

India Currency Crisis and Korean Discount

Korean stocks were rattled this past week as the impact from the pending Indian currency crisis loomed over the market, reminding investors of the sequence of events leading up to the 1997 Asian financial crisis. Our Korean portfolio hasn't fared well this past week, dropping from a 4% return to 1%.

SN Valuation Korean Portfolio

As of 2013-08-23

Buy

Name	Ticker	Market Price*	Entry Price	Date	Gain/(Loss)
Idis Holdings	054800	14.50	13.00	07/16/2013	11.54%
Moatech	033200	3.55	3.61	07/12/2013	-1.66%
Danawa	119860	8.67	9.38	07/22/2013	-7.57%
Kishin Elec.	092440	8.02	6.64	07/23/2013	20.78%
BYC	001460	190.00	196.50	07/29/2013	-3.31%
Korea Exp. Exc.	002200	25.45	25.90	07/31/2013	-1.74%
Biosmart	038460	2.42	2.58	08/01/2013	-6.40%
Chungdam	096240	14.85	15.20	08/01/2013	-2.30%

Average Total Return

1.17%

Follow

Name	Ticker	Market Price*	Entry Price	Date	Gain/(Loss)
China King	900120	2.43	2.30	07/17/2013	5.65%
Silla Trading	004970	27.40	29.70	08/05/2013	-7.74%

*Intraday Market Price

The fears over a premature Q3 tapering has manifested itself in the emerging markets in the form of redemptions and outflow of capital, thereby depreciating the Rupee against the basket of currencies. This is an overreaction from our stand point as we believe Korea's fundamentals are relatively strong, and the stocks are selling at a discount compared to the US market. A friend at Harvard Business School dialogued with a private equity manager in Korea, and the manager told him that Korean companies are being traded at a premium to the US counterparts, on an acquisition basis. We found this interesting, but still hold to our strong conviction of Korea's discount, only perpetuated by this week's dip.

Aside from the N. Korea risk, the Japan/China tension, corporate governance dependability, and the barrage of other fundamental issues in the Korean market, we believe the foreign investors and domestic alike are not big fans of the market because of the volatility, or the price swings. Granted, Korean stocks are cheap, but they are too volatile. For long term investors like us, we aren't as influenced, but for retail investors, it is an unsettling ride and therefore, many sell when they should be buying, leaving a bad taste and return for investors, thereby promoting the Korean discount.

We say take advantage of the steeper discount this week, India will not impact Korea, although it may cause some volatility in conjunction with tapering anticipations. However, for the long haul, Korea is cheap and a great investment.