


Tecquila Effect from Vietnam's Financial Crisis?




Microscope

Vietnam is one of Asia's most open economies: two-way trade is around 160% of GDP, more than twice the ratio for China and over four times India's. Now Vietnam, like Mexico in the first half of the 1990s, is suffering a temporary liquidity crisis. Then, the Clinton administration, acting decisively in cooperation with the IMF, offered Mexico \$50 billion of short-term loans, so Mexico was able to survive the short-term liquidity crisis. It is estimated Vietnam needs about \$50 billion to ride out the crisis. For China, which is eagerly seeking ways of mopping up its excess liquidity, the situation in Vietnam presents a rare opportunity. If China immediately holds bilateral talks with Vietnam and indicates its willingness to offer financial help, the Vietnamese situation will stabilize quickly. For China, it will have helped a neighbor in need, cementing relations and creating good will between two countries. It would also serve as an announcement that China is a ready and responsible player on the stage of the world's economy. In addition, it will also have made good use of its foreign reserves, and probably at a profit. The US earned about \$500 million from its loans to Mexico. 

The recent darling of investors, Vietnam's economy, is sliding as it is battered by double-digit inflation, surging trade deficit, a diving stock market and depreciating currency. Sentiment over Vietnam soured dramatically when official data showed inflation last month hit 25.2%, as a result of surging international prices of commodities. Data also showed the trade deficit for the first five months of this year hit US\$11.1 billion, close to the US\$12.4 billion for all of last year. This triggered worries that the country could run out of foreign reserves to defend its own currency's value. The Vietnamese government has encouraged foreign investment and exports to boost growth. But it has failed to prevent speculative foreign capital from investing in stocks and real estate, which has led to soaring assets prices. For several years, the Vietnamese economy grew at rates of 8.2% and 8.3% in 2006 and 2007 respectively. The

growth stimulated property and stock market's development. From 2006, the Vietnamese stock market started to rise crazily. However, when the economy showed signs of overheating last year, the policymakers did not take timely measures to cool it down. Vietnam started to implement a tightening policy only from the second quarter of this year. Until recently, the government decided to stop many investment projects to cool the economy. The planned investment volume of those projects is estimated to be 16% of the country's pre-set target for this year. But all actions seem to be late. Vietnam is now at risk of a severe crisis as overheating symptoms emerge similar to those seen before Thailand's 1997 crash. Many analysts predict a steep fall in the country's currency - the dong - is all but inevitable. In addition, some of the

economic figures are looking worse in Vietnam now than they did in Thailand a decade ago. Inflation in Vietnam recently exceeded 25%, whereas at the time of the Thai crisis inflation was just 4.5%. Meanwhile Vietnam currently has a current account deficit of 27% compared to a 6% level in Thailand prior to its crisis. Some say external help, possibly from the IMF, may be needed to restore economic confidence, especially in Asia. However, the possibility of it triggering another Asian turmoil is slim since the nations in the region have learnt their lesson from the 1997-98 Asian financial crisis, accumulating foreign exchange and reforming the domestic economic structures, significantly reducing their vulnerability to such crisis. 

MARKET BRIEFING


YTD % (local curr)

US DJ	12,307 (-7.2%)
Nasdaq	2,454 (-7.5%)
Euro Stoxx 50	3,562 (-19%)
HSI	22,592 (-18.8%)
Japan NK225	13,973 (-8.7%)
China Shanghai Composite	2,868 (-45.5%)
Singapore	2,979 (-14%)
India BSE30	15,189 (-25.1%)
Brazil BOVESPA	67,203 (+5.2%)
Aus All Ord	5,479 (-14.7%)
US-10yr Bond	Yield 4.26%


As at 13/06/08

Insight: "Investment Indicator"

For any investment, the most important indicator is intrinsic value, which is all of the cash flows that will be generated by that asset discounted back to the present moment at an appropriate rate that factors in opportunity cost, like risk free rate and inflation. If the intrinsic value is higher, the higher the selling price will be. For example, when two businesses might have identical earnings of \$100 million, yet Company ABC may generate only \$50 million and the other, Company XYZ, \$200 million. Therefore, Company XYZ could have a price-to-earnings ratio four times higher than its competitor ABC yet still be trading at the

same value. Typically, if you are paying more than reasonable value, say 15x earnings, for a company, you need to seriously examine the underlying assumptions you have for its future profitable and intrinsic value. Otherwise, you pay a higher price and you only get low return. One of the most important keys to investing is that overall corporate growth is not as important as per-share growth. A company could have the same profit, sales and revenue for five consecutive years, but create large returns for investors by reducing the total number of outstanding shares. A shareholder should desire a management that has an active policy of reducing the number of outstanding shares if alternative uses of capital are not as attractive, thus making each investor's stake in the company bigger. 

A-Z Financial Tools

Umbrella Fund is an investment term used to describe a collective investment scheme which is a single legal entity but has several distinct sub-funds which in effect are traded as individual investment funds. This type of arrangement originated in the European investment management industry, most notably with the SICAV (open ended collective investment). 



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