



16 August 2011

The Investigator

Sentiment panic, weak tape = no heroics

Cyclically, we have no strong opinion

For many quarters now, our strong opinions have been that 1) emerging markets and Asian markets are likely to underperform developed markets, 2) Japan looks especially inexpensive, particularly with regard to its deep-value names, 3) Brazil's financial vulnerability is higher than investors had originally assumed, and is a source of risk, 4) smaller markets like the Philippines and Thailand should benefit from higher margins, with China and India the reverse. 5) Asian tech stocks should underperform, a consequence of very poor margin momentum. These views have worked out and we still retain them. On the other hand, the sixth opinion – that Asian equity markets should be up, dragged up by the hitherto resilient US equity market – has not worked out.

Technicals worsened last week, risk management checklist still negative

The Advance-Decline Ratio still looks feeble. The new low ratio in the US came off last week, which we regard as a good sign. The Tape (breadth of sectors) fell further last week. The percentage of global markets above their ten-week and 40-week moving averages was a lot worse last week.

Risk-Love (unsurprisingly) in panic in the US and Asia

US stock performance correlations with benchmarks are at their highest level since 1985. Any reversal in this correlation has usually been severe for low-quality stocks, which have been beaten down, and put on sell lists. That is, stock-picking becomes very potent from such high levels of panicked correlations, but the very worst-quality names do exceptionally well, rather than the high-quality names that seem to gain adherents at these times. Stock correlations with benchmarks normally remain low-ish in Asia, a fertile field for stock-pickers.

Weak technicals plus panicked sentiment = no need for heroic views

Since 1970, fifty-eight per cent of the time, the US equity market has been up on a three-month view, on average by 7.3%. Forty-two per cent of the time, it was down, by an average of 9.5%. This is why we do not want to fight the Tape. We will wait for the technicals to become stronger to get off the fence and become bullish. If they become weaker, and the economic indicators get a lot worse, then we will take a more defensive action than we have so far.

We provide baskets for bulls, bears, and neutral-view investors

For confident bulls, buy high dispute/low financial strength and value. For neutrals, buy low dispute/high financial strength, but value names. For confident bears, avoid high dispute/low financial strength names that are still expensive. All lists are inside.

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Sentiment panic, weak tape = no heroics

Cyclically, we have no strong market views

For many quarters now, our strong opinions have been that 1) emerging markets and Asian markets are likely to underperform developed markets, 2) Japan looks especially inexpensive, particularly with regard to its deep-value names, 3) Brazil's financial vulnerability is higher than investors had originally assumed, and is a source of risk, 4) smaller markets like the Philippines and Thailand should benefit from higher margins, with China and India the reverse. 5) Asian tech stocks should underperform, a consequence of very poor margin momentum. These views have worked out and we still retain them. The sixth opinion – that Asian equity markets should be up, dragged up by the hitherto resilient US equity market – has not worked out.

Currently, a combination of very weak global equity technicals *and* Risk-Love (sentiment) at panic levels suggests no heroic market views – bullish or bearish. History suggests that this combination (weak technicals, panicked sentiment) offers a 60-40 chance of higher returns in three months, with severe drawdown possibilities. If the Tape/technicals become stronger, we will change our minds. The only high-confidence view we can see is the attraction of "junk" in the US, given record stock correlations of stocks with the benchmark there, but not in Asia. Last week, in "Ceasefire, for now", *Investigator*, 8th August, 2011, we said we would update our high-frequency metrics and see if anything had changed. We had said, "*those who are very nimble and need to manage their net exposure on a daily/weekly basis should simply respect our checklist model, not listen to our interpretation, cut exposure and get back in if the risk model turns positive*". Last week, Asian equities were down 5.4%, and we think this advice still holds, since our checklist is still negative. See Figure 1.

Let us take a look at a few technical indicators. Figure 2 shows that the US and Asian Advance-Decline ratio still look feeble. Figure 3 show that the new low ratio in the US came off last week – a good sign. The Tape (breadth of sectors) fell further last week. The percentage of global markets above their ten-week and 40-week moving averages (see Figures 4 and 5) were a lot worse last week. In short, the technicals got worse last week.

How about sentiment (Risk-Love)? Our Risk-Love model for the US is in deep panic (see Figure 6), as is that for Asian Risk-Love (see Figure 7). Another way to witness weak sentiment is by looking at the spike in stock correlations with the benchmark. In Figure 8 we show that this is at the highest level in the US since 1985. Any reversal in this correlation has usually been severe for low-quality stocks, which have been beaten down, and put on sell lists. That is, stock-picking becomes very potent from such high levels of panicked correlations, but the very worst-quality names do exceptionally well, and not the high-quality names that seem to gain adherents at these times. Stock correlations with benchmarks normally remain low-ish in Asia, a fertile field for stock-pickers. As we show in Figure 8, these stock-benchmark correlations have spiked somewhat in the recent sell-off.

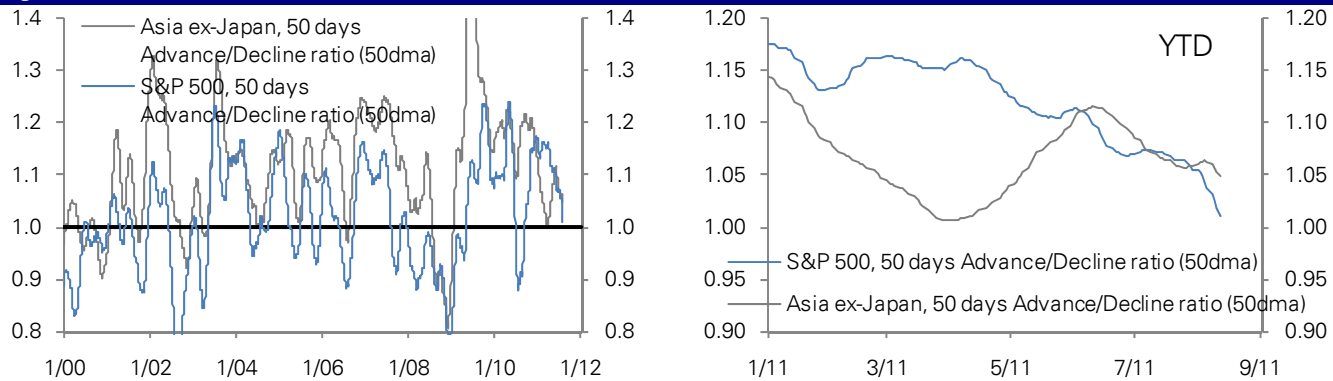
The key (Bayesian) question we need to answer is "given such weak technicals, and such low Risk-Love, what has the trajectory of the equity market been in the past"? In Figure 9 we show the results since 1970 (we use US data here). Fifty-eight per cent of the time, the US equity market was up on a three-month view, on average by 7.3%. Forty-two per cent of the time, it was down, by an average of 9.5%. This is why we do not want to fight the Tape. We will wait for the technicals to become stronger to get off the fence and become bullish. If they become weaker, and the economic indicators get a lot worse, we will take a more defensive action than we have thus far.

Figure 1: Risk management checklist still moderately negative

Metric	12Aug11	5Aug11	31Jul11	30Jun11	
Technicals	1 Tape	✘	✘	✓	✓
	2 Market disparity index (US)	○	○	○	○
	3 MSCI Asia ex-Japan Above 200d mov avg	✘	✘	✘	✘
	4 New Lows as a % of issues traded (NYSE)	✘	✘	✘	○
Sentiment	5 Diffusion index of sentiment indicators	✓	✓	✓	✓
	6 US and Asian equity Risk-Love	✓	✓	○	✓
	7 Ted Spread	✓	✓	✓	✓
Growth	8 Consumer Metrics Composite Index	✓	✓	✓	✓
	9 US Weekly Leading Index growth	✓	✓	✓	✓
	10 Valuation spread	○	○	✓	○
	11 ISM new orders less new inventories (% , 3mma)	✘	✘	✘	✘
	12 US Long Leading Index growth (%)	✓	✓	✓	✓
	13 Mother of All Leading Indicators (ECRI)	✓	✓	✓	✓
	14 Earnings revisions Index	✘	✘	✘	✘
	15 Corporate bond spread	✘	✘	✘	✘
	16 Plutonomy stocks performance	✘	✘	✓	✓
	17 Composite policy indicator	○	○	○	○
Inflation	18 China Shenzhen Small Medium Enterprise Composite Index	○	○	○	○
	19 US Future Inflation Gauge	○	○	○	✓
	20 TIPS spread	✓	✓	✓	✓
	21 M1 growth in China (YoY)	✘	✘	✘	✘
	22 China property stocks performance	✘	✘	✘	✓
	23 China credit multiplier	✘	✘	✘	✘
	24 US homebuilders performance	✘	✘	✘	✘
Others	25 Asia's Terms of Trade	✘	✘	✘	✘
	26 Asia's Equity Issuance % of M2	○	○	○	○
	27 US Dollar sentiment	○	✓	✓	○
Number of favorable metrics (✓)	8	9	11	12	
Number of neutral metrics (○)	7	6	6	7	
Number of unfavorable metrics (✘)	12	12	10	8	
Number of favorable metrics (✓) less ✘	-4	-3	1	4	

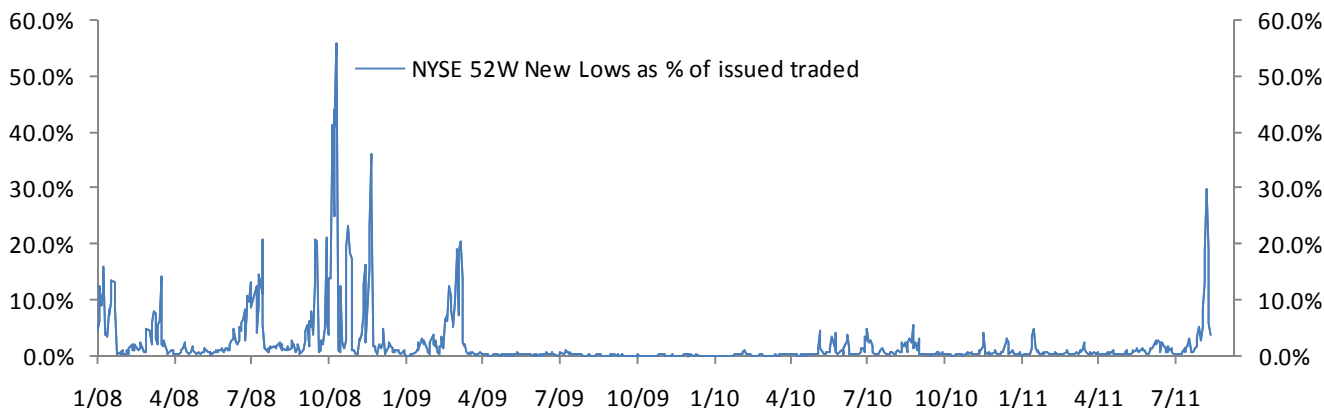
Source: Deutsche Bank, FactSet, Datastream, Bloomberg Finance LP, ECRI, MSCI. Note: Earnings revisions = number of upward less downward EPS revisions as a percent of the total number of EPS revisions in one month. The valuation spread is the earnings yield gap between the cheapest and most expensive 20th percentile stocks baskets, standardized over history. A composite policy indicator is an equal weighted index on the real effective exchange rate yoy growth, real broad money (M2) yoy growth, yield curve (long minus short-term interest rate) and government fiscal deficit/surplus as a percent of GDP. China credit multiplier = China loans / base money.

Figure 2: The Advance-Decline Ratio still looks feeble



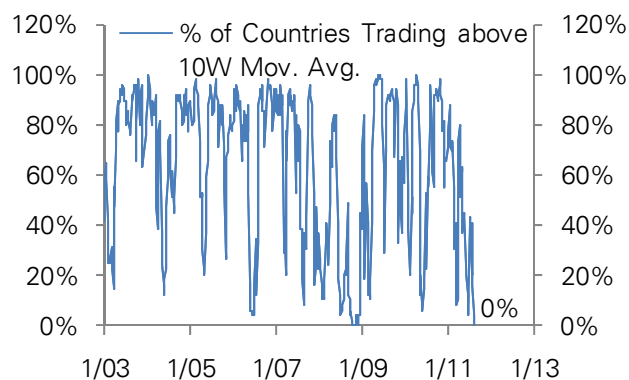
Source: Deutsche Bank, Asia ex-Japan Japan stocks universe covers more than 90% of the total regional market cap.

Figure 3: US – New lows coming off last week – good news



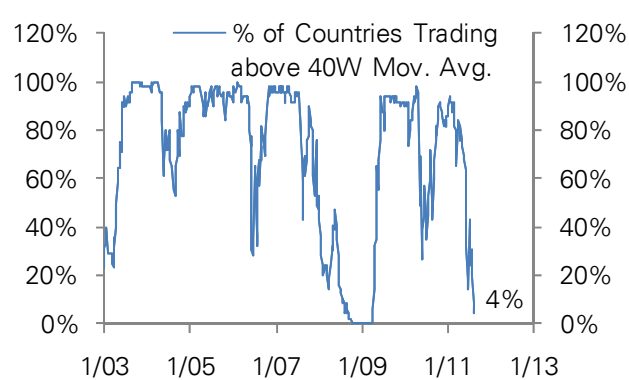
Source: Deutsche Bank, Bloomberg Finance L.P.

Figure 4: Global equities lack breadth – I



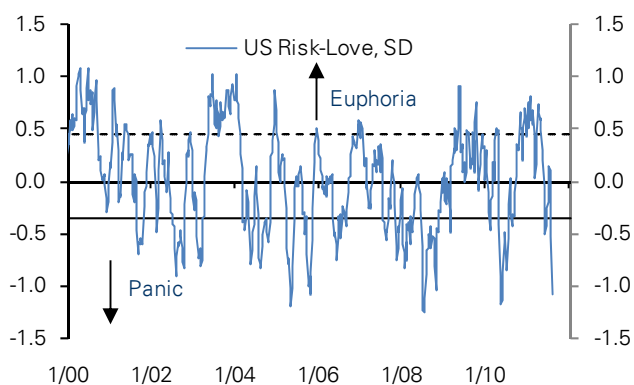
Source: Deutsche Bank, Datastream. Includes 49 markets. Datastream country price indices are used.

Figure 5: Global equities lack breadth – II



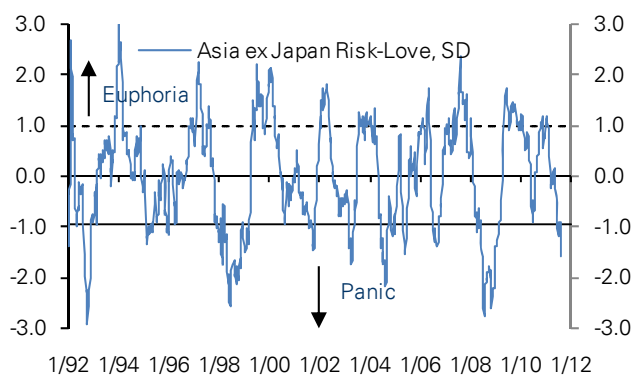
Source: Deutsche Bank, Datastream. Includes 49 markets. Datastream country price indices are used.

Figure 6: US Risk-Love in panic



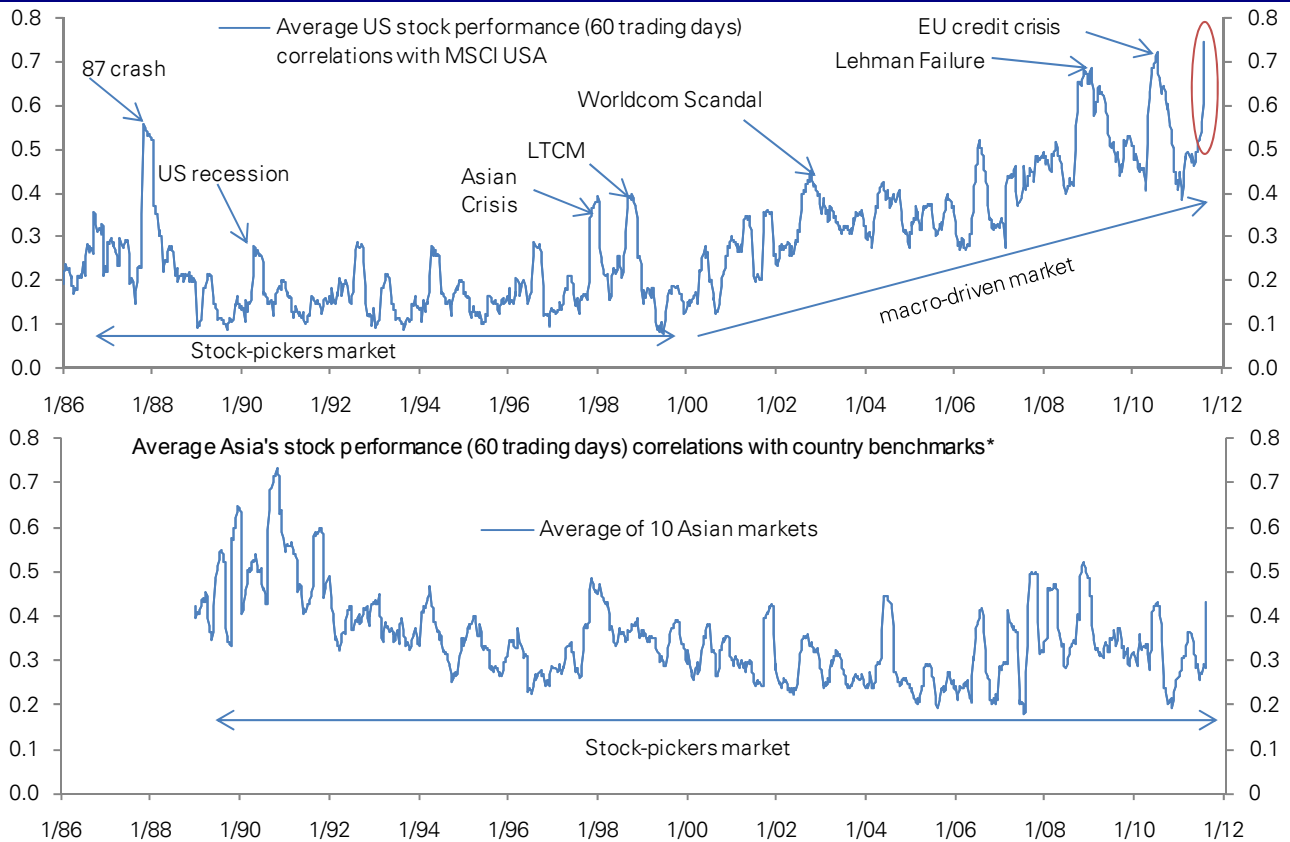
Source: Deutsche Bank

Figure 7: Asian Risk-Love also in panic



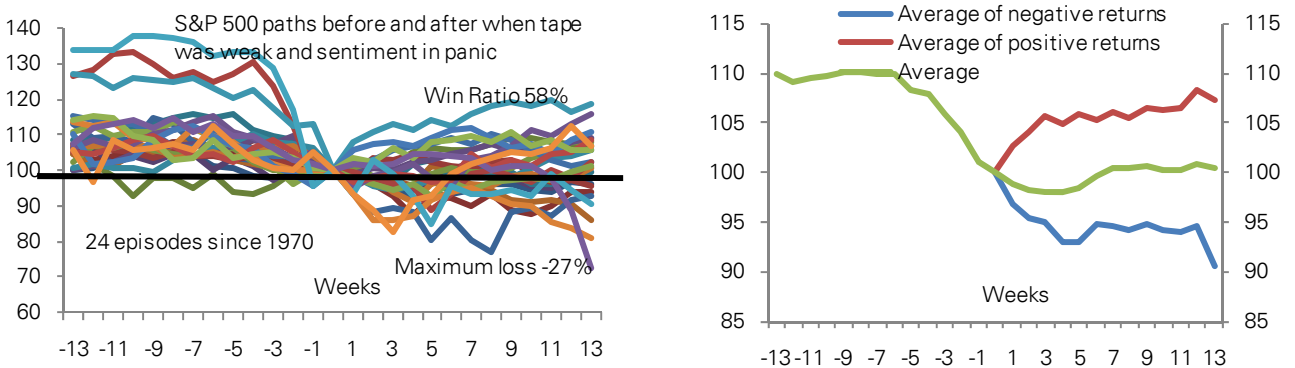
Source: Deutsche Bank

Figure 8: US stock performance correlations with benchmark at all-time high – excellent prospects for “low-quality” stocks



Source: Deutsche Bank, Note: MSCI. Stock correlations with MSCI country indices based on rolling 60-day daily returns on a broad universe of stocks covering the top 95% of total market capitalization (i.e. 576 to 4,273 stocks in Asia ex Japan from 1989 to 2011 and 1,053 to 2,684 stocks from 1986 to 2011 in the US). The ten Asian markets are China, Hong Kong, India, Indonesia, South Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand.

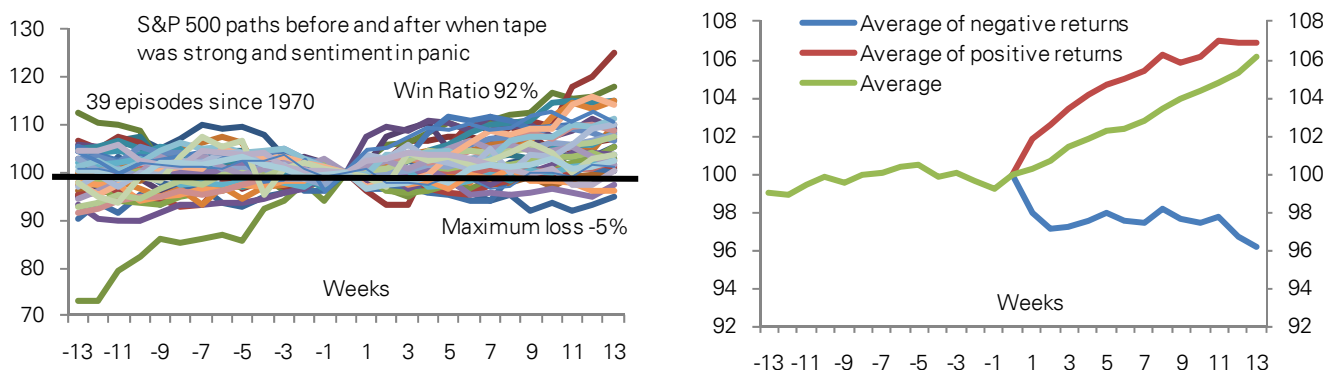
Figure 9: Weak technicals plus panicked sentiment = no need for heroic views



Source: Deutsche Bank, Bloomberg Finance LP. Tape is borrowed from NDR. For sentiment US Risk-Love indicator is used.

We show the happy combination for equities is in Figure 10. This is when the Tape is strong, yet, for some reason, sentiment has collapsed. Here, there is a 92% probability of making positive returns on a three-month view, with an average return of 7%. There is an 8% chance of losing money, with an average return of -4%. This combination is when one should have confident bullish views, in our opinion.

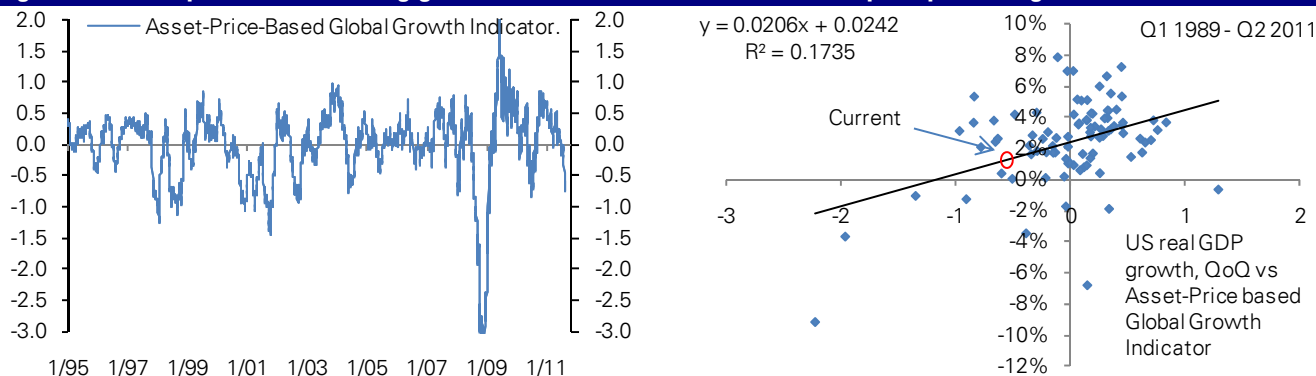
Figure 10: Strong technicals plus panicked sentiment = high confidence bullishness



Source: Deutsche Bank, Bloomberg Finance LP. Tape is borrowed from NDR. For sentiment US Risk-Love indicator is used.

How about growth prospects? We have no updates on our leading growth indicators. We do have a daily asset-price-based growth leading indicator – this includes stocks versus bonds, various commodity stocks versus defensives, cyclical stocks relative performance, etc. In Figure 11 we show that this indicator has now reached levels that are discounting really weak growth (using US data, it is implying 1.2% qoq growth). It has been over-predicting growth in the past few quarters. Overall, these asset prices have already discounted quite weak economic/earnings growth. There is a sharp divide between economic surprises/economic forecasts and Asian EPS growth forecasts, which have been cut rather modestly, from 13.9% to 12.4%, in the past month. While we think stocks have already discounted quite a sharp potential downward revision in 2011 and 2012 EPS growth forecasts, they normally do respond to the actual EPS downgrade when it happens – they never fully discount it in advance.

Figure 11: Asset-price-based leading growth indicator has discounted a sharp drop in EPS growth



Source: Deutsche Bank, Datastream

Source: Deutsche Bank, BEA

We have had a few requests from colleagues and clients, who have much stronger views than we do, for “names”. We highlight three baskets.

Figure 12 shows low dispute/high financial strength Asian names that we consider are also good value, and that have been beaten down in the past few weeks. *This is the basket for folks who are neutral.*

Figure 13 shows a basket of high dispute/lower financial strength and cheap Asian names. These have been beaten down quite a bit. *The confident bulls should buy this basket.*

For those who are quite bearish, avoid the names in Figure 14. These are high dispute/lower financial strength names that are expensive. They are "cruising for a bruising" if markets drop severely from here.

Figure 12: Buy basket for those have neutral views– high financial strength plus value stocks

Name	Ticker	DB Rec	MTD			Industry Group	12m fd		Trailing P/E	FCF Yld (%)	ROE (%)	FY1 EPS Dispersion	Altman Z	Piotroski Score
			Perf	Mcap	T/O		P/E	P/BV						
1 CAIRN INDIA LTD	CAIR IN	Buy	-9.7%	11,664	16.1	Energy	5.7	1.3	8.4	5.5	17.1	20.0	8.9	8.0
2 CNOOC LTD	883 HK	Buy	-18.4%	81,414	167.2	Energy	7.6	2.5	10.0	6.2	27.9	8.6	5.9	8.0
3 INTERNATIONAL NICKEL INDONES	INCO IJ	Buy	-10.6%	4,415	3.9	Materials	9.0	2.5	9.9	9.0	26.8	8.7	7.6	8.0
4 FORMOSA CHEMICALS & FIBRE	1326 TT	Buy	-27.3%	14,874	32.5	Materials	7.7	1.5	8.2	9.0	18.8	8.2	5.9	8.0
5 TATA MOTORS LTD	TTMT IN	Buy	-15.4%	11,213	62.1	Capital Goods	5.2	2.6	5.2	1.4	67.7	7.0	2.4	8.0
6 DONGFANG ELECTRIC CORP LTD-H	1072 HK	Buy	-18.1%	5,952	8.8	Capital Goods	11.4	3.7	11.3	0.5	26.4	9.0	1.3	8.0
7 CHINA EASTERN AIRLINES CO-H	670 HK	Buy	-4.9%	5,382	6.9	Transportation	8.1	2.3	7.2	6.9	60.1	30.2	0.9	8.0
8 DONGFENG MOTOR GRP CO LTD-H	489 HK	Buy	-17.5%	14,062	42.5	Automobiles & Components	7.8	2.4	8.4	14.8	33.9	7.7	3.0	8.0
9 ANTA SPORTS PRODUCTS LTD	2020 HK	Buy	-13.1%	3,268	15.5	Consumer Durables & Apparel	10.5	3.7	12.2	5.1	28.8	3.7	15.6	7.0
10 KT&G CORP	033780 KS	Buy	2.1%	7,773	25.5	Food Beverage & Tobacco	10.4	2.0	9.2	7.8	22.7	8.5	7.6	7.0
11 WUXI PHARMATECH INC-ADR	WX US	Buy	-8.5%	1,010	7.0	Pharmaceuticals, Biotech	11.8	2.3	14.6	6.8	27.0	5.2	8.3	8.0
12 IND & COMM BK OF CHINA-H	1398 HK	Buy	-17.5%	218,974	203.6	Banks	6.4	1.8	8.8	na	22.1	2.9	na	na
13 POWER FINANCE CORPORATION	POWF IN	Buy	-7.8%	4,295	23.8	Diversified Financials	6.8	1.3	7.3	na	18.6	1.9	na	na
14 MAPLETREE INDUSTRIAL TRUST	MINT SP	Buy	-7.3%	1,461	4.4	Real Estate	13.2	1.2	4.6	5.7	51.6	3.8	na	na
15 POWERTECH TECHNOLOGY INC	6239 TT	Buy	-16.8%	1,671	14.0	Semis	7.2	1.6	7.1	7.6	25.7	7.3	3.6	9.0
16 TAIWAN SEMICONDUCTOR MANUFAC	2330 TT	Buy	-9.6%	58,176	132.3	Semis	11.4	2.8	10.8	2.2	30.2	7.9	10.8	8.0
17 NETEASE.COM INC-ADR	NTES US	Buy	-4.1%	6,299	12.4	Software & Services	12.0	3.9	16.6	8.3	26.4	5.3	13.2	7.0
18 CHINA TELECOM CORP LTD-H	728 HK	Buy	-8.9%	48,077	39.5	Telecommunication Services	15.0	1.4	20.6	12.1	7.0	6.7	2.1	9.0
19 GUANGDONG INVESTMENT LTD	270 HK	Buy	2.9%	3,466	5.0	Utilities	9.9	1.5	11.6	14.5	13.4	5.4	3.9	9.0
Median			-9.7%	6,299	16.1		9.0	2.3	9.2	6.8	26.4	7.3	5.9	8.0

Source: Deutsche Bank, Factset, Bloomberg Finance L.P.. Note: **Screen factors for valuation:** trailing P/E, 12m forward P/E, P/B and trailing P/FCF (for non-financial only). **Screen factors for dispute and financial strength:** trailing ROE, analyst eps estimates dispersion (low means better earnings visibility), Altman Z score (for non-financial only) and Piotroski score (for non-financial only). All measures are taken on a sector relative basis in the formation of basket. **Altman Z Score** measures the probability of bankruptcy within 2 years. It is computed as (1.2 x working capital + 1.4 x retained earnings + 3.3 x EBIT + sales) / total assets + 0.6 x market value of equity / total liabilities. **Piotroski score** is used to determine excellent quality value stocks on following 9 parameters (scale is 0 to 9, 9 is the best). The 9 parameters can be broadly classified into profitability, leverage and operating efficiency. **Profitability:** 1. Positive net income as compared to last year; 2. Positive operating cash flow in the current year; 3. Higher return on assets (ROA) in the current period compared to the ROA in the previous year; 4. Cash flow from operations greater than Net Income. **Leverage, liquidity and source of funds:** 5. Lower ratio of long term debt to in the current period compared value in the previous year; 6. Higher current ratio this year compared to the previous year; 7. No new shares were issued in the last year. **Operating efficiency:** 8. A higher gross margin compared to the previous year; 9. A higher asset turnover ratio compared to the previous year.

Figure 13: Buy basket for confident bulls – lower financial strength and value names

Name	Ticker	DB Rec	MTD			Industry Group	12m fd		Trailing P/E	FCF Yld (%)	ROE (%)	FY1 EPS Dispersion	Altman Z	Piotroski Score
			Perf	Mcap	T/O		P/E	P/BV						
1 CHINA OILFIELD SERVICES-H	2883 HK	Buy	-19.5%	6,509	15.0	Energy	8.3	1.6	10.2	4.5	17.2	7.1	2.8	6.0
2 PETROCHINA CO LTD-H	857 HK	Hold	-15.2%	219,791	120.6	Energy	8.7	1.6	10.4	3.4	15.7	8.0	3.7	5.0
3 MAANSHAN IRON & STEEL-H	323 HK	Buy	-19.8%	2,687	5.4	Materials	10.9	0.7	16.5	-8.0	4.1	52.1	1.8	5.0
4 GRASIM INDUSTRIES LTD	GRASIM IN	Buy	-4.1%	4,256	3.5	Materials	8.2	1.3	8.5	7.8	16.8	8.1	3.2	4.0
5 CHINA SHIPPING DEVELOPMENT-H	1138 HK	Buy	-21.1%	2,097	4.9	Transportation	6.0	0.6	8.5	-18.8	7.8	19.2	2.0	7.0
6 DAEWOO SHIPBUILDING & MARINE	042660 KS	Buy	-22.7%	5,143	77.9	Capital Goods	7.2	1.4	7.0	-4.8	21.4	10.9	1.7	5.0
7 DAEJIM INDUSTRIAL CO LTD	000210 KS	Buy	-13.9%	3,499	49.6	Capital Goods	7.9	0.9	11.8	13.8	9.0	11.7	2.2	6.0
8 ESPRIT HOLDINGS LTD	330 HK	Buy	-14.6%	3,203	22.7	Retailing	6.3	1.4	7.1	7.8	27.7	9.7	7.2	5.0
9 HYUNDAI MOTOR CO	005380 KS	Buy	-20.0%	38,375	226.1	Automobiles & Components	7.2	1.5	9.7	11.6	21.2	12.6	3.7	6.0
10 INDOFOOD AGRI RESOURCES LTD	IFAR SP	Buy	-23.9%	1,512	15.2	Food Beverage & Tobacco	7.1	na	7.8	3.1	13.7	13.5	2.4	6.0
11 SINOPHARM GROUP CO-H	1099 HK	Buy	-18.2%	5,393	13.0	Health Care Equipment & Svc	19.3	2.9	27.8	-1.0	10.3	8.7	3.4	4.0
12 WOORI FINANCE HOLDINGS CO	053000 KS	Buy	-18.7%	8,440	36.5	Banks	4.4	0.6	7.6	na	8.5	12.0	na	na
13 KOREA EXCHANGE BANK	004940 KS	Buy	-10.9%	4,978	16.8	Banks	4.4	0.6	5.3	na	12.5	25.1	na	na
14 INDUSTRIAL BANK OF KOREA	024110 KS	Buy	-16.8%	8,383	30.9	Banks	5.0	0.8	7.5	na	13.4	13.1	na	na
15 SOHO CHINA LTD	410 HK	Buy	-8.2%	4,319	6.4	Real Estate	7.9	1.4	7.7	50.1	19.9	33.2	na	na
16 HON HAI PRECISION INDUSTRY	2317 TT	Buy	-11.4%	27,491	95.8	Technology Hardware & Equip	8.7	1.7	10.3	9.8	16.8	12.3	3.5	4.0
17 NOVATEK MICROELECTRONICS COR	3034 TT	Buy	-14.3%	1,433	14.0	Semiconductors & Semiconductor	8.4	1.8	10.1	5.5	21.5	8.4	4.5	5.0
18 QUANTA COMPUTER INC	2382 TT	Buy	-20.7%	7,443	29.4	Technology Hardware & Equip	9.3	1.9	11.6	1.1	17.0	6.6	4.5	4.0
19 PCCW LTD	8 HK	Buy	-9.7%	2,864	5.7	Telecommunication Services	9.9	na	11.3	10.7	na	11.4	0.7	7.0
20 KOREA GAS CORPORATION	036460 KS	Hold	-17.0%	2,120	6.1	Utilities	6.4	0.4	10.4	-16.4	3.9	20.2	1.5	6.0
Median			-16.9%	4,648	16.0		7.9	1.4	9.9	5.0	15.7	11.8	3.0	5.0

Source: Deutsche Bank, Factset, Bloomberg Finance L.P.. Note: **Screen factors for valuation:** trailing P/E, 12m forward P/E, P/B and trailing P/FCF (for non-financial only). **Screen factors for dispute and financial strength:** trailing ROE, analyst eps estimates dispersion (low means better earnings visibility), Altman Z score (for non-financial only) and Piotroski score (for non-financial only). All measures are taken on a sector relative basis in the formation of basket. **Altman Z Score** measures the probability of bankruptcy within 2 years. It is computed as (1.2 x working capital + 1.4 x retained earnings + 3.3 x EBIT + sales) / total assets + 0.6 x market value of equity / total liabilities. **Piotroski score** is used to determine excellent quality value stocks on following 9 parameters (scale is 0 to 9, 9 is the best). The 9 parameters can be broadly classified into profitability, leverage and operating efficiency. **Profitability:** 1. Positive net income as compared to last year; 2. Positive operating cash flow in the current year; 3. Higher return on assets (ROA) in the current period compared to the ROA in the previous year; 4. Cash flow from operations greater than Net Income. **Leverage, liquidity and source of funds:** 5. Lower ratio of long term debt to in the current period compared value in the previous year; 6. Higher current ratio this year compared to the previous year; 7. No new shares were issued in the last year. **Operating efficiency:** 8. A higher gross margin compared to the previous year; 9. A higher asset turnover ratio compared to the previous year.

Figure 14: Avoid basket for confident bears – lower financial strength and expensive

Name	Ticker	DB Rec	MTD			Industry Group	12m fd		Trailing P/E	FCF Yld (%)	ROE (%)	FY1 EPS Dispersion	Altman Z	Piotroski Score
			Perf	Mcap	T/O		P/E	P/BV						
1 BHARAT PETROLEUM CORP LTD	BPCL IN	Sell	5.0%	5,503	9.1	Energy	12.0	1.6	15.3	-29.8	11.1	18.1	2.6	7.0
2 INDIAN OIL CORPORATION LTD	IOCL IN	Hold	2.7%	17,321	5.4	Energy	8.4	1.4	10.0	-21.6	14.2	17.2	2.7	6.0
3 SHREE CEMENT LTD	SRCM IN	Hold	-2.7%	1,329	1.0	Materials	17.8	17.1	325.8	-1.8	5.2	65.4	4.4	6.0
4 ULTRATECH CEMENT LTD	UTCEN IN	Sell	-1.1%	6,150	2.8	Materials	14.5	2.6	20.4	1.7	17.9	13.9	3.5	4.0
5 DAEWOO ENGINEERING & CONSTR	047040 KS	Hold	-20.4%	3,743	13.9	Capital Goods	13.1	1.2	na	-5.6	-23.5	31.2	1.5	4.0
6 JAIPRAKASH ASSOCIATES LTD	JPA IN	Hold	-7.1%	2,903	19.7	Capital Goods	8.8	1.2	7.3	-39.8	18.6	21.5	1.1	4.0
7 ABB LTD	ABB IN	Sell	-8.5%	3,710	1.7	Capital Goods	34.2	7.0	266.5	0.7	2.6	31.3	5.1	5.0
8 PANTALOON RETAIL INDIA LTD	PF IN	Hold	-7.3%	1,489	5.4	Retailing	22.0	2.3	97.7	-11.0	2.6	22.6	2.4	6.0
9 BYD CO LTD-H	1211 HK	Sell	-15.3%	6,474	17.0	Automobiles & Components	16.2	2.2	16.5	-9.7	14.4	41.4	2.7	5.0
10 CHINA FOODS LTD	506 HK	Sell	-6.5%	2,279	2.0	Food Beverage & Tobacco	23.2	3.1	42.8	-4.0	7.5	8.8	3.5	4.0
11 CIPLA LTD	CIPLA IN	Hold	-4.7%	5,193	9.2	Pharmaceuticals, Biotech	19.5	3.5	23.8	1.2	15.7	6.3	10.3	4.0
12 TMB BANK PCL	TMB TB	Sell	-9.3%	2,710	7.6	Banks	16.0	1.6	19.1	na	8.4	6.9	na	na
13 AYALA CORPORATION	AC PM	Hold	-5.5%	3,593	1.9	Diversified Financials	16.0	1.8	19.0	na	10.3	5.1	na	na
14 BURSA MALAYSIA BHD	BURSA MK	Hold	-11.9%	1,215	2.0	Diversified Financials	21.4	4.2	27.4	na	13.3	6.8	na	na
15 FOXCONN INTERNATIONAL HLDGS	2038 HK	Hold	-4.8%	3,092	4.6	Technology Hardware & Equip	52.7	0.9	na	-7.2	-6.1	160.0	3.2	3.0
16 SATYAM COMPUTER SERVICES LTD	SCS IN	Hold	-11.5%	1,929	15.2	Software & Services	13.3	5.1	na	-2.8	-8.2	15.2	1.8	6.0
17 SHANDA INTERACTIVE-SPON ADR	SNDA US	Hold	-2.6%	1,919	6.0	Software & Services	18.8	1.7	29.9	9.1	6.2	27.5	5.8	4.0
18 IDEA CELLULAR LTD	IDEA IN	Hold	-1.3%	6,786	15.6	Telecommunication Services	28.9	2.7	34.4	-11.1	7.7	21.0	1.8	5.0
19 TATA POWER CO LTD	TPWR IN	Hold	-15.3%	5,696	6.7	Utilities	11.6	2.0	12.5	-20.2	16.8	9.2	1.3	5.0
Median			-6.5%	3,593	6.0		16.2	2.2	22.1	-4.0	8.4	18.1	2.7	5.0

Source: Deutsche Bank, Factset, Bloomberg Finance L.P.. Note: **Screen factors for valuation:** trailing P/E, 12m forward P/E, P/B and trailing P/FCF (for non-financial only). **Screen factors for dispute and financial strength:** trailing ROE, analyst eps estimates dispersion (low means better earnings visibility), Altman Z score (for non-financial only) and Piotroski score (for non-financial only). All measures are taken on a sector relative basis in the formation of basket. **Altman Z Score** measures the probability of bankruptcy within 2 years. It is computed as (1.2 x working capital + 1.4 x retained earnings + 3.3 x EBIT + sales) / total assets + 0.6 x market value of equity / total liabilities. **Piotroski score** is used to determine excellent quality value stocks on following 9 parameters (scale is 0 to 9, 9 is the best). The 9 parameters can be broadly classified into profitability, leverage and operating efficiency. **Profitability:** 1. Positive net income as compared to last year; 2. Positive operating cash flow in the current year; 3. Higher return on assets (ROA) in the current period compared to the ROA in the previous year; 4. Cash flow from operations greater than Net Income. **Leverage, liquidity and source of funds:** 5. Lower ratio of long term debt to in the current period compared value in the previous year; 6. Higher current ratio this year compared to the previous year; 7. No new shares were issued in the last year. **Operating efficiency:** 8. A higher gross margin compared to the previous year; 9. A higher asset turnover ratio compared to the previous year.

Appendix 1

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Equity rating dispersion and banking relationships

Buy: Based on a current 12-month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock

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Notes:

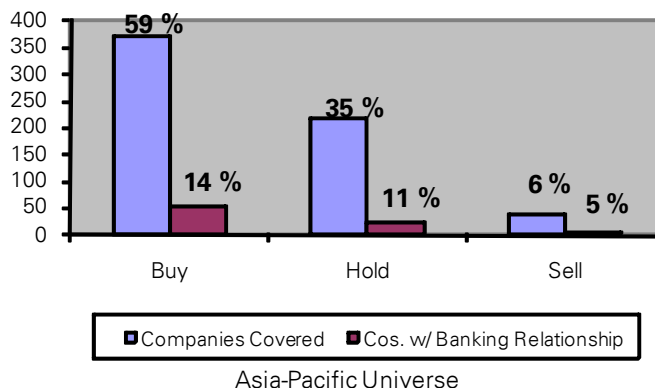
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