

International Investor

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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\$) | | | Share Index |
|-------------|-------------------|------------------------|----------------------|---------------------|---------------------|----------------------------------|--------|---------|-------------|
| | | | | | | 3 mths | 6 mths | 12 mths | |
| Australia | 68% | Neutral | Bullish | Bullish | Neutral | +6.1% | +10.1% | +11.2% | 2,987.70 |
| Austria | 63% | Neutral | Bullish | Bullish | Neutral | +11.6% | +9.4% | -19.0% | 1,289.85 |
| Belgium | 45% | Bearish | Bearish | Bullish | Neutral | -12.6% | -5.5% | +2.6% | 3,180.46 |
| Canada | 57% | Bearish | Bullish | Neutral | Bullish | +7.3% | +13.1% | -10.7% | 6,958.86 |
| Denmark | 63% | Neutral | Bullish | Bullish | Bullish | -2.0% | +8.1% | -14.1% | 644.87 |
| Finland | 68% | Bearish | Bullish | Bullish | Bullish | +10.1% | +38.5% | +33.5% | 6,765.97 |
| France | 57% | Bearish | Bullish | Bullish | Neutral | +0.5% | +3.7% | +6.9% | 2,747.39 |
| Germany | 56% | Bearish | Bullish | Bullish | Neutral | -0.4% | +8.8% | -0.8% | 5,297.38 |
| Ireland | 68% | Neutral | Bullish | Bullish | Neutral | -5.1% | -4.4% | -6.3% | 5,180.69 |
| Italy | 61% | Bearish | Bullish | Bullish | Neutral | +2.7% | +2.7% | +3.8% | 24,855.00 |
| Japan | 65% | Bearish | Bullish | Bullish | Bullish | +14.2% | +15.6% | +22.2% | 16,946.52 |
| Netherlands | 56% | Bearish | Bullish | Bullish | Neutral | +3.9% | +8.3% | +1.3% | 787.70 |
| Norway | 63% | Neutral | Bullish | Neutral | Bullish | +7.2% | +12.4% | -22.5% | 592.15 |
| Spain | 55% | Bearish | Bullish | Bullish | Neutral | -1.3% | +0.5% | +3.6% | 899.52 |
| Sweden | 70% | Neutral | Bullish | Bullish | Neutral | -0.2% | +4.2% | -8.2% | 3,637.11 |
| Switzerland | 50% | Bearish | Neutral | Neutral | Neutral | -3.9% | -1.6% | -5.2% | 7,215.40 |
| Un. Kingdom | 75% | Bearish | Bullish | Bullish | Bullish | +8.4% | +3.9% | +4.1% | 6,356.00 |
| USA | 46% | Bearish | Bullish | Neutral | Bearish | +8.5% | +5.5% | +21.4% | 1,345.00 |
| Argentina | 81% | Neutral | Bullish | Bullish | Bullish | +38.9% | +38.7% | -0.3% | 22,938.49 |
| Brazil | 73% | Bullish | Bullish | Neutral | Bullish | +61.8% | +51.7% | -24.2% | 12,233.23 |
| Czech Rep. | 56% | Bearish | Bullish | Neutral | Bullish | +4.8% | +18.8% | -16.5% | 1,358.00 |
| Chile | 57% | Neutral | Bullish | Bearish | Bullish | +29.9% | +22.2% | -4.9% | 4,525.92 |
| China | 60% | Neutral | Bullish | Neutral | Bullish | +57.0% | +45.6% | -15.2% | 624.64 |
| Greece | 58% | Bearish | Bullish | Bullish | Bearish | +15.0% | +21.5% | +71.6% | 4,037.02 |
| Hong Kong | 80% | Bearish | Bullish | Bullish | Bullish | +41.4% | +26.9% | +29.0% | 12,997.43 |
| Hungary | 43% | Bearish | Bullish | Neutral | Bearish | -4.7% | +22.2% | -32.0% | 6,532.92 |
| India | 81% | Bullish | Bullish | Bullish | Bullish | +14.5% | +1.0% | -14.2% | 3,707.75 |
| Indonesia | 76% | Bearish | Bullish | Bullish | Bullish | +60.1% | +69.6% | +39.1% | 575.12 |
| Israel | 64% | Bearish | Bullish | Bullish | Bullish | +56.8% | +45.7% | +33.3% | 410.01 |
| Malaysia | 75% | Neutral | Bullish | Bullish | Bullish | +23.8% | +33.8% | +17.3% | 691.68 |
| Mexico | 62% | Bearish | Bullish | Bullish | Neutral | +60.7% | +46.2% | +10.2% | 5,964.37 |
| Philippines | 73% | Bearish | Bullish | Bullish | Bullish | +29.7% | +29.4% | +20.8% | 2,526.76 |
| Poland | 67% | Neutral | Bullish | Neutral | Bullish | +3.5% | +17.3% | -23.2% | 15,435.20 |
| Portugal | 55% | Neutral | Bearish | Bullish | Neutral | -16.4% | -8.2% | -24.5% | 2,218.09 |
| Russia | 48% | Bearish | Bullish | Neutral | Neutral | +103.1% | +48.4% | -67.4% | 829.44 |
| Singapore | 65% | Bearish | Bullish | Neutral | Bullish | +38.8% | +33.3% | +25.2% | 1,899.45 |
| Sth Africa | 77% | Neutral | Bullish | Bullish | Bullish | +15.2% | +12.5% | -29.5% | 6,918.52 |
| Korea | 67% | Bearish | Bullish | Bullish | Neutral | +45.2% | +57.8% | +144.0% | 810.62 |
| Taiwan | 72% | Neutral | Bullish | Bullish | Bullish | +34.5% | +18.5% | -8.3% | 7,469.33 |
| Thailand | 69% | Bearish | Bullish | Bullish | Bullish | +44.2% | +47.4% | +32.5% | 488.35 |
| Turkey | 53% | Bearish | Bullish | Bearish | Bullish | +77.3% | +36.4% | -13.3% | 5,735.00 |
| Venezuela | 77% | Bullish | Bullish | Bullish | Bullish | +38.2% | +54.2% | -14.7% | 5,897.23 |

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

The largest stockmarket gains over the last 3-6 months have been in the "Emerging" stockmarkets - Asian and Latin American stockmarkets have bounced back strongly. The risk of financial *contagion* and seemingly endless financial crisis has diminished - with low inflation, low interest rates and ample liquidity driving stockmarkets higher.

Asian stockmarkets, in particular, are awash with liquidity. In the aftermath of the *crisis* bank lending declined and personal savings rates rose - boosting liquidity in the financial markets. Domestic liquidity has further been increased by Asia's massive devaluations. What eighteen months ago was a "currency crisis" is now becoming more widely recognised as the "competitive advantage" of a lifetime.

Plentiful liquidity and over-capacity in industry will result in financial asset inflation - that is, stockmarkets will rise in value. There may be a few wide fluctuations,

but the overall trend will be upwards. We do not expect a major correction in Asian stockmarkets until late this year or early next year, followed by stockmarkets bouncing back to further new highs.

Ultimately, the recovery of Asian *economies* requires further major structural and financial reforms. Korea has made good progress in this area, and China is negotiating for immediate entry into the World Trade Organisation - which will set a timetable for tariff cuts and opening up most industries to international competition.

We are surprised by the speed with which Latin American stockmarkets have recovered - although Fundamentally they offer some of the best *value* in the world.

Among the major stockmarkets, the United Kingdom has become attractive with a one-year Forecast of 75% (i.e. a 75% chance that the stockmarket will rise over the next year.)

Recommended International Investment Funds

Although the Hong Kong stockmarket fell 4.2% last Friday and Thailand fell 4.8%, these markets are up 9.1% and 31.3% over the last four weeks and our Thai fund, **Old Mutual Thailand** is up 44%. Korea rose 17.9% for the month, with **Baring Korea** gaining 19.7%. **Fidelity Asian** shares rose 7.2% with the warrants up 16.3%, while **Martin Currie Pacific** shares rose 10.7% and the highly leveraged warrants 81.1%.

So is it time to take profits? No way - Asian stockmarkets will remain volatile, but liquidity will drive prices higher. As we have indicated over the last 18 months, the "Asian crisis" offered a once-in-a-life-

time buying opportunity - the equivalent of buying United States stocks during the Great Depression! We invested in these stockmarkets for the *long term* recovery, which is still in the very early stages - just nine months old.

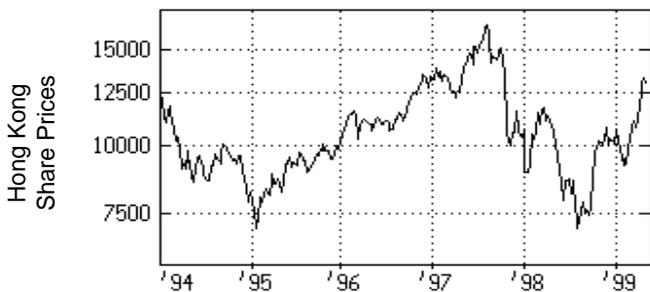
Discounts/Premiums on UK Investment Trusts
Baillie Gifford Shin Nippon shares currently trade at a 23% discount to net assets, **I & S UK Smaller Companies** shares trade at a 19% discount and **Jupiter International Green** shares at a discount of 32%. **Fidelity Asian Values** shares trade at a 12% discount, **Martin Currie Trust** at a 17% discount and **TR European Growth** at a 10% discount.

| Current Advice | Investment Fund | EPIC Code | Initial Recommendation - Date - | - Offer Price - Foreign NZ Cents | Recent Price Bid-Offer NZ Cents | Gain or Loss |
|-----------------------------------|------------------------------------|-----------|---------------------------------|----------------------------------|---------------------------------|--------------|
| European | | | | | | |
| BUY | TR European Growth Trust plc | TRG | 11/02/97 | 157.5p (374.7) | 197.0p (574.3) | +53 |
| Asian | | | | | | |
| HOLD | AIB Govett Greater China Fund | * | 13/08/96 | 212.9p (480.4) | 202.50 - 216.58p (610.9) | +27 |
| BUY | Fidelity Asian Values WARRANTS | FASW | 10/03/98 | 17.5p (49.7) | 28.5p (83.1) | +67 |
| HOLD | Gartmore Pacific Growth Fund | * | 29/10/85 | 41.4p (105.4) | 169.63 - 181.42p (511.7) | +386 |
| BUY | HSBC Asian Fund | * | 10/11/98 | 34.4p (106.3) | 43.29 - 46.20p (130.5) | +23 |
| BUY | HSBC Hong Kong Growth Fund | * | 07/04/98 | 159.4p (481.6) | 163.10 - 173.90p (491.3) | +2 |
| HOLD | Martin Currie Pacific WARRANTS | MCPW | 10/02/98 | 21.0p (59.3) | 16.75p (48.8) | -18 |
| Japan | | | | | | |
| HOLD | Baillie Gifford Shin Nippon plc | BGS | 11/01/94 | 156.0p (440.3) | 94.5p (275.5) | -37 |
| HOLD | Gartmore Japan Trust | * | 12/04/94 | 270.5p (698.2) | 192.00 - 203.11p (576.0) | -18 |
| Korea | | | | | | |
| BUY | Baring Korea Trust | * | 12/04/94 | 81.1p (209.4) | 61.87 - 66.69p (187.4) | -10 |
| Thailand | | | | | | |
| BUY | Old Mutual Thailand Trust | * | 08/12/98 | 49.0p (155.9) | 75.63 - 81.66p (229.3) | +47 |
| International | | | | | | |
| HOLD | Aberdeen Prolific Emerging Markets | * | 13/08/91 | 39.0p (116.1) | 54.06 - 57.20p (162.2) | +40 |
| HOLD | Jupiter International Green IT plc | JUP | 08/10/96 | 36.0p (80.7) | 39.5p (115.2) | +43 |
| United Kingdom | | | | | | |
| HOLD | Hill Samuel UK Emerging Coys | * | 13/04/93 | 56.2p (159.1) | 130.96 - 137.13p (390.8) | +146 |
| HOLD | I & S UK Smaller Coys IT plc | ISU | 11/02/97 | 160.0p (380.6) | 166.5p (485.4) | +28 |
| * United Kingdom based Unit Trust | | | | | | |

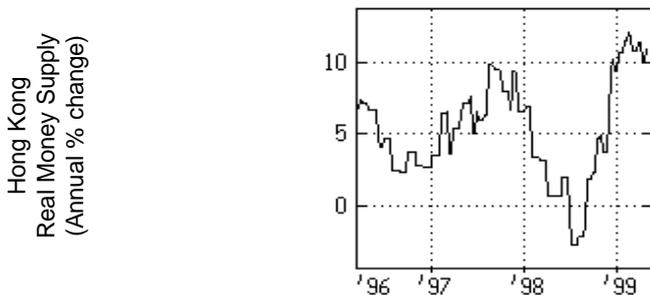
Both the Hong Kong and Japanese stockmarkets have started to recover and have risen strongly during 1999. In the case of Hong Kong, this recovery is being driven by a domestic liquidity boom which - with low demand for investment in the real economy (i.e. plant, machinery, factories) - is fueling a boom in financial assets (i.e. share prices). The recovery in the Japanese stockmarket is also being driving by monetary conditions, although here the major factor bidding up share prices is massive buying by foreign investors. Can these favourable monetary conditions driving the Hong Kong and Japanese stockmarkets higher continue?

Country Review: Hong Kong's Liquidity Boom

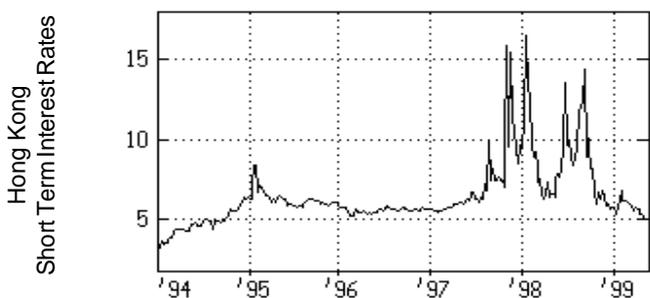
The Hong Kong stockmarket has almost doubled in value since August 1998 . . .



. . . with this strong recovery coinciding with a sharp increase in Real Money Supply . . .



. . . and a decline in interest rates . . .



Several factors are behind this liquidity boom:

Firstly, a weak economy lowers the demand for bank loans to fund investment in the real economy (i.e. investment in plant, machinery or buildings). Banks therefore invest more in short term financial assets (i.e. commercial bills and other short term deposits).

Secondly, as in other Asian economies, domestic savings rates have increased in response to the 1997 economic crisis. The increase in bank deposits (resulting from higher personal savings) and the drop in bank lending (owing to the weak economy) are the major

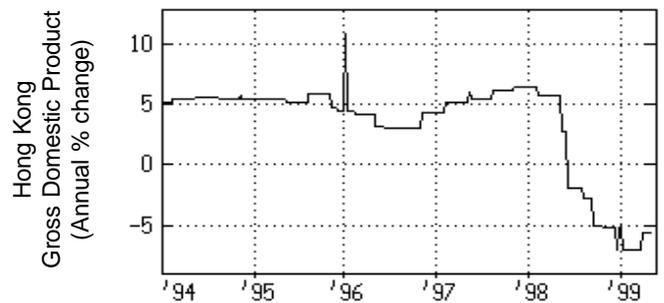
factors behind the liquidity boom.

Thirdly, in August 1998 the HK Government intervened in the stockmarket, spending US\$10,000 million buying shares. This was funded by selling some of the HK Monetary Authority's holdings of United States treasury bills. These purchases not only helped support the HK stockmarket but injected liquidity into the HK money supply. Foreign investors selling to the HK Government would have repatriated the money offshore, but at least part of that money would have remained in HK dollars and increased the money supply.

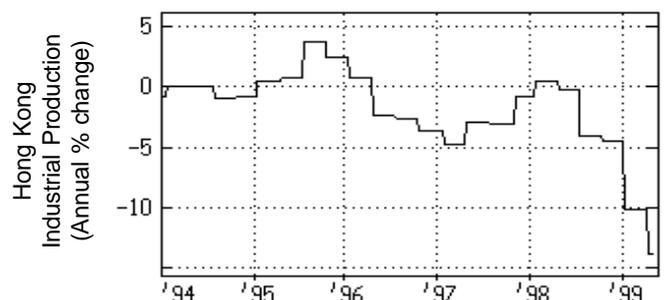
Fourthly, with the economy in recession, the HK Government has cut taxes and is running an annual budget deficit equal to about 3-4% of GDP. This is being funded from foreign exchange reserves. That is, selling foreign investments to fund HK dollar spending - which steadily increases the local money supply.

The current liquidity boom is therefore likely to continue until either (1) the economy recovers strongly, increasing the demand for bank loans or (2) domestic consumption increases sufficiently to significantly reduce bank deposits.

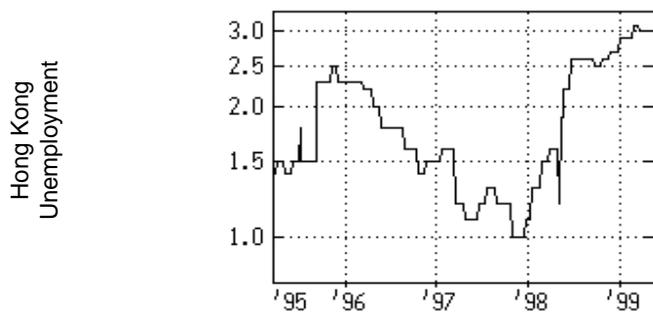
The HK economy is currently in recession, as shown by the sharp decline in Gross Domestic Product . . .



. . . Industrial Production . . .



... and the rise in Unemployment ...



Deflation (i.e. a *negative* inflation rate) also indicates a weak economy, where production capacity exceeds consumer demand.

However - as we said two months ago - when "the economy looks bleak, the situation is unlikely to get much worse".

A strong economic recovery would draw liquidity out of the financial markets to finance growth in the real economy. A strong recovery, however, is not expected in the near term. The economy is most likely to experience a slow recovery - so the current liquidity boom is likely to continue for at least the next 6-12 months.

Summary

Later, when the economy does start to recover strongly, the HK stockmarket may suffer a correction or a period of under-performance - but over the next year the liquidity boom is likely to further inflate HK stock prices.

Country Review: Foreign Investors Buy Japanese Shares

The Japanese stockmarket has risen strongly recently as a result of massive buying by foreign investors ...



In the first four months of 1999, foreign investment in the Japanese stockmarket has risen by ¥2.6 trillion (US\$22,000 million). That compares with an inflow of ¥3.2 trillion in the whole of 1996, a ¥1.4 trillion inflow in 1997 and a ¥0.4 trillion *outflow* in 1998.

International institutional investors have been under-weighted in Japanese equities relative to "benchmarks" (i.e. the percentage of Japanese shares in world stockmarket indices) and have been buying to return to a neutral level.

There are no reliable statistics on total institutional weightings, but "The Economist" magazine conducts a quarterly Portfolio Poll of eight institutional investors. Their latest survey ("The Economist", April 24-30) shows the institutions have between 5-18% (with an average of 10%) of their equity portfolios in Japanese shares. This is in line with the 10% of value that Japanese equities currently make up of the world's stockmarket capitalisation. The previous quarterly poll showed an average of only 7% in Japanese shares - so institutions have increased their investment in the Japanese stockmarket by about 40% over the quarter.

That poll would *suggest* that institutions have *completed* re-balancing portfolios to a neutral weighting in

Japanese equities. It is, however, a survey of only eight institutions, so is not statistically significant - especially as the portfolio weighting in Japanese equities varied widely among them! The average weighting in Japanese equities of *all* international institutional investors may vary from the current neutral weighting in this limited poll.

Further buying of Japanese equities may next come from domestic investors. The weakness of the US dollar against the Yen since August 1998 and the strength of the Japanese stockmarket will likely see a switch in new domestic investment into the Japanese stockmarket in favour of foreign stockmarkets or foreign bonds

...



Japanese investment in foreign equities has been relatively low at about ¥300 billion (US\$2,500 million) per year, although the investment flow into foreign bonds has been much greater. Japanese interest rates range from just 0.05% (yes, just 1/20th of 1%) for short term deposits, up to around 0.8% for long term corporate bonds. If Japanese investors keep their money in the country to avoid possible foreign exchange losses, then fixed interest investments are unattractive and a large flow of money could find its way into the Japanese stockmarket.

Split Capital Review

Sell Fleming Income & Growth

Fleming Income & Growth's re-organisation has been approved, so every 1000 warrants previously owned have converted to 450 "Capital 2006" shares. Warrants that did not make a "Continuation Election" retain their previous rights and are currently worth around 119½ pence. The new "Capital 2006" shares are trading around 304½ pence - or the equivalent of 137 pence for our original warrants.

We are now recommending selling these new "Capital 2006" shares. The re-organisation has helped to further substantially increase the value of the warrants from around 94½ pence before the announcement. We voted for the "Continuation Election" as it increased their value to the equivalent of 137 pence (in the new shares) rather than 119 pence in the original warrants.

Part of our investment strategy in split capital shares is to buy shares at a substantial discount to net asset value - and to watch that discount narrow as the winding up date grows nearer! In fact, it was the approach of the original April 2000 winding up date that led to the recent re-organisation that has boosted the value of our investment! Therefore, we don't want to be tied into a split capital share that has many years to go until its winding up date. With seven years until their winding up date, the new Fleming Income & Growth "Capital 2006" have little potential for their discount to narrow - and it could even widen significantly (i.e. the share price could fall relative to the net asset value) over the short to medium term.

We originally bought 10,000 warrants at 18½ pence in July 1997 (an investment of £1885 including brokerage), and have previously sold 3500 at 74 pence in March 1998 (realising £2565 after brokerage) and 3000 at 57 pence in August 1998 (for £1685 after costs). Our remaining 3500 warrants have become 1575 "Capital 2006" shares which we now recommend selling. This should realise around £4700. So our initial investment of £1885 has grown to a total of £8950. That is a substantial capital gain - but the sort of potential appreciation that is necessary to justify making an investment that could just as easily become completely worthless if the stockmarket declined in value!

New "Informal" Buy Recommendation

Schroder Split Fund plc "capital" shares were highlighted sixteen months ago in a "Split Capital Review" ("International Investor", January 1998, Issue No. 25) as a share "worth watching". These shares have subsequently become more attractive. Several factors have contributed to the improvement:

Firstly, the company's portfolio has increased 12.3% in value from £138 million to £155 million.

Secondly, the Capital shares are leveraged, so their net asset backing has risen by 33% from 73 pence to 97 pence.

Thirdly, the market value of the Capital shares has increased only 10% from 45¾ pence to 50½ pence - so the discount to net asset value is up from 37% to 48%.

Fourthly, the passage of time has reduced the period until the winding up date from 48 months to 32 months.

At the winding up date the market value of the shares will be very close to their net asset value, so the huge discount must close as the winding up date approaches.

Capital Structure

Schroder Split Fund has three types of shares: 37,738,500 Zero Dividend Preference shares, 56,607,750 Income shares and 28,303,875 Capital shares. At the trust's winding up date of January 31, 2002, the company will first repay £76.5 million to the ZDP shareholders (at 202.75 pence each), then £56.6 million to the Income shareholders (at £1.00 each) and then £11.5 million to the Capital shareholders (40.55 pence per share). Any remaining assets in excess of £144.6 million will be split one-third to the Income shareholders and two-thirds to the Capital shareholders.

The fund's portfolio is currently worth around £155.1 million, so (at current values) the Income shares would receive a further 6.2 pence (or 106.2 pence in total) and the Capital shares a further 24.7 pence (or 65.25 pence in total). This "excess" payment to each Capital share is *four times* the payment to each Income share as two-thirds of the excess goes to the Capital shares *and* there are only half as many Capital shares as there are Income shares. In fact, based upon the current value of the ZDP shares (i.e. excluding the "interest" value that will accrue over the next 32 months), the net asset value of the Capital shares is 97 pence.

Schroder Split Fund is fully invested in UK shares - mainly of larger "blue chip" companies - so every 1% rise in the UK stockmarket will increase the value of the portfolio by around £1.55 million. Two-thirds of that will go to the Capital shareholders - so adds 3.6 pence to their net asset value.

If the UK stockmarket remains unchanged over the next 32 months, then the Capital shares will receive about 65 pence at the January 2002 winding up - or a gain of 24% (8.4% p.a.). A 5% per annum gain in the portfolio would see the Capital shares worth 112 pence for a 114% gain (33% p.a.). If the portfolio grows by 10% p.a. the Capital would be worth 163 pence, up 212% (53% p.a.), while a 20% p.a. growth would see the Capital shares grow in value to 278 pence, up 430% (86% p.a.). On the other hand, if the UK stockmarket fell in value by 6% per annum (a total drop of 14% or more), then the Capital shares would become worthless.

We are not formally recommending these shares, but will be making a small investment in them for our own portfolio.

These shares are only suitable for more "sophisticated" investors who are prepared to take high risks with a small portion of their portfolio (in search of very high returns!). You will need to be using an internet broker to be able to sell quickly if necessary (selling through a NZ broker can take 7-14 days!) and be able to monitor this type of volatile investment and make appropriate decisions should the situation change and require quick action!

The EPIC code for Schroder Split Fund "capital" shares is SDRA. The shares are actively traded, with five "market-makers" quoting *(Continued on Page 6)*

Split Capital Review (Continued from Page 5)
the shares. The recent quotes were 49-52 pence, with trades around 50½ pence.

Other "Split Capital" Shares

The other *informal* recommendations in which we hold shares are **Framlington Dual** and **Gartmore Scotland**.

Framlington Dual shares recently traded around £2.57, which is a 16% discount to their net asset value of £3.04½. We originally bought 4500 shares at 58 pence in April 1997 - selling 1500 shares at £2.06 in March 1998 and another 1500 shares at £1.36 in August 1998. The company will be wound up in July this year (if not re-organised to extend its life) so we are

progressively selling off the remaining 1500 shares ahead of the winding up. Continue to realise profits and sell off the remainder of these shares.

Gartmore Scotland Investment Trust "capital" shares were informally recommended in January of this year at £2.91½ (a 31% discount to its net asset value of £4.22), and a few weeks later we bought 550 shares at £2.74 for our own portfolio (for a total cost of £1530).

Since January, Gartmore Scotland's share price has risen 5.5% to £3.07½, while net asset value is up 6.5% to £4.49½. So the discount to net assets has increased slightly to 32%. This trust will be wound up in July 2001 (i.e. in two years and two months) so the large discount must narrow significantly over the period.

Listed Investment Trust Warrant Analysis

Warrant prices have jumped significantly for trusts investing in Latin America, the Far Eastern/Pacific, Japan and Emerging Markets as these stockmarkets recovered strongly in value over the last 3-6 months. In many cases, however, warrants still remain *under-valued* relative to the investment trust share prices. Latin American and Emerging Market warrants are particularly under-valued - with most trading 30-50% below *fair* valuations and requiring share prices to rise as little as 5-10% per annum for a warrant investor to "break-even" and start to earn profits. Several Far Eastern warrants are 15-40% under-valued, with "break-even" rates of 5-15% p.a. also common.

A major stockmarket, like the United Kingdom, does not have the same potential for capital appreciations as those more volatile markets mentioned above - but here "break-even" rates range from -4% (i.e. the warrant investor will "break-even" if the share price *drops* 4% p.a.) through to around 7% p.a. Most warrants on trusts investing in the UK are "fairly" valued but offer leverage of 2-3 times, so will multiply any stockmarket gains (and any stockmarket losses). There are also a handful of *income* trusts whose warrants are under-valued by 30-40% and with "break-even" rates around zero.

Warrants are risky investments, that multiply the gains or losses of investing in the stockmarket. Over the long run, however, stockmarkets provide a positive return that has averaged around 10% p.a. So *slightly* leveraging an investment portfolio should increase long term returns (although at the cost of greater volatility). Therefore we favour the use of a *little* leverage (if appropriate to an investor's financial circumstances and risk tolerance) - especially when such leveraged investments can be purchased at a 30-50% discount to their "fair" value.

City of Oxford Income warrants.

Guinness Flight Extra Income warrants

A year ago ("International Investor" Issue No. 29) we

informally recommended "two *extremely* highly leveraged" warrants on split-capital trusts: **City of Oxford Income** and **Guinness Flight Extra Income**.

At the time, **City of Oxford Income** shares were selling at 46½ pence and the warrants at just 9 pence. The exercise price on the warrants was 36 pence, giving them an *intrinsic* value of 10½ pence and their Black-Scholes value was 14.8 pence - so we bought 20,000 warrants at 9½ pence for our own portfolio (costing a total of £1935). The share price immediately peaked at 48 pence and declined to a low of 15 pence last October, before recovering to around 30 pence at present. Unfortunately these warrants expire next month - and will be worthless if the share price doesn't rise above 36 pence in the *very near* future!!! While the situation looks hopeless, there is just a faint chance . . .

The trust leverage is a massive 5.7 times, so every 1% rise in the UK stockmarket adds 5.7% to net assets. Net asset value is currently 38¼ pence, with the shares trading at a 22% discount and with the company to be wound up in September this year. So if the UK stockmarket can rally just 3½% (but hopefully a *lot* more) we may yet salvage *something*. This is all getting far too tight for comfort! The warrants will probably expire worthless, but if they do rally this month or in June we shall sell on market.

Guinness Flight Extra Income shares were selling at 153½ pence last year and the warrants at 41 pence. The *intrinsic* value of the warrants was 53½ pence and the Black-Scholes value was 79¾ pence, so we bought 4,500 warrants at 42½ pence (a £1948 investment). Guinness Flight Extra Income shares also immediately peaked at 155 pence in June 1998, fell to about 113 pence in October 1998 and have recovered back to 153½ pence - which is where this story started out - although the warrant price is down slightly at 39½ pence (but up from a low of 19 pence). More importantly, the warrants still have *over three years* until their expiry in June 2002.

The warrants currently have an intrinsic value of 53½ pence and a Black-Scholes value of 69½ pence, so are still *under-valued*. In addition, this is a *very highly leveraged* investment, so if the UK stockmarket rises

over the next two years these warrants could yield an excellent capital gain. The trust leverage is 2.0 times, and the warrant leverage is 2.1, making these warrants *4.2 times* more volatile than the UK stockmarket.

| Warrant | Current Share Price | Warrant Exercise Price | Years & Months to Expiry | Current Warrant Price | Black-Scholes Value | Warrant Over/Under Valued (%) | Share Volatility | Warrant Leverage | Warrant Return (%p.a.) from Break-Share Price appreciation of: | 5%pa | 10%pa | 20%pa | Even Rate |
|-------------------------------------|---------------------|------------------------|--------------------------|-----------------------|---------------------|-------------------------------|------------------|------------------|--|--------|--------|--------|-----------|
| <u>INTERNATIONAL</u> | | | | | | | | | | | | | |
| World Trust Fund | 979.3p | US\$10.00 | 1-7 | 535.53p | 417.74p | +28 | 0.250 | 2.3 | -11.1 | -1.2 | +17.7 | +11% | |
| Henderson Technology | 159.5p | 100.0p | 6-4 | 81.75p | 95.82p | -15 | 0.341 | 1.5 | +5.9 | +14.4 | +28.8 | +2% | |
| Herald Investment Trust | 226.0p | 100.0p | 3-11 | 132.00p | 145.08p | -9 | 0.265 | 1.5 | +7.2 | +15.0 | +29.3 | +1% | |
| Inv Trt of Inv Trts | 112.0p | 150.0p | 4-7 | 54.00p | 14.91p | +262 | 0.183 | 4.3 | -100.0 | -16.7 | +16.4 | +14% | |
| Ptarmigan International | 276.0p | 200.0p | 0-4 | 77.50p | 79.46p | -2 | 0.216 | 3.5 | +12.2 | +31.5 | +74.4 | +2% | |
| Asset Management | 62.5p | 99.2p | 2-8 | 15.00p | 5.33p | +181 | 0.298 | 4.4 | -100.0 | -100.0 | -49.3 | +25% | |
| F & C Spec Utility -Cap | 159.0p | 100.0p | 8-8 | 65.00p | 100.46p | -35 | 0.279 | 1.5 | +9.5 | +17.5 | +30.9 | +0% | |
| <u>EMERGING STOCKMARKETS</u> | | | | | | | | | | | | | |
| Abtrust Emerging Econ. | 57.5p | 100.0p | 8-8 | 17.50p | 22.10p | -21 | 0.371 | 1.8 | -100.0 | +7.0 | +30.8 | +9% | |
| Dresdner RCM Emerg Mkts | 90.5p | 100.0p | 5-2 | 28.75p | 30.99p | -7 | 0.315 | 2.2 | -10.2 | +10.5 | +34.3 | +7% | |
| F & C Emerging Markets | 61.0p | 102.0p | 3-10 | 9.75p | 15.41p | -37 | 0.464 | 2.2 | -100.0 | -100.0 | +21.7 | +17% | |
| Murray Emerg. Economies | 48.8p | 100.0p | 4-9 | 8.00p | 11.44p | -30 | 0.446 | 2.2 | -100.0 | -100.0 | +15.6 | +18% | |
| Schroder Emer Countries | 66.5p | 100.0p | 7-4 | 20.00p | 29.63p | -32 | 0.445 | 1.6 | -100.0 | +7.4 | +32.0 | +8% | |
| Tea Plantations | 61.5p | 100.0p | 2-8 | 10.00p | 4.52p | +121 | 0.288 | 4.7 | -100.0 | -100.0 | -93.4 | +24% | |
| Templeton Emerging Mkts | 132.5p | 133.0p | 5-4 | 39.00p | 54.68p | -29 | 0.353 | 1.9 | -0.1 | +16.3 | +38.0 | +5% | |
| <u>LATIN AMERICA</u> | | | | | | | | | | | | | |
| Aberdeen Latin American | 57.3p | 100.0p | 10-5 | 18.75p | 36.94p | -49 | 0.577 | 1.3 | -100.0 | +10.8 | +29.7 | +7% | |
| Edinburgh Inca | 23.0p | 50.0p | 9-9 | 6.50p | 14.17p | -54 | 0.615 | 1.3 | -100.0 | +2.5 | +30.3 | +10% | |
| Morgan G Latin America | 67.3p | 100.0p | 11-1 | 22.50p | 39.23p | -43 | 0.447 | 1.4 | -3.3 | +13.7 | +29.9 | +6% | |
| Scudder Latin America | 90.3p | 100.0p | 5-3 | 20.00p | 45.93p | -56 | 0.540 | 1.5 | -3.5 | +18.5 | +43.9 | +6% | |
| Templeton Latin Amer. | 90.3p | 100.0p | 1-0 | 10.50p | 14.48p | -27 | 0.457 | 3.7 | -100.0 | -100.0 | -21.0 | +22% | |
| Five Arrows Chile IT | 142.0p | US\$ 3.26 | 0-0 | 0.92p | 0.00p | +999999 | 0.434 | 9999.9 | -100.0 | -100.0 | -100.0 | +9999% | |
| <u>UNITED STATES</u> | | | | | | | | | | | | | |
| F & C US Smaller Coys | 173.0p | 100.0p | 3-6 | 85.00p | 90.10p | -6 | 0.205 | 1.9 | +6.3 | +15.7 | +32.5 | +2% | |
| US Smaller Companies | 248.5p | 100.0p | 3-4 | 162.00p | 164.85p | -2 | 0.283 | 1.5 | +5.3 | +12.7 | +26.7 | +2% | |
| <u>UNITED KINGDOM</u> | | | | | | | | | | | | | |
| Aberforth Smaller Coys | 265.5p | 100.0p | 3-10 | 162.50p | 183.56p | -11 | 0.202 | 1.4 | +8.2 | +15.5 | +29.2 | -0% | |
| Beacon IT | 129.5p | 100.0p | 3-11 | 44.00p | 48.49p | -9 | 0.142 | 2.6 | +6.7 | +19.4 | +40.0 | +3% | |
| Britannia Smaller Coys | 158.0p | 100.0p | 0-11 | 57.50p | 63.87p | -10 | 0.354 | 2.4 | +14.7 | +28.6 | +56.6 | -0% | |
| British Assets Trust | 137.3p | 101.0p | 2-4 | 48.00p | 48.48p | -1 | 0.176 | 2.7 | +4.2 | +17.9 | +42.1 | +4% | |
| Dartmoor IT | 182.0p | 118.0p | 3-2 | 48.00p | 82.56p | -42 | 0.189 | 2.2 | +23.8 | +36.3 | +58.5 | -3% | |
| Eaglet Investment Trust | 166.5p | 100.0p | 3-5 | 78.00p | 83.80p | -7 | 0.228 | 1.9 | +6.5 | +16.3 | +33.7 | +2% | |
| Edinburgh Smaller Coys | 107.5p | 100.0p | 9-4 | 45.50p | 51.23p | -11 | 0.209 | 1.9 | +4.6 | +14.5 | +29.0 | +3% | |
| F & C Income Growth | 121.0p | 100.0p | 4-2 | 31.50p | 42.63p | -26 | 0.174 | 2.6 | +10.8 | +25.1 | +47.4 | +2% | |
| Fidelity Special Values | 141.0p | 100.0p | 4-8 | 61.00p | 65.16p | -6 | 0.222 | 2.0 | +5.1 | +15.6 | +32.9 | +3% | |
| Gartmore Fledgling Indx | 97.5p | 100.0p | 2-7 | 18.50p | 17.55p | +5 | 0.201 | 4.1 | -19.4 | +11.9 | +53.7 | +8% | |
| Group Trust | 48.8p | 55.5p | 6-11 | 20.00p | 11.93p | +68 | 0.123 | 3.5 | -6.2 | +10.0 | +29.0 | +7% | |
| Hill Samuel UK Emerging | 95.0p | 100.0p | 2-10 | 17.00p | 19.74p | -14 | 0.249 | 3.4 | -19.8 | +13.7 | +55.4 | +8% | |
| I & S ISIS | 203.0p | 107.5p | 1-5 | 99.00p | 103.13p | -4 | 0.191 | 2.0 | +7.7 | +17.8 | +37.4 | +1% | |
| I & S UK Discovery | 108.5p | 100.0p | 2-11 | 25.00p | 26.13p | -4 | 0.175 | 3.6 | +0.1 | +20.7 | +51.9 | +5% | |
| I & S UK Smaller Coys | 166.5p | 93.0p | 1-2 | 77.50p | 79.04p | -2 | 0.244 | 2.1 | +6.3 | +17.0 | +38.1 | +2% | |
| Investors Capital | 180.0p | 137.0p | 2-4 | 60.00p | 63.86p | -6 | 0.266 | 2.5 | +3.3 | +17.7 | +43.1 | +4% | |
| Legal & Gen'l Recovery | 159.0p | 100.0p | 5-5 | 77.00p | 84.02p | -8 | 0.171 | 1.9 | +6.3 | +15.3 | +30.6 | +2% | |
| Martin Currie Smaller | 126.5p | 100.0p | 2-3 | 39.00p | 42.00p | -7 | 0.269 | 2.7 | +2.4 | +18.1 | +45.5 | +4% | |
| Montanaro UK Small Coys | 129.5p | 100.0p | 6-2 | 47.50p | 61.39p | -23 | 0.232 | 1.9 | +7.7 | +18.2 | +34.7 | +2% | |
| Morgan Grenfell Equity | 206.8p | 100.0p | 0-8 | 105.00p | 110.15p | -5 | 0.172 | 1.9 | +12.5 | +22.7 | +43.3 | -1% | |
| Perpetual Income & Gth | 135.3p | 100.0p | 7-3 | 42.50p | 72.13p | -41 | 0.256 | 1.7 | +11.3 | +21.1 | +36.6 | +1% | |
| Prolific Income plc | 147.3p | 100.0p | 4-6 | 48.75p | 69.86p | -30 | 0.211 | 2.0 | +12.7 | +23.5 | +41.8 | +0% | |
| Schroder Income & Grwth | 141.5p | 100.0p | 4-7 | 42.50p | 63.43p | -33 | 0.165 | 2.2 | +13.8 | +25.2 | +44.0 | +0% | |
| Schroder UK Growth | 143.5p | 100.0p | 3-3 | 51.50p | 60.63p | -15 | 0.213 | 2.3 | +9.0 | +21.0 | +41.6 | +2% | |
| Taverners Trust | 82.5p | 100.0p | 11-3 | 26.50p | 38.64p | -31 | 0.258 | 1.8 | +4.4 | +16.0 | +30.8 | +4% | |
| City of Oxford Income | 30.0p | 36.0p | 0-1 | 3.00p | 0.45p | +570 | 0.600 | 17.2 | -100.0 | -100.0 | -100.0 | +2226% | |
| Fleming Inc & Gth - Cap | 366.0p | 300.0p | 0-11 | 119.50p | 101.19p | +18 | 0.327 | 3.4 | +0.2 | +17.0 | +51.1 | +5% | |
| Guinness Flight Extra | 153.5p | 100.0p | 3-1 | 39.50p | 69.50p | -43 | 0.220 | 2.1 | +24.9 | +37.7 | +60.3 | -3% | |
| Jupiter Extra Income | 149.8p | 100.0p | 1-4 | 44.00p | 57.13p | -23 | 0.174 | 2.6 | +28.7 | +44.5 | +75.4 | -4% | |
| <u>EUROPEAN</u> | | | | | | | | | | | | | |
| Aberdeen European | 125.0p | 100.0p | 1-0 | 33.00p | 35.26p | -6 | 0.367 | 3.0 | -5.3 | +13.6 | +51.5 | +6% | |
| Fidelity Euro Values | 303.5p | 100.0p | 1-11 | 231.50p | 212.98p | +9 | 0.276 | 1.4 | +0.4 | +7.2 | +20.4 | +5% | |

| Warrant | Current Share Price | Warrant Exercise Price | 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 Break-Even | 10%pa | 20%pa | Even Rate |
|-------------------------|---------------------|------------------------|--------------------------|-----------------------|---------------------|-------------------------------|------------------|------------------|--------------------------|--------------------------------|--------|-------|-----------|
| Gartmore European | 339.5p | 220.0p | 4-8 | 149.00p | 172.09p | -13 | 0.237 | 1.9 | +7.2 | +17.0 | +33.6 | +2% | |
| Gartmore Irish Small | 158.0p | 100.0p | 2-2 | 85.00p | 69.98p | +21 | 0.260 | 2.2 | -5.3 | +4.9 | +23.6 | +8% | |
| Mercury Euro Priv. | 164.5p | 100.0p | 5-2 | 78.00p | 89.02p | -12 | 0.202 | 1.8 | +7.2 | +16.2 | +31.6 | +2% | |
| TR European | 197.0p | 166.0p | 4-5 | 54.00p | 75.67p | -29 | 0.250 | 2.3 | +8.8 | +22.9 | +44.5 | +3% | |
| Baring Emerging Euro. | 106.2p | 100.0p | 5-3 | 53.55p | 56.82p | -6 | 0.513 | 1.5 | -6.7 | +6.7 | +25.5 | +7% | |
| First Russian Front. I | 277.0p | US\$10.00 | 2-1 | 67.50p | 60.30p | +12 | 0.738 | 2.2 | -100.0 | -100.0 | -100.0 | +54% | |
| First Russian Front. II | 277.0p | US\$13.20 | 2-1 | 43.00p | 43.56p | -1 | 0.738 | 2.4 | -100.0 | -100.0 | -100.0 | +72% | |
| SR Pan-European | 66.5p | 39.0p | 2-0 | 28.00p | 32.19p | -13 | 0.327 | 2.0 | +10.7 | +21.7 | +42.4 | +0% | |

GERMANY

| | | | | | | | | | | | | |
|---------------------|--------|--------|-----|--------|--------|-----|-------|-----|------|-------|-------|-----|
| German Smaller Coys | 142.5p | 130.0p | 4-3 | 34.00p | 47.31p | -28 | 0.235 | 2.5 | +7.0 | +23.6 | +47.9 | +3% |
|---------------------|--------|--------|-----|--------|--------|-----|-------|-----|------|-------|-------|-----|

FAR EASTERN / PACIFIC

| | | | | | | | | | | | | |
|-------------------------|--------|-----------|------|--------|--------|--------|-------|------|--------|--------|--------|-------|
| Aberdeen New Dawn "A" | 149.0p | 95.9p | 1-2 | 69.50p | 59.90p | +16 | 0.311 | 2.4 | -9.5 | +1.4 | +22.9 | +9% |
| Aberdeen New Dawn "B" | 149.0p | 135.0p | 1-2 | 35.50p | 31.39p | +13 | 0.311 | 3.7 | -31.8 | -9.7 | +32.6 | +12% |
| Aberdeen New Dawn "C" | 149.0p | 270.0p | 1-2 | 4.50p | 1.54p | +192 | 0.311 | 9.8 | -100.0 | -100.0 | -100.0 | +69% |
| Edinburgh Dragon Trust | 62.3p | 60.0p | 5-8 | 27.75p | 25.41p | +9 | 0.306 | 2.0 | -4.0 | +9.7 | +28.5 | +6% |
| Edinburgh Java | 9.8p | 50.0p | 1-0 | 1.00p | 0.00p | +95054 | 0.473 | 12.4 | -100.0 | -100.0 | -100.0 | +423% |
| Edinburgh New Tiger | 13.5p | 50.0p | 9-10 | 4.50p | 1.73p | +161 | 0.285 | 2.7 | -100.0 | -100.0 | +21.7 | +15% |
| Fidelity Asian Values | 77.8p | 100.0p | 7-3 | 28.50p | 39.63p | -28 | 0.475 | 1.5 | -12.6 | +9.5 | +30.1 | +7% |
| Fleming Asia | 66.3p | 100.0p | 5-9 | 14.50p | 23.68p | -39 | 0.427 | 1.9 | -100.0 | +0.1 | +37.1 | +10% |
| Invesco Asia | 60.8p | 100.0p | 5-2 | 13.75p | 15.97p | -14 | 0.383 | 2.2 | -100.0 | -100.0 | +31.2 | +13% |
| Martin Currie Pacific | 121.8p | 130.0p | 1-1 | 16.75p | 14.14p | +18 | 0.290 | 5.2 | -100.0 | -67.3 | +8.7 | +19% |
| Pacific Assets | 64.3p | 130.0p | 3-0 | 7.00p | 7.06p | -1 | 0.404 | 3.3 | -100.0 | -100.0 | -100.0 | +29% |
| Pacific Horizons | 33.5p | 56.0p | 3-1 | 5.00p | 6.27p | -20 | 0.439 | 2.7 | -100.0 | -100.0 | -17.4 | +21% |
| Schroder Asia Pacific | 66.8p | 100.0p | 6-8 | 18.00p | 26.58p | -32 | 0.423 | 1.8 | -100.0 | +5.7 | +33.7 | +9% |
| Scottish Oriental Sm Co | 57.0p | 100.0p | 7-8 | 18.25p | 21.78p | -16 | 0.409 | 1.8 | -100.0 | +0.1 | +29.3 | +10% |
| Hambros Smaller Asian | 32.8p | US\$ 1.00 | 2-7 | 6.75p | 6.53p | +3 | 0.559 | 2.4 | -100.0 | -100.0 | -100.0 | +33% |
| Indonesia Fund | 130.1p | US\$10.00 | 5-7 | 7.96p | 25.63p | -69 | 0.560 | 2.0 | -100.0 | -100.0 | -100.0 | +32% |

HONG KONG / CHINA REGION

| | | | | | | | | | | | | |
|-------------------------|-------|--------|------|--------|--------|-----|-------|-----|--------|--------|-------|------|
| Fleming Chinese | 46.0p | 100.0p | 4-9 | 12.50p | 8.30p | +51 | 0.401 | 2.5 | -100.0 | -100.0 | -5.9 | +21% |
| Taiwan Investment Trust | 97.3p | 100.0p | 3-11 | 21.75p | 31.91p | -32 | 0.336 | 2.3 | -5.1 | +17.8 | +47.1 | +6% |

KOREA

| | | | | | | | | | | | | |
|-------------------------|--------|-----------|-----|--------|--------|-----|-------|-----|--------|--------|--------|------|
| Korea Liberalisation Fd | 159.1p | US\$10.50 | 5-0 | 15.30p | 67.69p | -77 | 0.823 | 1.5 | -100.0 | -100.0 | -100.0 | +33% |
|-------------------------|--------|-----------|-----|--------|--------|-----|-------|-----|--------|--------|--------|------|

INDIA

| | | | | | | | | | | | | |
|--------------------|-------|-----------|-----|-------|--------|-----|-------|-----|--------|--------|-------|------|
| Fleming Indian | 45.8p | 100.0p | 4-9 | 9.75p | 5.26p | +85 | 0.324 | 3.2 | -100.0 | -100.0 | -2.2 | +20% |
| Lazard Birla India | 37.9p | US\$ 1.00 | 5-9 | 6.73p | 11.87p | -43 | 0.401 | 2.0 | -100.0 | -7.6 | +40.2 | +11% |

JAPAN

| | | | | | | | | | | | | |
|-----------------------|--------|-----------|------|--------|---------|------|-------|-----|--------|--------|--------|------|
| B Gifford Shin Nippon | 94.5p | 200.0p | 5-11 | 23.75p | 15.18p | +56 | 0.315 | 2.8 | -100.0 | -100.0 | +22.2 | +16% |
| Edinburgh Japan Trust | 94.5p | 100.0p | 6-5 | 41.75p | 35.09p | +19 | 0.266 | 2.1 | -5.4 | +9.4 | +28.1 | +7% |
| Fidelity Japan Values | 58.0p | 100.0p | 4-11 | 15.00p | 12.21p | +23 | 0.353 | 2.5 | -100.0 | -100.0 | +23.4 | +15% |
| Gartmore Select Japan | 53.8p | 100.0p | 4-0 | 10.75p | 9.95p | +8 | 0.404 | 2.6 | -100.0 | -100.0 | +1.6 | +20% |
| Henderson Japan Small | 45.5p | 100.0p | 3-6 | 6.75p | 5.96p | +13 | 0.423 | 2.9 | -100.0 | -100.0 | -100.0 | +28% |
| Invesco Japan | 64.8p | 100.0p | 5-5 | 23.25p | 19.99p | +16 | 0.399 | 2.1 | -100.0 | -16.9 | +23.8 | +13% |
| Invesco Tokyo | 31.8p | 55.0p | 5-1 | 7.50p | 5.97p | +26 | 0.321 | 2.7 | -100.0 | -100.0 | +26.9 | +14% |
| Martin Currie Japan | 95.5p | 100.0p | 3-4 | 29.00p | 27.19p | +7 | 0.326 | 2.5 | -22.6 | +2.2 | +33.2 | +9% |
| Perpetual Japan | 49.5p | 100.0p | 1-6 | 7.50p | 0.81p | +821 | 0.341 | 7.3 | -100.0 | -100.0 | -100.0 | +68% |
| Schroder Japan Growth | 74.8p | 100.0p | 5-6 | 22.50p | 21.65p | +4 | 0.319 | 2.3 | -100.0 | +2.9 | +32.0 | +9% |
| Atlantis Japan Growth | 492.7p | US\$10.00 | 1-11 | 57.23p | 110.97p | -48 | 0.494 | 2.6 | -100.0 | -100.0 | +23.0 | +17% |

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May's Password

June's Password

SeePrint Issue for

User Name and Passwords

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Next Issue

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