

iShares MSCI South Korea Index Fund (EWY)

By Don Freeman

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In this letter, we will profile the iShares MSCI **South Korea Index Fund**, a great ETF that provides results corresponding to the price and yield performance of publicly traded securities in the South Korean stock market, as measured by the MSCI Korea Index.



When we trade ETFs based upon a country, we are simplifying the investments decisions that are made by eliminating a lot of the legwork needed to successfully invest overseas. This is because we are automatically getting a well-diversified and balanced representation of the entire market in that country. So in some ways, we are picking the country, and not necessarily a sector or company. However, before you buy a foreign-based index fund, you should at least understand some of the companies that are involved in it.

Some of the biggest names in the South Korean ETF include Samsung Electronics (KSE: 005930.KS), Hyundai Motor Company (KSE: 005380.KS), Hyundai Heavy Industries (KSE: 009540), and Hynix Semiconductor (KSE: 000660.KS). We will look at Hyundai Motor (4.92% weighting) and Hynix Semiconductor (2.48% weighting) in this fund.

Recently, when asked who the biggest threat to Toyota was, Akio Toyoda (The global head of Toyota) replied “Hyundai”. When this was first reported, many were perplexed. But after speaking to a friend of mine back in Ohio recently, I have learned that Hyundai sales are booming in the US, and have started to become a major player in the auto market. The reason being in Ohio is so important is that we are talking about the section of the US that is traditionally a major source of automobile manufacturing. (Both US and Japanese.) The Sonata, Hyundai middle-priced car currently sells for roughly \$20,000 and has just won the “International Car of the Year” award. Hyundai seems to have found not only great quality, but has taken extreme pains in surpassing Japanese quality. Think Toyota in the middle 80’s, as it started to take over the market. My friend also informed me that he managed to drive from Ohio to Florida on just 2 tanks of gasoline. He simply cannot stop raving about the car. News like this bodes very poorly for Japanese automakers, especially Honda who is having major supply issues as Japan continues to struggle to get their manufacturing base back online.

As for the financials, first quarter sales shot up 28% in the United States alone. In China, the Q1 results were up 30% as well. The company is slated to sell as much as 3.6 million vehicles this year, and combined with newly acquired subsidiary Kia, should sell as many as 6.3 millions autos worldwide. To put it in perspective, Toyota is expected to sell between 6.3-7 million autos globally. With a new hybrid line coming out as well, this could be a time when the car maker really steps up the presence it enjoys in the Western world as gas prices are rising worldwide.

The chart has recently exploded to the upside, and shows that the stock has recently broken above the top of a bullish channel, showing massive strength. The volume has been strong in this stock as well, showing true interest in the market. It should be noted the prices are shown in Korean Won.



As for Hynix Semiconductor, they have released their most recent earnings report on April 28th and still shows growth as the company reported 2.79 trillion won for the first quarter of 2011. Even more impressive is net income for the quarter, which exploded by 812%, bringing in 274 billion won as opposed to 30 billion won the previous quarter. Being in the semiconductor field, the company is in a tough business as the sector has been challenging. However, the company has managed to make large inroads into non-PC DRAM memory markets. In fact, this type of memory made up 70% of its sales. In a world that seems increasing mobile, the future should only be bright for this type of company.

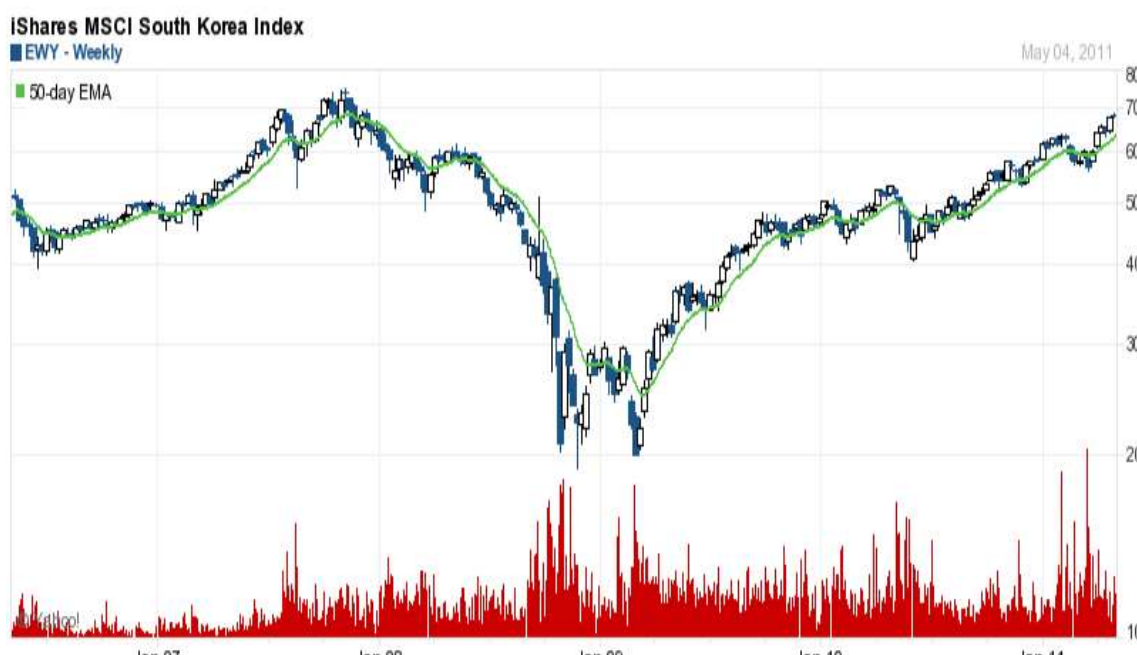
Looking at the company on the charts, you can see that the 50 EMA (exponential moving average, green line) is acting as support for increasing prices. Also, the red line

represents a recent breakout as the stock looks set to continue in the upward direction. Consistent volume shows that there could be conviction behind the move as well. For those who have attended my courses over the years you will notice the cup and handle shaped base pattern that has formed. This type of chart pattern is very common in strong bull markets and tells us institutional banks and funds are stepping in and buying up shares.



As for the actual ETF, it looks very bullish as the 50 EMA has been supportive for the last few years. The attached weekly chart shows that we are currently heading towards the highs, and it appears that we are setting up for a breakout. The growth of Korean companies around the world, and the setbacks that the Japanese are going to have, bodes well for Korea to make inroads into various markets around the world.

The ETF is weighted with 15.93% basic materials, which will be fueled by the expansion of Asian economies around the region. Also of note is the 18.92% weighting of consumer cyclical as the world wakes up from the last couple year's worth of malaise. The largest weighting is technology, which comes in at 28.83%, which should continue to serve the ETF well into the future, as it is spread around between computers, medicine, and manufacturing. The Korea economy itself is running strong, and was one of the first that had to raise rates in the world. This shows how hot it is currently running as the rest of the world is trying to catch up.



Annual Returns

	Total Returns (%) EWY
2010	26.18
2009	70.36
2008	-55.34
2007	32.08
2006	11.10
2005	55.00
2004	18.22
2003	33.74
2002	6.05
2001	46.74

About Freeman Capital Management, LLC

Don Freeman is Managing Director of Freeman Capital Management, a Registered Investment Advisor with the U.S. Securities Exchange Commission (SEC). He provides personal financial planning and investment advice to expatriates and teaches financial courses throughout SE Asia and the United States.

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