

## **Asian Tigers or Paper Tigers?**

Tiger tiger burning bright? Having been fortunate enough to visit south east Asia recently, the experience certainly led me to re-evaluate this region of the global economy from an investment perspective, given the considerable attention that has been channelled towards China and the so called 'BRIC' Theme concentrating on Brazil, China, India and Russia. With the marketing budgets in full swing and big names raising funds for allocation towards 'BRIC' economies it is easy to overlook the value and prospects that these smaller Asian tiger economies can provide for global asset allocation purposes within either equity, property or bond weightings for client portfolios.

It should be noted that these markets are not for the faint hearted and those of a nervous disposition should not apply, but there are I believe, some compelling reasons to consider taking a closer look at these regions to help achieve total returns over the medium term.

### **1. Yield**

Having spoken to, and received the opinions of some very heavy weight managers running money in this area, one thing that has struck me is the yield story. For many Asian stocks, pay out ratios are now amongst the highest in the world with around 40% of the stocks in the FTSE world index now providing in excess of 3% now located in Asia. This, coupled together with valuations which on any measure put Asia stocks at amongst the least expensive in world, would seem to indicate the opportunity for a real contribution towards 'total return' within the global allocation of investor assets. It is fair to mention that I am a self confessed yield junkie preferring value against growth with dividend reinvestment as a 'core' policy of contribution towards total returns, so this story appealed to me immensely.

### **2. Diverse and Specialist Services**

From tourism in Hong Kong, to banking in Singapore, these tiger economies continue to develop skill sets aimed at capturing value from the relentless rise of the Chinese economy. This coupled together with unconstrained entrepreneurial strengths lead me to believe that the "speedboat" economies of Korea, Hong Kong, Taiwan and Singapore will continue to benefit from the mighty 'oil tanker' economy of China as they exploit enterprise and deliver services aimed at the emerging mass affluent Asian consumers.

### **3. Consumer Confidence and Demographics**

As we in the west increase our gearing at an alarming and perhaps insurmountable level, the east has been decreasing debt on both a corporate and a consumer level via a strong savings culture. This weight of money will need to find a home and as I can testify from my visit, the shopping malls in the region looked far from empty. Indeed, demand for western goods and increased tourism from this new emerging mass affluent consumer looks set to continue, and will be of particular

benefit to retail, construction, and financial services covering banks and asset managers.

It would appear that while we in the west still grapple with a low savings culture and more mature workforce (in addition to a hefty tax burden), the tiger economies of the east are now seeing the fruits of their labour emerge as the younger workers of the 90's reach their middle years with cash to spend and a taste for luxury goods.

Notwithstanding demand within the sub-regions of the Asian market China would seem to offer a vast opportunity for those nimble economies to serve and profit from opportunities both on an industrial and consumer basis. Hong Kong alone now receives over one million tourists a month from mainland China. No wonder casinos and retail stores never had it so good.

### **Enter the Dragon**

So, on the basis that you want to access these tiger economies, what funds should the professional investor look towards? Aberdeen Asset Managers, Asia Pacific could be a good starting place alongside Newton Oriental run by Jason Pidcock. For those looking towards country specific Barings Korea may be worth a closer look. Indeed, it is interesting to note a few managers seem to be increasing their bets towards that area (given the recent nuclear testing). Fund managers Richard Martin and Jason Britton of the T. Bailey Growth Fund have recently upped their allocation by 2% via the dit-Korea fund managed by Mathew Lee. Other funds such as First Asia Pacific Leaders or Fidelity South East Asia are equally worth taking a close look at.

So, as the old Chinese proverb says "you cannot catch a cub without going into the tiger's lair", allocation towards the Asian tiger markets may prove to be a good bet over the longer term.

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