

## Taiwan: 101 Reasons behind Bull Run?



## Microscope

Amid the global financial crisis, the Taiwan Institute of Economic Research (TIER) last week predicted the economy would grow by 0.11% this year as a result of falling demand for its exports. Although there are several measures taken by the government to alleviate the situation, these are outweighed by pessimism about the international situation. Moreover, the fact that businesses are laying off employees or pushing through unpaid leave would become an overhang on the market. To fine-tune and reinforce the stimulus measures, Taiwan has derived a four-year NT\$500 billion plan to boost public construction, raising public investment by 26.96% this year. Nevertheless, the annual growth of Taiwan's two major money supply indicators-M2 and M1B-stood at 6.39% and 5.44%, respectively in March, and the gap between the two narrowed to less than one percentage point, very likely to form a "golden cross" in April when the growth of the latter may exceed that of the former. The "golden cross" shows passbook deposits exceeding the total capital supply in the financial market, with the idle funds flowing to the stock market drive rallies. **IB**

Now, Taiwan is Asia's sixth-largest economy. After getting pummeled last year amid the global financial crisis, Taiwan's stock market has rebounded strongly this year, partly because of its planned trade liberalization with the mainland. President Ma Ying-jeou passed a previous economic stimulus package in September 2008. In previous efforts to revive the slowing economy, Taiwan attempted to spark domestic spending by handing out coupons equal to just over US \$100 to each of the 22.7 million citizens. Since last year, Ma has made efforts to improve ties with mainland China, increasing exposure to China via new, more open policy. Taiwanese shares surged recently after the island's government said it will allow Chinese institutional investors to buy into its stock market for the first time since the two sides split amid civil war 60 years ago. In fact, Taiwan has long banned such arrangements,

fearing they would allow Beijing to gain control of its economy. But Ma has pushed aggressively for closer economic ties since he took office last May, stressing they are crucial for Taiwan's continued economic integration in the region. Starting this week, mainland institutional investors will be able to apply to buy Taiwanese shares as long as the accumulated stock does not exceed 10% of a listed firm's total share value, according to the Financial Supervisory Commission (FSC). The major milestone that China's capital will flow to Taiwan was the announcement of the state-owned China Mobile Limited's acquisition of Taiwanese firm. China Mobile Ltd. said it agreed last Wednesday to buy 12% of Taiwan's Far EasTone Telecommunications Co. for 17.8bn New Taiwan dollars (US\$529 million), though the

deal requires Taiwanese government approval. Guidelines for Chinese companies interested in buying Taiwanese companies are likely to be announced in late May, and those limits could go as high as 20% of share value. Whatsoever, China's qualified domestic institutional investors (QDIIs) will be able to invest in the local stock market from today, following the publication of the "measures governing investments by mainland Chinese investors in Taiwan's securities and futures" by the FSC last week. Under the Chinese regulations, QDIIs can currently invest up to 3% of their assets, estimated NT\$240 billion now, in Taiwan, amounting to NT\$7.4 billion, which will be raised to 10%, or NT\$24 billion, after the signing of cross-strait memorandum of understanding for financial supervision cooperation. **IB**

### MARKET BRIEFING

YTD % (local curr)

<b>US DJ</b>	8,212 (-6.4%)
<b>Nasdaq</b>	1,719 (9.0%)
<b>Euro Stoxx 50</b>	2,375 (-3.1%)
<b>HSI</b>	15,520 (7.9%)
<b>Japan NK225</b>	8,977 (1.3%)
<b>China Shanghai Composite</b>	2,477 (36.1%)
<b>Singapore</b>	1,920 (9.0%)
<b>India BSE30</b>	11,403 (18.2%)
<b>Brazil BOVESPA</b>	47,289 (25.9%)
<b>Aus All Ord</b>	3,739 (2.1%)
<b>US-10yr Bond</b>	Yield 3.15%

As at 01/05/09

## Insight: "REIT vs. Property Investment"

In the past, wealth was measured primarily in terms of the amount of land owned by an individual or family. In spite of the birth of securities such as stock and bond ownership, direct property investing still proved its value in diversification and hedging against inflation. However, with the huge amount of initial investment as well as low liquidity, direct property investing may not be a convenient way for an average investor. Prior to 1960, only wealthy individuals and corporations had the resources necessary to invest in significant real estate projects such as shopping malls and corporate

parks. The birth of real estate investment trusts, or REITs, can resolve most of these problems. It was hoped that the financial incentive would cause investors to pool their resources together to form companies with significant real estate assets, providing the same opportunities to the average person as were available to the elite. In addition, REITs can significantly limit personal risk. For example, if an investor wanted to acquire an apartment, it is likely he will take on debt. This can leave him exposed to a potentially devastating liability in the event he cannot service interest. Purchasing a REIT, on the other hand, can be done with only a few thousand dollars. An investor that wants to invest \$1,000 in real estate will reap the same rewards on a pro-rated basis as those who want to invest \$100,000. **IB**

## A-Z Financial Tools

**Relative Strength** measures the movement of a stock price as compared to a market index for the past year. A value below 1.0 means the stock shows relative weakness in price movement (underperformed the market), while a value above 1.0 means the stock shows relative strength over the one-year period. It is a simple measurement to indicate whether we have allocated the assets appropriately. **IB**



**IBC Group**

Comprehensive Financial Planning  
Wealth Management Advisory  
International Business Advisory  
Call 2268 6308  
Email: [insider@ibccapital.com](mailto:insider@ibccapital.com)

**Next Insight**  
"Fiscal Deficit and Inflation"