmarket.co.nz). Subscription Rate $130 (including GST) per year.