

Asian stock markets should continue to outperform.

Genuine bull market potential versus bear market rallies - In recent months, I have expressed a strong preference for Asian stock markets, relative to North American and European equities. There are 4 main reasons: better valuations than Wall Street, less overvalued currencies than the euro, superior GDP growth prospects in most instances, and last but certainly not least - Asia's chart patterns indicate greater potential. I could add a 5th reason - so-called tiger markets had their crisis in 1998.

Wall Street's recovery looks like no more than the good medium-term rally forecast in this publication. The S&P 500 Index could recover approximately 50 percent (to just over 1150) from its October 2002 low - due to the 'Baghdad bounce', monetary and fiscal reflation, and somewhat improved sentiment encouraged by the government during its re-election campaign. This rebound, which I suspect will end in 2004, would be in line with the better rallies seen during previous secular bear markets, including the average of 4 temporary recoveries staged by Japan's Nikkei during the 1990s.

In Asia, I generally prefer developing to developed country markets, although Japan is my favourite recovery story. Among Asian markets, some people prefer South Korea due to its low valuations. Yes, but it also faces fearsome competition from China, as does the rest of developed Asia. In contrast, Thailand benefits from its commodity exports to the PRC, and not least as the favourite tourist destination for China's rapidly increasing number of upwardly mobile citizens. Look at these weekly charts. Thailand's SET has the most developed base, more than capable of supporting a move over the 1999 high near 550 within the next 12 months. Japan is interesting as a recovery situation and also because it is the most liquid market among developed country alternatives for US and European investors.

Would Asian markets ease in the likely event of a

summer correction/consolidation on Wall Street?

Probably, and I would regard reactions as additional buying opportunities. I am heavily overweight in Asia, as mentioned in FM228 and especially the Subscriber's Audio. Since I can only show a few charts here and the originals are much reduced, I'll post a number of Asian indices on my website later today.

Best regards - David Fuller

Charts by Bloomberg

USA S&P 500 Index: 995 (Weekly)



Thailand SET Index: 453 (Weekly)



Japan Nikkei 225 Index: 9120 (Weekly)



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