

“Buy Asia”, we hear from many advisors. We’d better be selective.

A mixed bag. “Asia offers the best prospects”, we are told, because its crisis was in 1998; it is more economically robust than other regions, will benefit from a recovery in the US, not to mention China’s growing importance. I’m sceptical of these arguments. I do not see how the currency/loan crisis of 1998, compounded by an earlier devaluation of the Chinese yuan, makes the region any less vulnerable to problems faced by the West. Today, China is much more of an economic rival for the rest of Asia, and the yuan is devaluing due to its peg to a weakening US dollar. While there are also benefits from China’s economic development, mainly for commodity exporters and tourist sites, deflationary pressures elsewhere are intensifying due to increased competition in manufacturing.

Moreover, Asia is not immune from terrorism and East Asia is close to what may well be the most dangerous geopolitical problem - North Korea. Asian stock markets did outperform during the last secular bear market, from the late 1960s to the early 1980s, albeit in a very volatile fashion, in which new highs were seen in the rally phases during Wall Street’s long confinement within a sideways trading band. Back then, all of Asia was a developing region, and this may offer some helpful clues for the next few years.

Charts suggest that stock markets in developing Asia will generally outperform those of developed Asia, perhaps for a very long time. Today, Japan’s Topix and Nikkei fell to new bear market lows, while India’s Sensex Index has only rolled over following a good rally from its October 2002 trough and remains well above its September 2001 floor. Similarly, Singapore has considerably underperformed Thailand in recent years. Looking to the future, I do not envisage a buy-and-hold environment for developing Asia. During the earlier secular bear market mentioned above, I recall Asian indices soaring during Wall Street’s medium-term rallies, only to retrace 70 percent or more of those gains during the bearish phases. Among my next stock market purchases will be the JP Morgan Fleming Indian investment trust (closed-end fund), and the Aberdeen New Thai investment trust. Both are listed in London. Capitulation selling prior to a military move against Saddam Hussein may provide an opportunity. While I do not have

room in an FMP to show many interesting charts contrasting developed versus developing Asia, I will post a number on www.fullermoney.com later today, both short and long-term, which you could access anytime thereafter.

Best regards - David Fuller

Charts by Bloomberg

