

OFFSHORE EQUITIES

# The search for value

**When investors choose to invest** in equities — and some are still doing so — that leads to other strategic choices.

One of these is geographic. Should shares be held in SA or offshore, or both? If it's both, how much of the portfolio should be offshore, and in which markets or regions?

The most striking argument against

investing outside SA lies in the appalling long-term record of many foreign stock markets, together with the bleak economic outlook. The counter argument is that valuations for many markets and quality stocks are indicating unusually good buying opportunities.

The Morgan Stanley US\$ world equity index has fallen 47% since the beginning of last year. The emerging markets index is down 56% in this period. More worrying is that many markets have failed to grow over more than a decade.

Wall Street's S&P 500 and London's FT100 are back where they were in early 1997, or 12 years ago. Japan's Nikkei 300 is almost 40% lower than it was then. This can't be reassuring for proponents of buy-and-hold investing in global equity indices.

However, if you believe valuations matter in investing, world equity markets — and many quality stocks — may now be a better buy than they were 10 or 12 years ago, despite the poor earnings outlook.

Coronation Fund Managers (CFM) personal investments head Pieter Koekemoer says present conditions offer the most attractive entry point for the long-term investor since the relaxation of exchange controls, in July 1997.

One indicator is the historical (or trailing) p:e on the Morgan Stanley world index. This has fallen to just above 10, down from more than 20 in 1997. It's at its lowest since the last deep recession, in the early 1980s, though still higher than in the severe bear market of 1974-1975.

Research by UBS shows 10-year compound total returns on the S&P 500 are negative for the first time since the 1930s. The last occasion was a brief event and returns soon recovered.

Some fund managers find individual stocks more interesting than the indices.

"There are many cases where you can look at the shares and say that is attractive enough, even if you have to wait two to three years for the returns," says

CFM strategist Charles de Kock.

He cites several examples of quality international stocks trading at cheap valuations. Microsoft, on a p:e of 9,7 and dividend yield of 2,5%, holds 14% of its market capitalisation in cash. Pfizer, the world's premier pharmaceutical company, trades on a p:e of 7,3 and dividend yield of 7,4%.

"There is great uncertainty, so many investors are worried about future earnings. Redemptions from funds are helping to pull share prices down," says De Kock. "But at some point people will

## WORLD EQUITIES

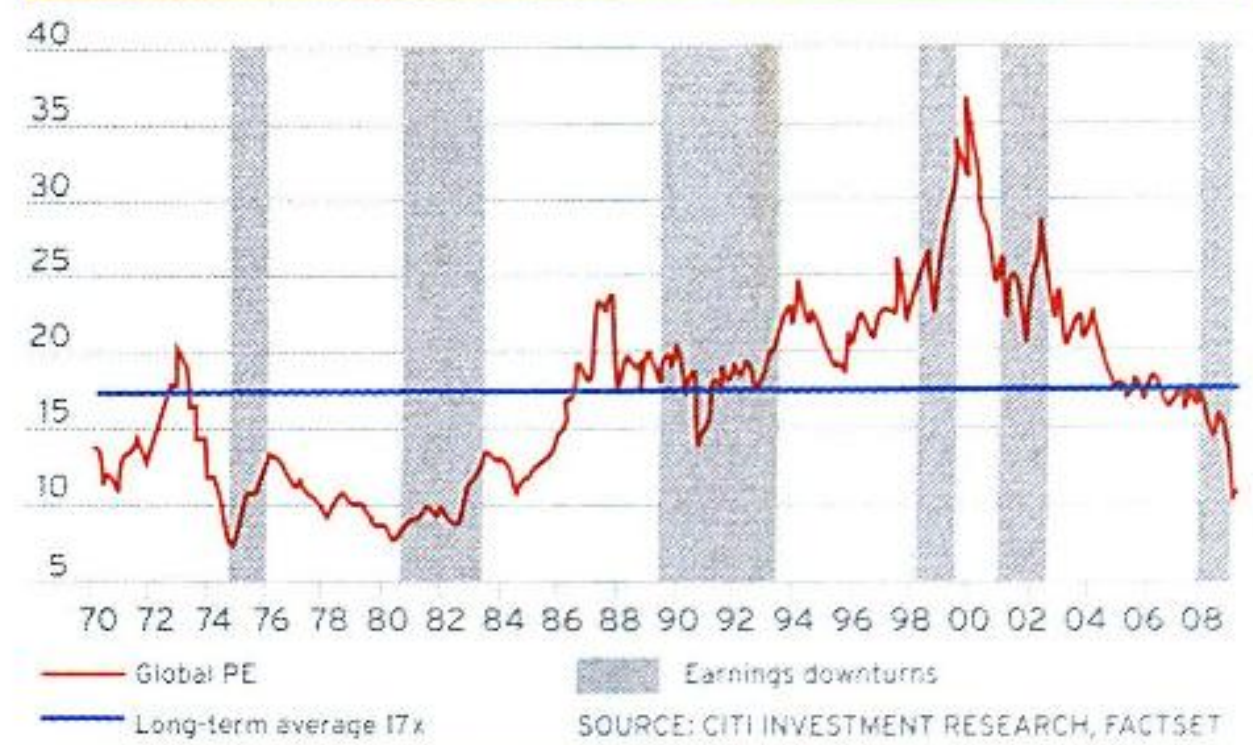


decide they are sitting on too much cash and start buying again. We look at the longer-term value of an asset."

De Kock adds that, provided stocks are selected carefully, good investments can be made in most parts of the world, including SA. In these conditions, he says, investors should include some offshore equity exposure in their portfolios. This can be done through foreign or locally based funds, or by buying shares directly through offshore allowances.

**Andrew McNulty**

## EQUITY VALUATIONS



**Pieter Koekemoer**  
Entry point