

# Watching for a Latin Bull

## In Asia, a markets guru picks Hong Kong

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**Mark Mobius**

manages the Templeton Emerging Markets Fund. He believes Latin America is on a firm footing for stable, long-term growth. In Asia, he says Hong Kong offers exceptional value compared to other bourses. Favorite sector: banking

**F**EW ASIANS WOULD MISTAKE Mark Mobius in a crowd. As the high-domed head of Templeton International, the one-time actor preaches the virtues of global investing to would-be punters in TV and print ads region-wide. But Mobius, 61, is more than a good showman. He manages over \$10 billion for Templeton, traveling several months a year to search out fast-growing bargain stocks. He recently answered written questions from Asiaweek's Steven K.C. Poh. Excerpts:

*Why are you bullish on emerging markets?*

The trend towards privatization, freer trade and deregulation in general is good for emerging markets. We are especially positive about Argentina, Brazil and Mexico in Latin America, and Hong Kong in Asia. The growth story in emerging markets has not changed. These markets are likely to grow at a faster pace than those in more developed countries. There will be short-term relapses but these should be temporary. With emerging market valuations generally attractive, there may be a bull run this year as more foreign investors turn to these markets for good returns.



(Sources: Datastream, Morgan Stanley)

*Could an economic crisis derail Latin America's success?*

Emerging markets are, by nature, risky places to invest. However, we believe that Latin America has learned its lesson from Mexico's 1994 currency devaluation. Its economies are on a much firmer footing. Many countries have embraced reforms, making a crisis much less likely and

improving the potential returns from investing in equities there. The prospects for stable long-term growth are better than they have been for many years.

*What are your concerns in Asia?*

The major one is the poor treatment of minority shareholders and the lack of proper corporate governance. Not only in Indonesia, the Philippines and Thailand, but throughout the region. Institutional investors increasingly worry that there is inadequate protection for minority shareholders, including retail investors.

*Are you positive about Hong Kong's prospects?*

Yes, especially if there is a smooth handover to China on July 1. The Hang Seng Index could be well above 14,000 by year-end. The current mini-boom has taken place against the backdrop of an economic recovery, particularly in the key property and retail sectors. Fears about the the handover have also partly dissipated. The rally is likely to continue. Hong Kong stocks offer exceptional value compared to other bourses in the region. There is a risk that a political crisis may occur after the handover, scuppering the stock market. But a smooth transition is more likely.

*Why were South Korea and Thailand laggards in 1996?*

Both bourses have suffered because of capital market restrictions. Bangkok and Seoul limit the number of shares that foreign investors can own in local companies, making it difficult for them to invest at a fair price. That has contributed to the stock markets' weakness. The result has been illiquidity and forced pricing for foreigners. Due to labor unrest and lost production, South Korea will continue to be depressed. An entrenched bureaucracy will make it difficult for the market to recover. But if the investment restrictions are lifted, the long-term outlook could be good. Valuations are quite low.

*And Thailand's prospects?*

The Thai market fell almost continuously in 1996. It ended the year nearly 40% below its January level. Fears over economic and political stability have damaged investor confidence. Foreigners have turned to other markets in the region, particularly Hong Kong. While valuations have improved, earnings are expected to weaken further. We are unlikely to witness a pickup in the short term. But it may happen later this year.

*Why are you cool on Malaysia?*

We are not investing heavily there at the moment because market valuations are high. Better bargains are available elsewhere, particularly in Argentina and Brazil. But we have many Malaysian stocks in our portfolio, bought a few years ago when they did represent good buys. So we have not missed out on the 25%-plus returns of last year.

*What about India?*

We expect good things for India in the coming decade. But it will take time for the market to develop. Only now are we seeing an improvement in its share registration process. Because of its long equity culture, India is still one of the more interesting markets world-wide.

*What stocks do you like?*

We choose stocks on their individual merits, not because of the country or the sector in which they operate. However, the biggest weightings in our funds are Argentina, Brazil, Greece, Hong Kong, Mexico, Portugal and Turkey. In terms of sectors, banking comes near the top. That may be because of the lack of quality financing in Asia's emerging markets, allowing banks to keep margins high.