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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	44%	Bullish	Bearish	Bearish	Neutral	-5.0%	-7.1%	+2.3%	2,919.80
Austria	43%	Bullish	Bearish	Bearish	Neutral	-5.3%	-13.9%	-5.8%	1,146.05
Belgium	47%	Bearish	Bullish	Bearish	Bullish	+9.2%	-1.0%	-6.5%	3,248.29
Canada	41%	Bearish	Bullish	Bearish	Bearish	+8.7%	+4.1%	+17.7%	7,297.63
Denmark	61%	Neutral	Bullish	Bearish	Bullish	+7.5%	+6.4%	+15.0%	708.50
Finland	51%	Bearish	Bullish	Bearish	Bullish	+25.1%	+33.5%	+99.9%	9,323.93
France	48%	Bearish	Bullish	Bearish	Neutral	+12.4%	+12.2%	+16.3%	3,181.48
Germany	54%	Bearish	Bullish	Bearish	Bullish	+9.6%	+3.5%	+12.6%	5,658.10
Ireland	39%	Neutral	Bearish	Neutral	Neutral	-6.2%	-13.8%	-17.6%	4,609.15
Italy	39%	Neutral	Bearish	Bearish	Neutral	+1.2%	-9.3%	-6.8%	23,269.00
Japan	47%	Bearish	Bullish	Neutral	Neutral	+16.4%	+23.4%	+42.6%	18,354.90
Netherlands	48%	Bearish	Bullish	Neutral	Neutral	+3.8%	-1.2%	+7.0%	803.40
New Zealand	62%	Bullish	Bullish	Neutral	Neutral	+0.2%	+0.8%	+21.3%	2,299.24
Norway	51%	Bearish	Bullish	Bearish	Bullish	-0.1%	+0.4%	+12.8%	614.01
Spain	42%	Bearish	Bullish	Neutral	Bearish	+7.0%	-2.2%	-1.7%	907.80
Sweden	51%	Bearish	Bullish	Bearish	Neutral	+14.3%	+19.8%	+24.8%	4,343.37
Switzerland	45%	Bearish	Bullish	Bearish	Neutral	+5.2%	-1.8%	-3.3%	7,345.50
Un. Kingdom	46%	Bearish	Bullish	Bearish	Neutral	+4.6%	-0.5%	+3.4%	6,356.60
USA	39%	Bearish	Bullish	Bearish	Bearish	+5.4%	+1.9%	+7.4%	1,370.23
Argentina	62%	Bullish	Bullish	Bearish	Bullish	+9.4%	-9.9%	+24.9%	20,666.75
Brazil	77%	Bullish	Bullish	Bullish	Bullish	+21.4%	-11.5%	+34.3%	12,714.26
Czech Rep.	61%	Bullish	Bullish	Neutral	Bullish	-10.5%	+11.8%	+32.8%	1,523.00
Chile	68%	Bullish	Neutral	Bullish	Bullish	-7.5%	-10.0%	+10.0%	4,688.50
China	56%	Bearish	Bullish	Neutral	Bullish	-9.5%	+5.7%	+53.9%	660.08
Greece	53%	Bearish	Bullish	Neutral	Neutral	+22.0%	+34.1%	+62.9%	5,617.65
Hong Kong	55%	Bearish	Bullish	Neutral	Neutral	+3.3%	+4.4%	+32.5%	13,610.27
Hungary	57%	Bearish	Bullish	Neutral	Neutral	-1.4%	+6.0%	+29.6%	7,271.93
India	50%	Bearish	Bullish	Neutral	Neutral	+0.6%	+22.1%	+23.3%	4,598.45
Indonesia	66%	Bearish	Bullish	Bullish	Neutral	+5.0%	+22.3%	+107.4%	626.04
Israel	68%	Bearish	Bullish	Bullish	Bullish	+0.1%	-10.0%	+31.0%	378.12
Korea	46%	Bearish	Bullish	Bullish	Bearish	-1.4%	+12.6%	+77.8%	913.09
Malaysia	52%	Bearish	Bullish	Bullish	Bearish	+2.6%	+4.3%	+39.6%	721.35
Mexico	72%	Bearish	Bullish	Bullish	Neutral	+17.8%	-2.6%	+42.4%	5,919.97
Philippines	35%	Bearish	Bearish	Bullish	Bearish	-15.0%	-24.5%	-2.3%	2,018.41
Poland	27%	Bearish	Bearish	Bearish	Bullish	-20.6%	-14.9%	-0.2%	14,473.30
Portugal	47%	Bullish	Neutral	Neutral	Neutral	+3.9%	+0.9%	-7.4%	2,309.82
Russia	45%	Bearish	Bearish	Bullish	Bearish	-4.0%	+1.5%	+50.6%	917.23
Singapore	38%	Bearish	Bullish	Bearish	Bearish	+1.9%	+12.9%	+50.6%	2,111.55
Sth Africa	72%	Neutral	Bullish	Bullish	Bullish	+2.2%	+4.9%	+18.0%	7,222.90
Taiwan	45%	Neutral	Neutral	Neutral	Bearish	+10.9%	+4.0%	+23.3%	7,488.26
Thailand	37%	Bearish	Neutral	Neutral	Bearish	-6.4%	-18.0%	+20.8%	418.47
Turkey	71%	Bearish	Bullish	Neutral	Bullish	+11.7%	-0.9%	+35.2%	7,133.00
Venezuela	71%	Bullish	Neutral	Bullish	Bullish	+21.3%	-7.1%	+43.3%	5,821.88

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

Interest rates on three month deposits jumped sharply at the start of October as their maturity date moved into the New Millennium. Over the last four weeks interest rates have remained high, and actually increased further in Australia and the United Kingdom. This Bearish (i.e. unfavourable) Monetary situation is depressing our Stockmarket Forecasts, although most remain in the *neutral* range between 40% and 60%.

While we are cautious about the outlook for the major developed stockmarkets we (1) remain confident about the recovery and growth potential of Asian stockmarkets and (2) want to remain fully invested in equities over the start of the New Millennium.

The lesson of history is also that stockmarkets recover and grow strongly after a major crisis. Asian stockmarkets have recovered from the 1997 crisis - but the ongoing economic restructuring and political change should continue to drive economic recovery and the stockmarket. These stockmarkets, of course, will remain volatile and experience many setbacks along the way.

As we have stated previously, excessive caution *ahead* of the New Millennium will see most investors (and especially institutional investors) *over-weighted* in cash. Investors will wake up on January 1st to discover that the world hasn't ended, that the electricity, gas and water utilities still work (even if not all of the time) and will rush to re-invest that cash - leading to the biggest buying rush ever witnessed. We expect world stockmarkets to rise 10-20% in developed markets during the first half of January 2000 - perhaps significantly more in smaller company shares and emerging stockmarkets (both of which traditionally do well in early January).

China, Hong Kong

The Chinese economy is showing some signs of improvement. Firstly, after four quarters of decline, exports rose 15% in the three months to September. That export growth is likely to continue in the current quarter (i.e. October-December 1999), with around 10% growth during the year 2000. Secondly, profitability in State Owned Enterprises is up 70% over the last year. This is mainly a result of restructuring involving significant debt to equity swaps.

The economy, however, still faces powerful *deflationary* forces. Capacity Utilisation in manufacturing is a very low 60%. Firms hold large inventories, while property vacancies and unemployment are high.

Hong Kong is benefiting from deregulation and competition that will help boost economic activity and end deflation - by transferring income from the corporate sector to consumers (which will boost spending).

Telecommunications deregulation has led to significant falls in prices and the banking cartel (where the major banks fixed borrowing and lending rates across the industry) is now at risk owing to a "price war" on new residential mortgages. Domestic debt in Hong Kong is equal to 160% of Gross Domestic Product, so every 1% drop in bank margins increases private sector disposable incomes by 1.6% of GDP.

Electricity and gas prices are expected to be deregulated with the next few years, followed by the property sector. While deregulation and competition benefits the consumer sector at the expense of existing corporates, it also leads to a more internationally competitive economy and stimulates economic growth, particularly in new industries.

Recommended International Investment Funds

Fund Dividend

Ivory & Simes UK Smaller Companies will pay a 1.0 pence dividend (plus Tax Credits) on January 6, with the share trading ex-dividend from November 29. The company has replaced a maturing £6.0 million loan with a £7 million loan *and* arranged a £5 million revolving credit facility which will "be employed strategically as opportunities present themselves". The trust's total net assets are £48.0 million, so leverage is only at moderate levels. The Fund Manager considers that the "valuation of smaller companies is still highly attractive".

Fidelity Asian Values has re-purchased and cancelled a further 400,000 shares on-market at 77 pence. **Martin Currie Pacific** has re-purchased 848,186 warrants at an average price of 17.125 pence. This leave 6,425,652 warrants on issue.

Martin Currie warrants offer a very high leverage - being 5.2 times more volatile than the shares - so could

appreciate significantly over the next few months. For example, a 10-20% increase in the share price during a buying stampede in early January would increase the share price to 155-170 pence and the warrants to 32-46 pence (up 55-120%). From early next year we shall be looking to progressively realise profits on these warrants during periods of strength in the Japanese and Asian stockmarkets.

Recently recommended **Invesco Japan Discovery Trust plc** continues to appreciate rapidly - up 22% over the last month and up 82% since our initial "Buy" recommendation just four months ago!

The final cash from **HSBC Tiger Index** (that was held up for a year in Malaysia) has been distributed, which we have taken in the form of additional **HSBC Asian** units. The final payment consisted of Income of 0.2293 pence (net of a 10% Tax Credit) and Capital of 7.3442 pence per unit.

Recommended International Investment Funds

Current Advice	Investment Fund	EPIC Code	Initial Recommendation		Prem/Disc to Net Assets	Recent Price Bid-Offer or Last Sale	Gain or Loss %
			--- Date ---	Offer Price Foreign NZ Cents			
Europe							
HOLD	TR European Growth Trust plc	TRG	11/02/97	157.5p	374.7	+0%	247.25p 784.6 +109
Asia							
BUY	AIB Govett Greater China Fund	*	13/08/96	212.9p	480.4		212.35-227.11p 697.2 +45
BUY	Fidelity Asian Values WARRANTS	FASW	10/03/98	17.5p	49.7		29.5p 93.6 +88
HOLD	Gartmore Pacific Growth Fund	*	29/10/85	41.4p	105.4		179.73-192.19p 590.1 +460
BUY	HSBC Asian Fund	*	10/11/98	34.4p	106.3		49.51-52.84p 162.4 +53
BUY	HSBC Hong Kong Growth Fund	*	07/04/98	159.4p	481.6		175.20-186.90p 574.5 +19
HOLD	Martin Currie Pacific WARRANTS	MCPW	10/02/98	21.0p	59.3		20.8p 65.8 +11
BUY	Schroder Asia Pacific WARRANTS	SDPW	13/07/99	25.5p	75.8		23.0p 73.0 -4
Japan							
HOLD	Baillie Gifford Shin Nippon plc	BGS	11/01/94	156.0p	440.3	-19%	205.25p 651.2 +48
BUY	Invesco Japan Discovery Trust	IJD	13/07/99	95.5p	284.0	-8%	163.0p 517.2 +82
Korea							
BUY	Baring Korea Trust	*	12/04/94	81.1p	209.4		73.95-79.43p 243.3 +16
Thailand							
BUY	Old Mutual Thailand Trust	*	08/12/98	49.0p	155.9		57.51-62.58p 190.5 +22
International							
HOLD	Aberdeen Prolific Emerging Markets	*	13/08/91	39.0p	116.1		54.68-57.86p 178.5 +54
HOLD	Jupiter International Green IT plc	JUP	08/10/96	36.0p	80.7	-22%	52.0p 165.0 +104
BUY	Templeton E/Markets WARRANTS	TEMA	13/07/99	40.3p	119.7		31.8p 100.8 -16
United Kingdom							
HOLD	Hill Samuel UK Emerging Coys	*	13/04/93	56.2p	159.1		142.13-148.83p 461.6 +190
HOLD	I & S UK Smaller Coys IT plc	ISU	11/02/97	160.0p	380.6	-21%	181.0p 574.3 +51

* United Kingdom based Unit Trust

Other Shares and Warrants

Alternative investments in the UK listed investment trust shares and warrants recommended above include **Fidelity Asian Values** shares at 81¼ pence (-14%, i.e. 14% below net assets), **Martin Currie Pacific** shares at 142 pence (-16%), **Schroder Asia Pacific** shares at 74¾ pence (-13%), **Templeton Emerging Markets** shares at 121¾ pence (-17%), **Baillie Gifford Shin Nippon** warrants at 80 pence, **I & S UK Smaller Companies** warrants at 88 pence and **TR European Growth** warrants at 92 pence.

The Beginner's Guide to International Investment

Although investing internationally is *very simple* it can seem rather daunting to the beginner. So here, in one article we cover everything you need to know and do to get started . . .

Why Invest Internationally?

Usually an investment that promises *higher returns* will also involve *higher risks* - but not when you start adding international investments to your portfolio. While the performances of many large, mature economies (and their stockmarkets) are very similar, this is not true with smaller economies (and their stockmarkets). In smaller countries the domestic economic or political situation is often more important than the global situation, so stockmarket fluctuations in smaller stockmarkets tend to be *un-correlated* with stockmarket fluctuations in major stockmarkets.

Adding international equities to a portfolio of NZ and Australian shares will therefore reduce the overall level of volatility in portfolio value. When the NZ and

Australian stockmarkets dip in value, an internationally diversified portfolio will usually experience a *smaller decline* - and is therefore less *risky*.

International investment also offers the potential for higher stockmarket returns. Smaller, developing economies are growing more rapidly than the larger, mature economies, so long term investment returns should be 1-3% per annum higher owing to this more rapid growth. So international investments - especially in smaller, developing countries - should produce higher long term returns than NZ and Australia.

Conclusion: *Low risk investors (i.e. retired investors who hold most of their investments in NZ to produce income) should hold at least 10-15% of their portfolio internationally. More aggressive investors (i.e. younger investors building capital for retirement) should hold 30-70% of their portfolio outside of New Zealand (in smaller Australian growth companies and international funds).*

(Continued on Page 4)

What Type of International Investments Should You Buy?

There are several factors to consider when selecting a suitable international investment, including (1) taxation, (2) costs and fees, and (3) diversification.

Taxation: Most NZ and Australian funds are subject to some form of capital gains taxes. NZ investors buying foreign shares (except Australian, UK or US shares) get caught under NZ Foreign Investment Fund regulations which impose an *unrealised* capital gains tax. Most US and UK based funds avoid all capital gains taxes. The complete situation - and how to invest - is summarised in the table on Page 5.

Costs and Fees: The operating expenses of most NZ and Australian funds are fairly high, usually around 2-4% per annum and often as high as 6-8%. The annual operating cost of UK based funds and US based funds is substantially lower and often in the range of 0.5% to 2.5%.

Direct ownership of shares in foreign countries (especially smaller countries) is often difficult and relatively expensive.

Diversification: If you are going to invest in a country then you still need to follow the usual rules about diversifying over many companies to reduce risks. Selecting 10-20 Hong Kong or 10-20 Korean shares in which to invest will require a significant investment of time and money - whereas a diversified fund will instantly give you a managed portfolio of 20-60 shares.

Conclusion: *You won't get rich giving 3-8% of your money away to the Fund Manager. Nor will you get rich giving 33% of your capital gains to the taxman. You won't need to pay high fees or capital gains tax when investing in (1) United Kingdom based unit trusts and (2) United Kingdom based listed investment trusts.*

How to Invest in UK Unit Trusts and UK Investment Trusts

The easiest way to invest in both UK based unit trusts and UK based investment trusts is via the internet with a UK stockbroker like **FasTrade** (www.fastrade.co.uk) or **Cave & Sons** (www.caves.co.uk). There are several UK internet brokers, but some offer their internet services only to residents of the European Union and most do not allow you to buy unlisted unit trusts. FasTrade and Cave & Sons both have relatively low fees and allow investors to buy and hold unit trusts as well as listed securities.

If you have access to the internet then you should open an account with FasTrade or Cave & Sons. Once you have completed the paperwork and transferred money to your account (or existing unit trusts or listed UK securities to the broker's nominee company) you are ready to buy or sell UK unit trusts or investment trusts.

How To Open A FasTrade Account: Go to FasTrade's internet site (www.fastrade.co.uk), click to "Agree" with the company's disclaimer, click on "Register" then "Register Now" then "New Customer" and complete your name and address details. The company can either mail you further documentation to sign, or (after registering) you can click on the "Documentation" page

and download the "Service Agreement" and "Information for New Users".

To put money in the account you need to buy Pounds Sterling from the bank. You *can* make a telegraphic transfer (which takes 1-3 days for the money to arrive in the UK), but it is usually cheaper and easier to simply buy a bank draft and mail it (which only takes 3-5 days).

To buy or sell a listed investment trust you simply log into the FasTrade site, find the EPIC code (from a list) and enter your buy or sell instructions. If the security isn't on the FasTrade list you will need to send FasTrade a regular e-mail message with your instructions (and Client Reference number).

To buy or redeem unlisted unit trusts you need to send a regular e-mail to FasTrade with your instructions.

The broker will take money out of your interest bearing Deposit account to pay for purchases, and pay cash into the Deposit account when investments are sold. All investments will be held by the broker's nominee company, and the broker will collect all dividends and pay that money into your Deposit account.

When you want to withdraw money, the broker can transfer it electronically to a UK bank account or mail you a cheque (in Pounds Sterling).

How To Open A Cave & Sons Account: Go to the Cave & Sons site (www.caves.co.uk), click on "Register Now", fill in your name and address, and the company will mail you all the documents to open an account! This company does, however, require that you already have a UK bank account "for money laundering purposes" [Editor's Note: This firm is also involved in providing "taxation services", but I believe they probably meant to say "for anti-money laundering purposes"]. Cave & Sons "Dealing" page is also a simple e-mail form where you fill in the details of your trade, so can be used when buying and selling both listed securities and unlisted unit trusts.

What To Do if You are NOT on the Internet: If you don't have access to the internet, then you can buy listed investment trusts through most NZ brokers. The only *problems* here are brokerage rates are much higher and selling can take about 7-14 days!

To buy unlisted UK unit trusts you need to deal directly with the Fund Manager in the UK, or via a UK based company like Chelsea Financial Services [Address: 2/1 Harbour Yard, Chelsea Harbour, London SW10 0XD, United Kingdom. Telephone (00 44 171) 351 6022, Fax (00 44 171) 352 4299] which rebates at least 2% of the initial sales fee on UK unit trust purchases of £2000 or more. In either case, you need to write to the Fund Manager to redeem the investment. Using FasTrade and buying or selling UK unit trusts by e-mail is certainly faster and easier!

If you start out buying UK unit trusts from the Fund Manager or UK investment trusts through a NZ broker, it is simple and cost-free to later transfer those investments to an internet broker's nominee account.

What Funds To Buy

The simple answer here is to buy either (1) all of the funds in our *Recommended Portfolio* or (2) the funds that we are rating as "Buy".

Of course, the main problem for investors starting out is that they don't have enough money to buy more than 1-3 funds. Again, the *(Continued on Page 6)*

What Types of International Investments Should You Buy?

Type of Fund	Country in Which Fund is Based	Subject to Capital Gains Tax?	How to Buy/Sell
<u>Shares in Foreign Company</u>	Australia, United Kingdom, United States	No. NZ residents are not subject to foreign capital gains taxes, and there is no capital gains tax in NZ on shares bought as investments.	Most NZ stockbrokers can buy or sell Australian and United Kingdom shares, and some can trade in United States shares. However, it is cheaper to invest via an internet broker based in Australia (e.g. Sanford, E*Trade Australia), the United Kingdom (e.g. FasTrade, Cave & Sons) or the United States (e.g. Datek, Brown & Company).
	All other countries	Yes. NZ's Foreign Investment Fund (FIF) regulations apply, so NZ investors will pay an <i>unrealised</i> capital gains tax.	
<u>Unlisted Funds (Unit Trusts, Mutual Funds)</u>	New Zealand	Yes, as unit trusts are subject to a realised capital gains tax in NZ and can also be subject to FIF <i>unrealised</i> capital gains tax. The exception is "index" funds (which are not subject to capital gains taxes) investing in Australian, UK or US securities (which avoid the FIF taxes).	Most NZ stockbrokers and Financial "Advisers" can sell you these funds. Many will rebate some or all of the initial sales charge.
	Australia	Yes. Not subject to Australian capital gains taxes, but these funds distribute their capital gains as "Income" - on which a NZ investor will pay income tax at up to 33%.	Most Australian unit trusts can be bought through NZ stockbrokers and Financial "Advisers", but for a few you need to use an Australian broker.
	United Kingdom	No. UK unit trusts are exempt from UK capital gains taxes, and there is no NZ capital gains tax on UK unit trusts bought as investments.	Buy direct from the Fund Manager in the UK, via a UK based Financial Planner (e.g. Chelsea Financial Services to get a 2% rebate), or a UK internet broker (who rebate some initial fees, but have a small charge to sell) which is quickest and easiest.
	United States	Mainly no. There is no tax on <u>long</u> term capital gains, but <u>short</u> term capital gains are subject to 15% withholding tax in the US. There should be no NZ capital gains taxes.	Buy direct from the Fund Manager in the US, or use a US internet broker which is much quicker and easier (with a small fee to buy and sell).
<u>Listed Funds (Listed Investment Trusts, Country Funds)</u>	New Zealand	Yes, taxed the same as NZ unit trusts (i.e. realised capital gains tax, FIF unrealised capital gains tax). (This doesn't apply to <u>UK based</u> trusts which are dual listed in NZ.)	Any NZ stockbroker.
	Australia	Yes, subject to Australian capital gains taxes (but these are indexed for inflation, so slightly better than other NZ and Australian funds).	Most NZ stockbrokers or an Australian stockbroker.
	United Kingdom	No. UK listed trusts are exempt from UK capital gains taxes, and there is no NZ capital gains tax on UK listed trusts bought as investments.	Most NZ stockbrokers (but brokerage is about 2% with minimum charges of £50-100, and sales are <u>mailed</u> to the UK so can take 7-14 days) or use a UK internet broker (brokerage £5-15 min, £30-35 max). <u>Several UK trusts are dual listed on the NZSE and can be bought through NZ stockbrokers at NZ brokerage rates.</u>
	United States	Mainly no. No tax on <u>long</u> term capital gains, 15% withholding tax on <u>short</u> term capital gains. No NZ capital gains taxes.	Only a few NZ brokers can buy US listed securities, and charges are high. Use a US internet broker (for a flat brokerage fee of US\$5-10).

Beginners Guide to International Investment*(Continued from Page 4)*

lower minimum brokerage through an internet broker makes it more economic to make smaller investments (i.e. £15 brokerage on a £1000 investment is only 1.5%, compared with £50 minimum brokerage with a NZ firm which is 5.0% of your investment). However, if you can only afford to make a small number of investments then choose funds which give a good spread among the recommended stockmarkets. For example, at the time of writing this article, 50-60% of the recommended portfolio is in Asia (with a further 13-18% in Japan), which includes a China fund, a Korea fund, a Thailand

fund and six regional funds. If you can afford only 1-2 Asian funds then you should probably be buying the regional funds, rather than the specific country funds.

Summary

Invest in UK based unit trusts and listed investment trusts - which avoids capital gains taxes (which erode the returns from NZ and Australian based funds). There is also a very wide choice of UK funds and annual fund expenses are lower than in NZ or Australia. The internet has made managing your international investment much easier - and given NZ investors access to low cost UK brokerage services.

Listed Investment Trust Warrant Analysis

While this quarterly *Listed Investment Trust Warrant Analysis* identifies under-valued warrants, investors should remember that we intend this selection to be a three stage process. Investors should use the *World Stockmarket Forecasts* to identify countries that are attractive for investment. Then use last month's *Investment Fund Survey* to identify the best UK listed investment trusts that invest in those stockmarkets. Finally, use this *Warrant Analysis* to find under-valued warrants on those investment trusts.

Review of**Informal Recommendations**

In our last quarterly *Listed Investment Trust Warrant Analysis* (August 10) we highlighted **Gartmore Fledgling Index** warrants. These were trading at 30% below their Black-Scholes valuation (i.e. were under-valued), had a high leverage of 3.2 (i.e. offered three times the profit potential of the shares) and a low "break-even" rate of 2% (i.e. a rate of share price appreciation above 2% per annum would start to yield large profits to investors in the warrants).

Over just the last three months Gartmore Fledgling Index shares have appreciated 14.0% in value to 134½ pence. The warrants have *doubled* in value to 46 pence - owing to their high leverage *and* being re-rated up to their current Black-Scholes valuation. At current price levels these warrants remain an attractive long term investment - but buying them initially at a 30% discount has provided a significant short term gain to date.

If Gartmore Fledgling Index shares rise by 10% per annum (over the next two years and one month until the warrant exercise date), then the warrants will rise by a further 17.2% per annum (to 64 pence), while a 20% per annum rise in the share price will produce a further 42.8% per annum rise in the warrants (to 97 pence).

Back in May 1998 we informally recommended the warrants of **Guinness Flight Extra Income** at 41 pence (a 49% discount to their Black-Scholes valuation) when the share price was 153½ pence. The share price has since fallen 4.6% to 146½ pence, while the warrants are down 11.0% to 36½ pence. Despite being an unsuccessful investment to date, these warrants still

trade at a substantial 39% discount to their current Black-Scholes valuation and hold significant potential for capital gain. As our table shows, a 5% per annum rise in the share price will produce a 25.9% per annum increase in the warrants, a 10% p.a. share price rise will yield a 40.2% p.a. gain by the warrants, while a 20% p.a. share gain would yield a 65.7% p.a. warrant gain.

Other Under-Valued Warrants

Several Far Eastern warrants remain under-valued - including **Fidelity Asian Values** and **Schroder Asia Pacific** which we have formally recommended for investment and which are listed in our *Recommended Portfolio* on Page 3. **Fleming Asia** warrants also look attractive.

Invesco Asia warrants, **Pacific Assets** warrants and **Hambros Small Asian** warrants trade at substantial discounts to their Black-Scholes valuations, but their higher "break-even" rates (i.e. 12%, 28% and 31%, respectively) indicate increasing risks. If the rate of the share price appreciation is less than the "break-even" rate then the warrant will *decline in value - and in most cases expire worthless*.

Emerging Stockmarket warrants are also very under-valued and again we have formally recommended **Templeton Emerging Markets** warrants to take advantage of this situation. **Schroder Emerging Countries** warrants and **Aberdeen Emerging Economies** warrants are also quite attractive, while **Murray Emerging Economies** warrants and **F & C Emerging Markets** warrants are under-valued (i.e. trade below their Black-Scholes valuations) but are more risky (i.e. have significantly higher "break-even" rates of 21% per annum).

Most Latin American warrants are also very under-valued. The *unfavourable* factor here is that the warrant leverage is relatively low (around 1.4) in most cases, so the profit potential of the warrants is only slightly greater than buying the shares - but more risky. The most attractive warrant from this region would be **Scudder Latin America** - owing to its higher leverage (i.e. 1.7) and moderate "break-even" rate (i.e. 8% p.a.)

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	Share Price 5%pa	Warrant Return (%p.a.) from Break-Even	Return appreciation of: 10%pa	20%pa	Even Rate
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INTERNATIONAL

World Trust Fund	1174.6p	US\$10.00	1-1	710.84p	590.11p	+20	0.230	2.0	-11.7	-3.3	+13.3	+12%
Henderson Technology	245.8p	100.0p	5-10	168.00p	173.61p	-3	0.318	1.4	+5.3	+12.2	+24.8	+1%
Herald Investment Trust	307.0p	100.0p	3-5	211.50p	222.75p	-5	0.245	1.4	+6.5	+13.4	+26.5	+0%
Inv Trt of Inv Trts	116.0p	150.0p	4-1	57.50p	14.00p	+311	0.178	4.7	-100.0	-21.7	+12.9	+15%
Asset Management	114.0p	99.2p	2-2	30.50p	35.27p	-14	0.347	2.6	-4.6	+14.6	+46.8	+6%

EMERGING STOCKMARKETS

Abtrust Emerging Econ.	56.5p	100.0p	8-2	15.25p	20.80p	-27	0.382	1.8	-100.0	+5.2	+32.4	+9%
Dresdner RCM Emerg Mkts	86.0p	100.0p	4-8	24.00p	25.72p	-7	0.317	2.4	-21.0	+7.9	+36.2	+8%
F & C Emerging Markets	57.0p	102.0p	3-4	6.00p	11.27p	-47	0.461	2.5	-100.0	-100.0	-21.6	+21%
Murray Emerg. Economies	47.8p	100.0p	4-3	5.75p	9.15p	-37	0.437	2.4	-100.0	-100.0	-10.2	+21%
Schroder Emer Countries	68.3p	100.0p	6-10	16.75p	28.18p	-41	0.429	1.7	-100.0	+9.4	+36.0	+8%
Tea Plantations	55.0p	100.0p	2-2	8.00p	2.24p	+256	0.308	5.6	-100.0	-100.0	-100.0	+37%
Templeton Emerging Mkts	121.8p	133.0p	4-10	31.75p	44.43p	-29	0.364	2.0	-8.1	+14.1	+39.9	+6%

LATIN AMERICA

Aberdeen Latin American	53.5p	100.0p	9-11	17.75p	31.22p	-43	0.545	1.4	-100.0	+7.9	+29.3	+8%
Edinburgh Inca	20.0p	50.0p	9-3	6.50p	11.07p	-41	0.600	1.4	-100.0	-100.0	+26.7	+12%
Morgan G Latin America	62.3p	100.0p	10-7	21.50p	33.96p	-37	0.447	1.4	-14.1	+11.9	+29.4	+7%
Scudder Latin America	82.0p	100.0p	4-9	19.00p	35.68p	-47	0.513	1.7	-30.4	+9.3	+40.3	+8%
Templeton Latin Amer.	75.8p	100.0p	0-6	5.75p	3.64p	+58	0.469	6.8	-100.0	-100.0	-100.0	+95%

UNITED STATES

F & C US Smaller Coys	178.5p	100.0p	3-0	94.00p	92.72p	+1	0.202	1.9	+4.3	+13.5	+30.4	+3%
US Smaller Companies	244.0p	100.0p	2-10	171.00p	157.48p	+9	0.272	1.5	+1.9	+9.2	+23.2	+4%

UNITED KINGDOM

Aberforth Smaller Coys	256.8p	100.0p	3-4	161.00p	172.13p	-6	0.211	1.5	+7.1	+14.5	+28.5	+0%
Beacon IT	204.0p	100.0p	3-5	106.50p	119.71p	-11	0.145	1.7	+8.6	+17.1	+32.7	+0%
Britannia Smaller Coys	173.0p	100.0p	0-5	73.00p	75.09p	-3	0.321	2.3	+12.1	+24.6	+50.9	+0%
British Assets Trust	138.8p	101.0p	1-10	43.75p	46.98p	-7	0.169	2.9	+8.4	+23.3	+50.7	+2%
Dartmoor	169.0p	118.0p	2-8	42.50p	66.14p	-36	0.161	2.5	+23.4	+37.8	+63.2	-2%
Eaglet Investment Trust	207.5p	100.0p	2-11	128.00p	121.27p	+6	0.225	1.7	+2.9	+11.1	+26.3	+3%
Edinburgh Smaller Coys	132.3p	100.0p	8-10	58.50p	71.42p	-18	0.211	1.7	+6.7	+15.4	+29.2	+2%
F & C Income Growth	117.0p	100.0p	3-8	34.00p	36.87p	-8	0.185	2.8	+4.5	+19.8	+43.6	+4%
Fidelity Special Values	159.0p	100.0p	4-2	81.50p	79.11p	+3	0.214	1.9	+3.7	+13.2	+29.6	+3%
Gartmore Fledgling Indx	134.5p	100.0p	2-1	46.00p	45.89p	+0	0.212	2.8	+3.0	+17.2	+42.8	+4%
Group Trust	44.3p	55.5p	6-5	21.50p	7.93p	+171	0.135	4.0	-20.3	+3.0	+24.4	+9%
Hill Samuel UK Emerging	107.5p	100.0p	2-4	23.00p	26.10p	-12	0.254	3.3	-4.9	+18.6	+55.6	+6%
I & S ISIS	201.5p	107.5p	0-11	107.50p	98.82p	+9	0.180	2.0	-4.3	+5.0	+23.7	+7%
I & S UK Discovery	131.5p	100.0p	2-5	37.50p	43.97p	-15	0.181	2.9	+10.7	+26.0	+52.7	+2%
I & S UK Smaller Coys	181.0p	93.0p	0-8	88.00p	91.05p	-3	0.233	2.0	+10.4	+20.9	+42.4	+0%
Investors Capital	180.0p	137.0p	1-10	60.50p	58.38p	+4	0.245	2.8	-0.6	+14.4	+41.6	+5%
Legal & Gen'l Recovery	154.0p	100.0p	4-11	83.00p	76.36p	+9	0.169	2.0	+2.9	+12.2	+27.8	+4%
Montanaro UK Small Coys	139.5p	100.0p	5-8	58.50p	67.29p	-13	0.221	1.9	+6.6	+16.6	+32.8	+2%
Morgan Grenfell Equity	230.0p	100.0p	0-2	128.50p	130.83p	-2	0.167	1.8	+16.8	+26.8	+47.5	-4%
Perpetual Income & Gth	116.0p	100.0p	6-9	38.00p	52.08p	-27	0.248	1.9	+7.3	+18.7	+35.6	+3%
Prolific Income plc	140.3p	100.0p	4-0	42.50p	60.42p	-30	0.208	2.2	+13.5	+25.5	+45.6	+0%
Schroder Income & Grwth	135.8p	100.0p	4-1	39.00p	55.05p	-29	0.160	2.4	+13.6	+26.0	+46.6	+1%
Schroder UK Growth	138.0p	100.0p	2-9	50.00p	52.71p	-5	0.217	2.5	+5.4	+18.3	+40.7	+3%
Taverners Trust	94.0p	100.0p	10-9	33.50p	45.13p	-26	0.243	1.8	+5.4	+15.8	+30.1	+3%
Fleming Inc & Gth - Cap	353.5p	300.0p	0-5	104.00p	101.73p	+2	0.705	2.9	-18.2	-1.4	+36.2	+10%
Guinness Flight Extra	146.5p	100.0p	2-7	36.50p	59.51p	-39	0.202	2.4	+25.9	+40.2	+65.7	-3%
Jupiter Extra Income	150.8p	100.0p	0-10	55.50p	55.44p	+0	0.164	2.7	+7.0	+20.9	+49.1	+2%

EUROPEAN

Fidelity Euro Values	337.5p	100.0p	1-5	268.00p	244.34p	+10	0.263	1.4	-1.7	+4.8	+17.5	+6%
Gartmore European	358.5p	220.0p	4-2	160.50p	183.58p	-13	0.233	1.9	+7.8	+17.4	+34.2	+1%
Gartmore Irish Small	149.0p	100.0p	1-8	67.50p	57.90p	+17	0.239	2.5	-5.3	+6.2	+28.0	+7%
Mercury Euro Priv.	170.5p	100.0p	4-8	76.00p	92.05p	-17	0.199	1.8	+9.1	+18.2	+34.1	+1%
TR European	247.3p	166.0p	3-11	92.00p	115.48p	-20	0.246	2.0	+9.9	+20.8	+39.5	+1%
Baring Emerging Euro.	96.4p	100.0p	4-9	56.14p	44.14p	+27	0.477	1.7	-18.3	-1.8	+19.2	+11%
First Russian Front. I	315.0p	US\$10.00	1-7	37.00p	55.11p	-33	0.715	2.5	-100.0	-100.0	-100.0	+59%
First Russian Front. II	315.0p	US\$13.20	1-7	26.50p	36.37p	-27	0.715	2.8	-100.0	-100.0	-100.0	+86%
SR Pan-European	70.5p	39.0p	1-6	31.50p	34.56p	-9	0.298	2.0	+11.0	+21.8	+42.7	+0%

FAR EASTERN / PACIFIC

Aberdeen New Dawn "A"	161.3p	95.9p	0-8	92.00p	68.82p	+34	0.343	2.3	-32.6	-25.0	-9.3	+26%
Aberdeen New Dawn "B"	161.3p	135.0p	0-8	52.50p	35.95p	+46	0.343	3.8	-53.3	-41.2	-15.0	+25%
Aberdeen New Dawn "C"	161.3p	270.0p	0-8	4.00p	0.99p	+304	0.343	13.1	-100.0	-100.0	-100.0	+121%
Edinburgh Dragon Trust	67.5p	60.0p	5-2	26.25p	29.68p	-12	0.343	1.9	+0.4	+13.5	+32.7	+5%
Edinburgh New Tiger	14.3p	50.0p	9-4	5.25p	1.94p	+170	0.299	2.7	-100.0	-100.0	+19.7	+16%
Fidelity Asian Values	81.3p	100.0p	6-9	29.50p	39.42p	-25	0.460	1.6	-11.5	+9.6	+30.5	+7%
Fleming Asia	75.0p	100.0p	5-3	19.50p	29.61p	-34	0.461	1.8	-100.0	+3.8	+35.3	+9%
Invesco Asia	66.0p	100.0p	4-8	13.50p	18.20p	-26	0.400	2.2	-100.0	-27.7	+34.9	+12%

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	Warrant Share Price 10%pa	Warrant Share Price 20%pa	Break-Even Rate
Martin Currie Pacific	142.0p	130.0p	0-7	20.75p	21.82p	-5	0.304	5.2	-35.3	-5.2	+66.5	+11%
Pacific Assets	73.8p	130.0p	2-6	6.00p	9.91p	-39	0.441	3.1	-100.0	-100.0	-100.0	+28%
Pacific Horizons	34.8p	56.0p	2-7	6.75p	6.20p	+9	0.464	2.7	-100.0	-100.0	-100.0	+26%
Schroder Asia Pacific	74.8p	100.0p	6-2	23.00p	31.27p	-26	0.438	1.7	-40.0	+6.8	+32.4	+8%
Scottish Oriental Sm Co	72.0p	100.0p	7-2	27.00p	31.91p	-15	0.430	1.7	-29.8	+6.6	+28.8	+8%
Hambros Smaller Asian	38.0p	US\$ 1.00	2-1	4.75p	7.60p	-38	0.570	2.5	-100.0	-100.0	-100.0	+31%
Indonesia Fund	129.7p	US\$10.00	5-1	7.93p	16.15p	-51	0.507	2.4	-100.0	-100.0	-100.0	+36%
<u>HONG KONG / CHINA REGION</u>												
Fleming Chinese	45.5p	100.0p	4-3	14.25p	8.13p	+75	0.435	2.5	-100.0	-100.0	-100.0	+24%
<u>KOREA</u>												
Korea Liberalisation Fd	198.3p	US\$10.50	4-6	15.25p	79.15p	-81	0.791	1.5	-100.0	-100.0	-100.0	+31%
<u>INDIA</u>												
Fleming Indian	65.0p	100.0p	4-3	14.25p	12.74p	+12	0.336	2.8	-100.0	-100.0	+28.3	+14%
Lazard Birla India	52.2p	US\$ 1.00	5-3	10.68p	19.55p	-45	0.388	1.9	-11.3	+17.0	+44.6	+6%
<u>JAPAN</u>												
B Gifford Shin Nippon	205.3p	200.0p	5-5	80.00p	89.82p	-11	0.374	1.8	-3.1	+11.5	+31.4	+6%
Fidelity Japan Values	123.3p	100.0p	4-5	54.75p	57.55p	-5	0.384	1.8	-0.8	+11.3	+30.2	+5%
Gartmore Select Japan	78.3p	100.0p	3-6	22.75p	20.83p	+9	0.399	2.4	-100.0	-22.7	+23.9	+14%
Henderson Japan Small	72.5p	100.0p	3-0	15.50p	16.25p	-5	0.419	2.6	-100.0	-100.0	+17.7	+17%
Invesco Japan	163.0p	100.0p	4-11	90.25p	97.66p	-8	0.432	1.5	+3.6	+12.4	+27.6	+3%
Invesco Tokyo	51.0p	55.0p	4-7	14.75p	16.88p	-13	0.327	2.2	-10.7	+11.1	+37.1	+7%
Martin Currie Japan	127.3p	100.0p	2-10	42.75p	48.18p	-11	0.319	2.3	+2.7	+17.0	+41.1	+4%
Perpetual Japan	70.5p	100.0p	1-0	8.75p	3.82p	+129	0.382	5.9	-100.0	-100.0	-100.0	+54%
Schroder Japan Growth	93.8p	100.0p	5-0	29.25p	32.87p	-11	0.323	2.1	-7.6	+11.8	+35.4	+7%
Atlantis Japan Growth	789.6p	US\$10.00	1-5	251.08p	285.75p	-12	0.491	2.3	-6.3	+9.8	+40.2	+7%

UK Internet Brokers

UK stockbroker **FasTrade** (www.fastrade.co.uk) has lowered some of its internet charges. Brokerage will remain at 0.5% with a minimum of £15, but the maximum charge has been lowered from £50 to £30 (plus 0.1% of the amount over £40,000 - if you ever make trades that large!). So effectively the maximum brokerage is now £30 on trades worth over £6000.

FasTrade charges its standard brokerage buying and selling UK unit trusts, but rebates all of the initial sales commission which is usually 3%.

The company has also removed its annual charge of £5.00 per stock held in their nominee account and will make no account charge for portfolios worth under £100,000. For larger portfolios (worth over £100,000) there will be an annual charge of 0.04% (i.e. £40 per year on an account worth £100,000).

The company has also moved to a new address (81 George Street, Edinburgh EH2 3ES, Scotland) and updated its internet site (i.e. new graphics and layout, but still relatively basic) and early next year will introduce real time, straight through electronic order placement.

Cave & Sons (www.caves.co.uk) charge brokerage at 1.0% with a minimum of £5 and a maximum of £35. This broker would therefore be cheaper than FasTrade for investors who make trades of between £500 (Cave & Sons minimum investment) and £1500.

There are no annual fees to maintain an account with Cave & Sons or to hold your investments in their nominee account. For purchases of UK unit trusts the company charges no brokerage but only rebates the initial sales charge in excess of 2% (i.e. usually rebates just 1% to the investor). On unit trust sales there is a flat charge of £20.

Cave & Sons is therefore a little cheaper than FasTrade on the purchase and sale of listed securities worth from £500 to £1500, but overall their charges are relatively similar.

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Next Issue

The next issue of "International Investor" will be posted in four weeks time on Tuesday December 7, 1999.