

# As markets trip, some will tread where fear is high

**Analysts say that the big sell-off has made some stocks very attractive**

By **TEH HOOI LING**

[SINGAPORE] Investors ducked for cover yesterday as Asian stock markets drowned in a sea of red ink – spooked by soft US jobs data on Friday and rising European debt woes.

The MSCI Asia APEX 50 Index shed 2.8 per cent, taking its year-to-date decline to about 10 per cent. In Singapore, the Straits Times Index sank 54.63 points or 1.95 per cent to 2,751.88.

In China, shares plumbed a 13-month low, with the benchmark Shanghai Composite Index shedding 41.86 points or 1.6 per cent to close at 2,511.73 – the lowest level since April 30, 2009.

But some analysts reckon that the sell-off has made stocks all the more attractive. "It's a great buying opportunity," said NRA Capital's executive chairman Kevin Scully.

"The numbers speak for themselves. Last year, the Shanghai market was trading at 35 times earnings, and Singapore at 20 times. Now, Shanghai's forward price-earnings ratio is 15 and Singapore's is 12."

China has not been this cheap to buy into for a long time, Mr Scully said. And at 12 times PE, the Singapore market is trading at the low end of its trading range in the past 10 years.

Market volatility will continue, and those who cannot stomach it had best stay on the sidelines, Mr Scully said. But those who can withstand a stomach-churning ride and can hold on for the next six to nine months will be richly rewarded.

Here is some perspective. Last year the STI added 65 per cent. So far this year it is down 4.8 per cent. Shanghai gained a whopping 80 per cent last year but is down about 23 per cent so far this year.

Mr Scully described these as healthy corrections.

Tan Teng Boo, founder of Capital Dynamics, which manages, i-Capital Global Fund and others, also reckons the present drop is a correction and has produced a number of attractive stocks.

"The falls have been scary. The issues are no less daunting than in 2008-09," he said. "However, we see China soft land-

ing in 2010, and the US recovery to broaden and deepen. Assuming we are right on these two critical points, we do not see the European debt crisis impacting the global economic recovery.

"We still see the current fall only as a correction – an overdue but necessary pause in a secular bull market."

Mr Scully said he would start to worry only if France and Germany were to stumble. The European countries that are already struggling are all too small to harm the global economy, he believes.

Also, European countries are mostly driven by tourism and the auto industry, he said. So the weaker euro will help them export their way out of trouble.

Mr Scully sees a sustained market recovery taking place in the fourth quarter of this year, after the market accepts that the measures implemented today in Europe will work.

And he sees little risk of US and Chinese economic expansion being derailed. As such, he is bullish on technology companies in the hard-disk drive and semiconductor space. These companies are reporting good earnings visibility for the next nine to 12 months

"Some of these tech stocks are trading at such low PE multiples that it's not inconceivable to double one's money by next year," said Mr Scully.

Among his top picks are Broadway Industrial, InnoTek, Asti, Kinergy and Hisaka. Some 60 per cent of Mr Scully's model portfolio is in tech stocks now.

From a global perspective, the advice is to tread where fear is the highest. Rabobank, in its monthly financial markets outlook, cautioned against one-sided pessimism on the eurozone in the medium to long-term, in particular vis-a-vis the US.

"Market expectations for austerity measures and structural reforms in Europe are incredibly low – it won't take much to exceed them," Rabobank said.

"Europe may ultimately have a perverse type of first movers' advantage over the US, where deficit reduction and debt sustainability are not a policy focus. Europe may be the centre of negative attention at the moment, but its problems are hardly unique. At least European policy-makers are now forced to confront them."