A PUNTER'S SURVIVAL GUIDE

Regional stock markets are minefields strewn with gems; investors are advised to tread with care

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INVESTORS CAN EXPECT ECONOMIC indicators to rise in the coming months -- but Asian stock-market indices probably will not be among them. Dulling punters' enthusiasm for regional bourses is a cocktail of widening current-account deficits, rising interest rates and high inflation figures. The fallout for stock-pickers: Despite the still-strong economic growth across much of the region, it will be harder to find a sure-fire winner and easier to take a tumble on a loser.

Returning again to haunt the region's investors is the threat of higher U.S. interest rates, which last year kept American money away from Asia. So far, the Federal Reserve Board has chosen not to raise rates. But with robust jobs and housing figures sparking warnings of an overheating U.S. economy, many analysts believe it is only a matter of time before interest rates go up.

That would take the shine off the Dow Jones index, which has risen 25% in the past year, and convince many American fund managers to exit Asia for safer returns in deposit-bearing investments at home. News of strong U.S. wage data shaved up to 3% off Asian bourses in early July. Higher American rates would force those Asian countries that tie their currencies to the greenback to follow suit. Hardest-hit would be interest-rate sensitive stocks of consumer-goods, financing and auto companies.

Still, a rate increase is not a foregone conclusion. "The Fed's view has been that growth will slacken off on its own," says Crosby Securities' regional strategist Manu Bhaskaran. Until that assumption is proved wrong, he says, the Fed won't raise rates. Presidential elections in November could also play a role, says Robert Rountree, chief East Asian strategist at Nomura Research Institute in Hong Kong. American rate-setters may wait until after Nov. 5 before introducing a major hike, he says, for fear of choking off the feel-good factor at the polls.

The immediate concern for Asian investors is how profit figures will pan out as the region's companies start to release their year-end figures for June (or half-year results for firms whose fiscal year ends in December). "In Hong Kong the surprises will be on the positive side because the property market has recovered faster than most people anticipated," says Simon Irwin, research director at Hong Kong-based Asia Equity.

Elsewhere, annual house-cleaning may reveal more than a few cautionary tales. "The reporting season in Thailand could be horrendous," Irwin says. "People are still downgrading their forecasts for Thai companies." David Semple, regional strategist at Peregrine Brokerage in Hong Kong, warns that there could be a nasty surprise in Malaysia. In recent months, the central bank has been hiking rates in a bid to rein in blistering growth. "We could see earnings go down more sharply than many analysts had earlier anticipated," Semple says.

Despite the lackluster bottom-line numbers, don't expect a region-wide crash. While no one is counting on a repeat of 1993, when Asia's stock markets charted new highs, few analysts expect the reverse to happen. "I don't believe there will be a major rally in any Southeast Asian market before September," says Asia Equity's Irwin. "Markets will trade in a narrow range with low turnovers and big players staying on the sidelines."

Some investors are keeping markets above water by buying selectively in the belief that prices may soon be on the rise. Where is the smart money going? Says Peregrine's Semple: "If your investment horizon is 12 to 18 months, I would say Thailand and Korea offer the best returns primarily because they have been so depressed lately and much of the bad news has been factored into stock prices."

The global slowdown in the personal-computer industry has taken a toll on expected earnings for Seoul Composite Index stocks, says the Peregrine analyst. "But much of that has to do with the fact that Samsung Electronics and LG Electronics together comprise such a large portion of the index," Semple says. He believes the Thai market is also misunderstood. If U.S. interest rate hikes are minimal, he reckons Bangkok will lower its own rates: "Thai finance companies have been hit by low turnover and a squeeze on their finance margins. As interest rates there come down you should see sentiment improve."

Some are not so sure. Nomura's Rountree is steering clear of Thailand. "If Bangkok goes for growth and lets interest rates down with its already deteriorating current-account deficit there are ominous signs for the Thai baht." He is also bearish on Malaysia, though he likes firms that deal in consumer goods and building materials. With deposits almost on a par with loans, Malaysia's banks may be forced to borrow overseas, Rountree says. Besides, with the stock market up 30% over the last eight months, he figures share prices look expensive.

"Activity on the Main Board will be slow mainly because of interest rate concerns," says Patrick Lim, president of the Malaysian Investors' Association. He says that second-tier companies are less affected by rate worries. "If you play the right themes, you'll do well," says Robin Tan, head of M&A Research. His choices: regional transport firm Konsortium Perkapalan, auto manufacturers Hicom and Proton, financial services firm Gadek, and companies linked to Sarawak's $6 billion Bakun Dam project.

Concerns about President Suharto's health and other political uncertainties have given investors the jitters in Indonesia. "There is a sharper perception of political risk," says Crosby Securities' Bhaskaran. He also worries that cash calls and IPOs from companies in Malaysia and Indonesia "will keep these markets weak even when they start to look more attractive." Rountree disagrees: "Valuations in Indonesia are cheap compared with the rest of the region."

One universal favorite among market watchers is Hong Kong, where the bourse is being driven by a real-estate upturn. "Stocks of property developers will perform well as the recovery continues," Rountree says. "True, some of them are starting to look expensive. But most are going to get more expensive." Because of the currency peg to the greenback, Hong Kong rates follow those in the U.S. "It is now the stock market's turn to show price-earning ratios more in line with those in the U.S. as there will no longer be a discount for political risk in 1997," says Song Seng Wun of HG Asia in Singapore.

A far bigger question mark hangs over Hong Kong's rival as a financial center, Singapore. In May, the government announced measures designed to cool the property market, including new taxes on apartments sold within three years of purchase. "People were bullish on Singapore on the back of a very strong property market," argues Rountree. "But the curbs on speculators could hurt some of the property counters."

Over the next 12 months, Rountree's favorite market is the Philippines. Valuations on the Manila bourse are way below their 1993 highs, so there is plenty of upside, he says. The Philippines has a solid economy and strong earnings growth. Rountree favors big capitalization stocks, like property developer Ayala Land. "The Philippines is such a small market that foreign investors have to focus on major liquid stocks." Not everyone is convinced. HG Asia's Song points out that the lower inflation figures mask the fact that Manila is still subsidizing oil and rice prices. And because of its recent failure to push through a comprehensive tax-reform package, he says, the government will have to rely on selling state assets and issuing bonds to balance its books.

While much of Asia dallies, one market behaving as if it were in a bull stampede is Japan. On the back of the country's puttering recovery, the Tokyo bourse is up 50% over the last 12 months -- with no sign of faltering. "We believe earnings growth will surprise in the next two fiscal years," says Kevin Hebner, a strategist for SBC Warburg in Tokyo. He predicts 21% profit growth for non-financial companies this fiscal year and slightly higher growth the next. Hebner's picks: carmakers and consumer-electronics firms. The Tokyo analyst expects the Nikkei to rise 30% by mid-1998, though a stronger yen may put a damper on the good news. The burning question is whether the rest of Asia can catch just a spark of the Tokyo magic.

-- With additional reporting by Steven K.C. Poh / Kuala Lumpur