

**INVESTING IN SOUTHEAST ASIA:
IS NOW THE TIME?**

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In terms of US dollars, the crisis in Asia has caused stock market drops comparable to the US stock market crash from 1929 to 1932, on the order of 80 to 90%. A large part of this drop was caused by sharply depreciating currencies. However, times of adversity are times of opportunity. Perhaps now is the time to consider increased investments in southeast Asia, although one must consider the substantial rebounds that have already occurred. Table 1 shows the recent performance of selected Asian stock markets.

TABLE 1
PERFORMANCE OF SELECTED ASIAN STOCK MARKETS

COUNTRY	YTD RETURN*
Hong Kong	+ 0.30%
Indonesia	- 44.12%
Japan	+ 9.29%
Malaysia	+ 23.54%
Philippines	+ 20.44%
Singapore	+ 4.26%
South Korea	+ 60.75%
Taiwan	+ 10.06%
Thailand	+ 74.43%
United States	+ 9.89%

* All returns are quoted in US dollars. As of March 12, 1998
Source: Dow Jones & Co.

A large part of the recent gains in the Asian stock markets comes from substantial rebounds in their currencies. With the exception of Indonesia, countries with the largest stock market drops during the crisis have had the largest rebounds.

GLOBAL DIVERSIFICATION

Investors looking to invest in Asia can not only benefit from the possible undervaluation created by the crisis, but may also benefit from the resulting global diversification. Global diversification can often reduce overall portfolio risk without affecting portfolio returns. This is because stock market returns in different countries tend to have lower correlations with returns in the US than the correlations of returns *within* the US. Also, developing countries tend to have even lower correlations with the US than developed countries.

Thus, diversifying into developing countries can offer substantial risk reduction for portfolio managers and investors.

In addition to the above, portfolio returns may be enhanced due to faster growth in foreign markets relative to the US. This effect is likely to be particularly large in *emerging markets*. Investors must be careful, however, since this faster growth may already be reflected in the prices of emerging market stocks.

Unfortunately, global diversification is not without its pitfalls. Currency volatility can result in stock market return volatility and thus has a major impact on portfolio performance. Hedging can be used to reduce the impact of currency volatility, but it results in increased trading costs. Investing in foreign markets, especially emerging markets, may also result in higher management and trading costs. Management costs may be higher due to the scarcity of experts in this area and the difficulty in obtaining valuable information. Trading may be more expensive since foreign markets are often less liquid leading to wider bid-ask spreads and commissions may be higher.

Finally, political risk can be substantial and can result in major portfolio losses. For example, Indonesia is only nominally a democracy and if there is any major change in the government, the risk of *expropriation* can not be ignored.

METHODS FOR INVESTING OVERSEAS

Once one has decided to invest overseas, there are several alternatives. One can of course buy foreign stocks traded in foreign markets directly through a broker. However, this often involves dealing with a local broker through the US broker adding to costs and possible execution errors.

One can also buy foreign stocks traded in US. In some cases the actual stock can be purchased, in other cases there are American Depositary Receipts (ADRs) or American Depositary Shares (ADSs) available which represent ownership in the actual stock.

Investors can also purchase US companies that have substantial investments in Asia and may benefit from the currency depreciation and/or the ability to snap up assets at bargain levels. For examples, manufacturers with operations there may see reduced product costs yielding a competitive advantage.

For smaller investors and investors without the time or inclination to do substantial research, one can buy open-end or closed-end mutual funds. These offer professional management and diversification and may invest in specific countries, regions or worldwide. Some examples of these funds include the Fidelity Southeast Asia Fund, Price Emerging Markets Stock Fund, Taiwan Fund, Templeton Dragon Fund, and Vanguard International Growth Fund. Many of these funds are no-load and have low management fees as well. Also, these funds may invest in stocks, bonds or both.

Another alternative is a new product called WEBS (World Equity Baskets). WEBS are essentially equivalent to closed-end funds based on indexes of foreign markets and are traded on the American Stock Exchange. They are available for the following Asian countries: Australia, Hong Kong, Japan, Malaysia and Singapore. WEBS offer a couple of advantages relative to other closed-end funds. First, because of the way that they are structured, they are highly unlikely to sell at a substantial discount to net asset value (NAV) which often is the case with closed-end funds. Second, WEBS offer a tax advantage which results from their ability to defer most capital gains taxes until sale by the owner.

Finally, investors can buy dollar denominated bonds issued by corporations with dollar based sales, e.g. Asia Pulp and Paper (of Indonesia) 11.375%, 2005 bonds selling around 91 for a yield to maturity exceeding 12%..

RECOMMENDATIONS

Since some of the closed-end mutual funds investing in Asia are currently selling at discounts from net asset value, they may be attractive investments. Also, many of the closed-end funds are closer to their twelve-month lows than highs and which may be an indication of undervaluation. Table 2 gives some examples of closed-end funds investing in east Asia.

TABLE 2					
SELECTED CLOSED-END FUNDS INVESTING IN ASIA *					
FUND	NAV	Mkt Price	Prem/Disc	52 wk. High-Low	
Jakarta Gr.	2.21	3.5625	+ 61.2%	10.375	- 2.75
Japan Eq.	6.29	7.9375	+ 26.2%	10.875	- 6.50
Korea	7.30	8.25	+ 7.5%	16.25	- 5.50
Malaysia	5.80	8.00	+ 37.9%	17.75	- 5.625
Singapore	7.57	7.6875	+ 1.6%	12.50	- 6.625
Taiwan	21.81	18.125	- 16.9%	22.4375	- 13.375
Temp.Drag.	13.24	11.50	- 13.1%	18.5625	- 8.625
Thai	6.16	8.9375	+ 45.1%	20.00	- 5.00

Source: Barron's

Like the closed-end funds listed in Table 2, many of the WEBS are also selling nearer to their lows for the last twelve months and may be attractive investments at this time. Table 3 lists some of the WEBS which may be considered.

TABLE 3		
SELECTED WEBS*		
WEBS	Price(3-13)	52 wk. High-Low
Hong Kong	10.8125	18.1875 - 7.875
Japan	10.8125	14.5625 - 9.3125
Malaysia	6.0625	15.50 - 3.50
Singapore	6.75	11.625 - 4.75
Source: Barron's		

SUMMARY

There are many alternatives available for investing in southeast Asia which may allow one to take advantage of the crisis. The choices are closed-end and open-end mutual funds, WEBS, ADRs, ADSs, and direct investment in foreign companies. Finally, one may even look for American companies which could benefit from their investments in the region. Investors must determine whether individual stocks or mutual funds better suit there situations and invest accordingly.