Sung Nam
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Korean Discount

Michael Santoli wrote a piece for Yahoo Finance and he wrote a great summary on the discount present in the Korean market. He said 1) the downward pressure from the Vanguard Emerging Fund, which had to sell off Korean stocks because Korea was excluded from the FTSE Emerging Index, was lifted, 2) North Korean geopolitical risk is inalienable, 3) Chinese economic weakness, 4) weak competitive Japanese yen, 5) Samsung stock (20% of the market) weakness.

We would like to rapidly grow our presence in Korean market research for English speaking investors. The opportunity is ripe for the plucking.

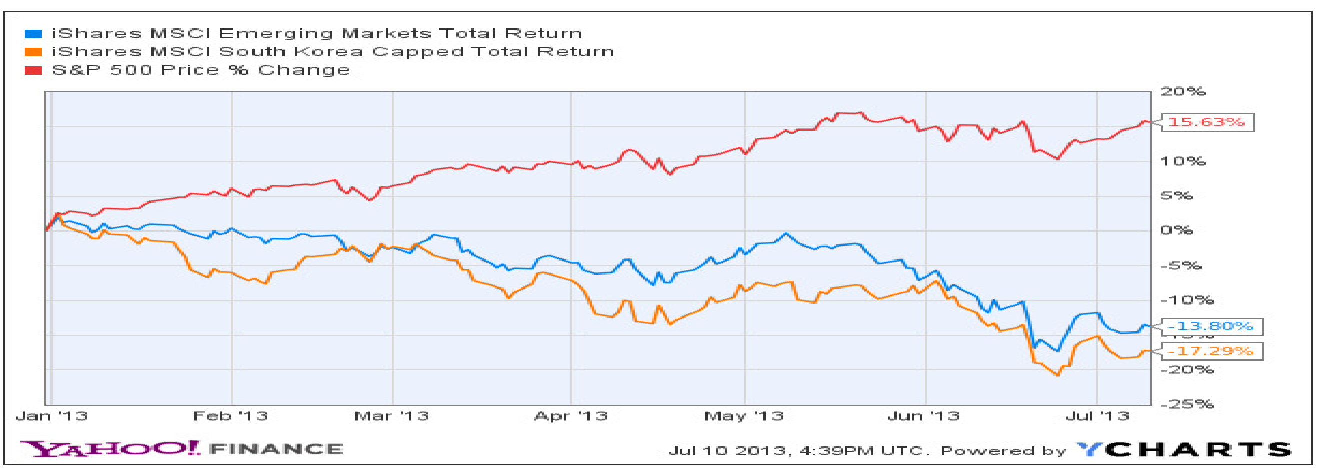
http://finance.yahoo.com/blogs/michael-santoli/dirt-cheap-play-world-growth-east-164332055.html?l=1

By Michael Santoli

A bullish investor's tour of the world should begin in South Korea.

This is not the most obvious destination for an optimist's dollars, and that is precisely why it makes sense to consider buying Korean stocks. The market is cheap, unloved, weighed down by well-known cyclical challenges and some temporary technical factors – all in all, a brave contrarian's dream.

In a terrible run for emerging-market stocks and Asian equities (aside from Japan), Korea has been beaten down worse than most, the iShares MSCI South Korea Capped index fund (EWY) down nearly 20% year to date.



The country's export-geared economy is stinging from China's slowdown. Samsung Ltd. (SSNLF) accounts for more than 20% of South Korea's stock-index value, and the company has been suffering from the maturation of the smart-phone industry, its earnings falling short of expectations last week as sales of its Galaxy 4 disappointed.

The forced, rapid depreciation of the Japanese yen has fanned worry that Korea's manufacturers will be less competitive in exporting their goods to the rest of the world. And, let's not forget, hostile, volatile North Korea has been lobbing more calculated military provocations at its neighbor than it has in years.

A bout of forced selling

Finally, the Korean market was forced to absorb an unusual bout of forced selling by the largest emerging-market exchange-traded fund, Vanguard FTSE Emerging Markets ETF (VWO). Vanguard elected to switch the index the fund tracks to FTSE Emerging Market Index from MSCI Emerging Markets Index, the same benchmark used by the iShares MSCI Emerging Markets Index Fund (EEM).

FTSE doesn't group South Korea among emerging markets, so the Vanguard fund had to mechanically sell all its South Korean holdings to match the new index. This transition was complete June 28, lifting this artificial source of selling pressure.

This multi-front assault on South Korea's economy and market has cheapened the country's stocks to a degree that long-term investors should not overlook. The country's stocks in aggregate now trade right at book value, or the accounting measure of net assets, the cheapest they've been since the global bear market bottomed in March 2009, according to Bloomberg.

Research and asset-management firm The Leuthold Group notes that South Korean stocks, based on corporate cash earnings, are as cheap as they've been in a decade relative to emerging Asia generally and versus comparable national markets such as Indonesia, Taiwan, the Philippines and Thailand.

Jun Zhu of Leuthold suggests the Korean electronics leaders Samsung and LG Electronics Inc., which have out-innovated their Japanese peers, are better insulated against the falling yen than are exporters in other Korean industries such as shipping. While Korean companies tend not to have American depositary receipts that trade in the U.S., the electronics industry is such as huge portion of the Korea indexes that the big ETFs give ample exposure to the sector.

A foggy outlook

Of course, the prospects for Korea are bound up with the foggy outlook for the Pacific Rim economies and emerging-markets growth in general. World investors have expressed a clear preference for American stocks to the near-exclusion of other countries', outside of Japan.

The Standard & Poor's 500 index has opened a massive 30-percentage-point outperformance gap against the emerging markets this year, while outpacing other developed markets by 10, with domestically focused sectors in the U.S. market doing even better than the S&P. It's easy to see why: The housing recovery, auto revival, healthier consumer balance sheet and liquidity-pumping Fed have made America both the favored growth story and perceived safe haven.

Yet what's easy to see is often already priced into stocks. The U.S. equity market accounts for close to half of world stock-market capitalization, about twice the economy's weight in world GDP. And, perhaps more important tactically, in order for the U.S. market to stay well-supported as interest rates have lifted off their lows, a second-half earnings revival must prove itself.

It's hard to see that happening in a convincing way without a pickup in the global-growth pace. In recent weeks, Chinese stocks and U.S. shares tethered to global production, such as steel stocks and Caterpillar Inc. (CAT), have tentatively bounced off their 2013 lows, hinting that markets are trying to anticipate a cyclical upturn in metal-bending and world trade.

If this theme plays out as many bullish observers predict, then cheap, economically sensitive Korean stocks would deliver a strongly leveraged play on the rebound. And if not, then stocks there have already gone a long way toward discounting a tough Asian economy, and represent good long-term value for whenever world growth revives.