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bargain hunting in New York



Tom Walker explains why US equities currently offer such good value.

It's hard work managing a US equity fund at the moment. It isn't that there's a lack of good companies in the States in which to invest – on the contrary, there are plenty. It isn't that the Martin Currie North American Alpha Fund isn't performing well – it is, very well. And isn't that we're pessimistic about either the US stock market or the Dollar – we aren't. It's just that persuading investors over here that they should put their money to work over there is a tough job.

The reasons for this reluctance are obvious – it's not hard to find bad news about the US. President Bush's approval ratings in the US may be charting new lows, but he's even less popular on this side of the Atlantic. For many investors, dislike of the current administration and the interminable war in Iraq with which it is associated colours wider perceptions, both of the US itself and of its economy and stock market.

Sadly, these perceptions obscure one vital point – for the determined British investors, the US market represents an outstanding bargain. Don't believe me? Then look at the hordes of British

shoppers currently bargain-hunting in New York. Although they might not be scouring Wall Street in quite the same way they're swarming into the boutiques and department stores of Fifth Avenue, their behaviour suggests they know the weak Dollar makes this a good time to pick up a bargain in the US.

a question of perception

Investors' negative perceptions about the US seem to have found their economic reflection in the sub-prime crisis. Meanwhile, the Dollar's rapid fall from grace seems symbolic of a greater malady – of the decline (if not the fall) of an economic superpower.

These perceptions matter. But while the reasons for investors' aversion to the US may seem obvious, it doesn't mean they are rational, or that they will last. With the exception of the Dollar none of these wider concerns about America should concern us, at least not as investors. We don't invest in presidential administrations. Nor do we invest in economies, at least not directly. We only invest in companies, preferably successful ones.

the importance of stock picking

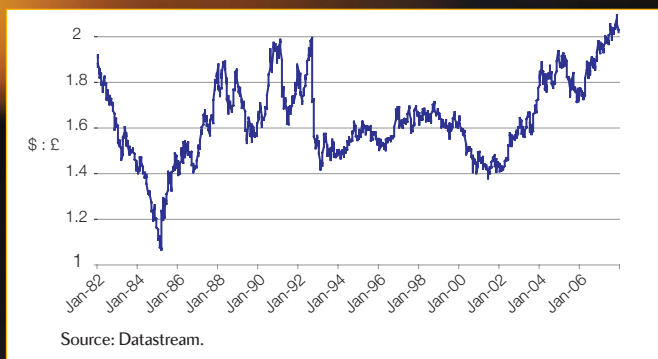
And there's the rub. Even when the market struggles, individual companies can succeed. Despite the credit crunch and 'sub-prime', plenty of American companies have performed very, very well this year. When we talk to people about the US, we generally dig out a PowerPoint slide showing how well some companies – such as engineer Foster Wheeler, silicon wafer producer MEMC and electronics giant Apple – have performed. Foster Wheeler rose by over 60 per cent in 2007, while Apple and MEMC both returned more than 100 per cent, even once the slump in the Dollar has been factored in. But still we receive sceptical looks.

global giants in New York's bargain bins

This is frustrating. But what many of the people are overlooking is that while companies like Apple may be quoted, analysed and traded on Wall Street, they are actually global businesses – they sell their products to a global customer base,



long way down? Sterling is at the top of a 25 year range



and the global economy is still booming. Europe is Apple's fastest-growing market: the consumers buying its fashionable iPhone are as likely to live in London as they are in Los Angeles.

But Apple is just one (albeit the highest-profile) of North America's global giants. Martin Currie's Edinburgh office buzzes to the sound of Hewlett Packard's printers and our internet traffic passes through routers designed by Cisco Systems in San Jose. Look in any modern financial services office, from Stockholm to Sydney, and you'll find the same brands.

So, no matter what local economic conditions prevail, I'm confident that among the thousands of companies quoted in the US and Canada we can easily find enough first-rate stocks (just 25 in our new North American Alpha Fund) of the quality of Apple, IBM and Cisco to make money.

the weak dollar is good news – here's why

But even once we've convinced people of the potential of US companies, we're still met with one, final objection – the Dollar. This has more substance. The fall in the Dollar has significantly impaired returns to UK investors this year. But on a purchasing power parity basis it has fallen too far, and is too cheap relative to Sterling. This carries two implications for investors.

Firstly, it means that American goods are cheap once again. We've already mentioned the global nature of many US companies. Estimates vary, but overseas sales and operations account for somewhere between 30% and 40% of revenues for the big US companies that comprise the S&P 500 index. For these global companies, a weak Dollar is a blessing, giving their exports a competitive edge.

Secondly, the Dollar is too cheap. Not relative to Asian currencies, maybe – but certainly relative to Sterling. US exports are strong and the trade deficit is falling. The pace of the Dollar's depreciation against Sterling has slowed and may have even turned the corner. If UK interest rates fall further in 2008, I fully expect the \$/£ exchange rate to be closer to 1.7 than 2.1 by the end of the year. Sterling won't stay this strong relative to the greenback forever, and when the Dollar rallies investors in the US market will reap the rewards of their recent bargain hunting. ●

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