

Taiwan – KMT Revived in Easter 2008



Stocks and currency in Taiwan surged after Kuomintang's Ma Ying-jeou won the presidential election on pledges to forge closer ties with China and boost domestic spending. Yesterday, foreign fund inflows rose to a record. Ma won by a 17% margin over Frank Hsieh of the Democratic Progressive Party in the March 22 election. Although it was not a landslide victory, Ma's pledge to begin direct flights to China in two months and work toward a common market across the Taiwan Strait contrasted with Hsieh's more cautious approach. Ma is also committed to a budget to boost the local economy. As investors snatched up financial and construction stocks, which were expected to benefit from president-elect Ma's plan to allow Chinese to invest in the property market, the benchmark Taipex gained 340.36 points, or 4%, to 8,865.35 at the close of trade on Monday, after climbing 6.2%, the most since August 20, 2000. Trading volume was

twice the 90 day moving average, spurred by a record \$1.9 billion of foreign inflows. Almost 13 stocks advanced for each that fell. As a matter of fact, the legislative victory of the Kuomintang, on January 12 turned the Taix around as investors anticipated a Ma presidency and an introduction of his more open policies toward China. This presidential win means the Kuomintang will control both the legislature and the presidency for the first time since 2000. Ma pledged to enact immediately his policy to end a five-decade ban on direct flights between Taiwan and China, which is less than 100 miles away. Travelers are currently required to fly through, like HK, adding up to five hours to flight times. With regard to investment outlook, long-term investors may still be willing to extend their purchase of local stocks during the post-election

period. Amid the pessimism over the US property market and economic growth, however, investors are expected to be cautious. By the way, direct transport links, access for mainland tourists and fewer restrictions on two-way capital flows are now likely to go forward. Otherwise, Taipei's relations with the mainland are unlikely to change fundamentally. Outsiders tend to look at Taiwan entirely in terms of its relations with mainland China. But Taiwan's politics are driven more by domestic issues, a tendency exacerbated by the executive-legislative divide. Some of Ma's support in the election last weekend came from swing voters fed up with petty politicking who want the stability of one-party government.

Microscope

The opposition Kuomintang's president-elect Ma Ying-jeou's victory will largely enhance closer ties between Taiwan and China, but obstacles remain in front of Ma before cross-strait relations are normalized. Ma, who was born in Hong Kong and educated at Harvard, is more internationally minded than the Taiwan-centric Chen, the present president. Ma understands that Taiwan needs to do more than expand its dealings with China. Cross-strait links will help the island's economy but they are no panacea. It is just as important to remove the barriers that prevent Taiwan from becoming a regional trading and service hub. While the island's expertise in IT manufacturing is undoubted, other sectors of its economy have lagged, partly because of cross-strait tensions, but also due to petty restrictions aimed at protecting local commercial interests, bureaucratic power centers and long-redundant security considerations. In fact, Ma will face grave challenges after he takes office in May, as he will want to fulfill some of his short-term deliverable policies, such as the three direct links and regular cross-strait charter flights.

MARKET BRIEFING

YTD % (local curr)

US DJ
12,361 (-6.8%)
Nasdaq
2,258 (-14.9%)
Euro Stoxx 50
3,505 (-20.3%)
HSI
21,108 (-24.1%)
Japan NK225
12,260 (-19.9%)
China Shanghai Composite
3,804 (-27.7%)
Singapore
2,824 (-18.5%)
India BSE30
14,994 (-26.1%)
Brazil BOVESPA
58,987 (-7.7%)
Aus All Ord
5,182 (-19.3%)
US-10yr Bond
Yield 3.56%

As at 20/03/08

Insight: “Fundamental Analysis”

Fundamental analysis is the core element of investing. Some would say that you aren't really investing if you aren't performing fundamental analysis. There are many kinds of investment strategies that are very different from each other, yet almost all use the fundamentals. Fundamental analysis of a company involves analyzing its income statement, financial statements and health, its management and competitive advantages, and its competitors and markets. The analysis is performed on historical and present data, but with the goal to make financial projections. Through fundamanetal analysis, you would conduct a company

stock valuation and predict its probable price movement over a long term. You could also evaluate its management and make internal business decisions and calculate its credit risk. Investors may use

fundamental analysis to facilitate different portfolio management styles. When investors adopt a buy-and-hold strategy, they believe that latching onto good businesses allows the investor's asset value to grow. Fundamental analysis lets them find good companies, so they lower their risk and probability of wipe-out. On the other hand, contrarian investors make use of fundamental analysis to allow them to make decision on value, and ignore the market behaviour. In addition, value investors restrict their attention to under-valued companies, believing that it's hard to fall out of a ditch. The value comes from fundamental analysis.

A-Z Financial Tools

Option Contract is a financial derivative, which represents a contract sold by one party (option writer) to another party (option holder). The contract offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security or other financial asset at an agreed-upon price (the strike price) during a certain period of time or on a specific date.



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