Asia Pacific Dividend Brief
November 2007

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Welcome to the November 2007 Guinness Atkinson Asia Pacific Dividend Brief.

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Earlier this month our CEO, Jim Atkinson, visited Hong Kong and Singapore and we are pleased to re-produce the piece he wrote on his observations and reflections from his visit.

Thoughts from My Recent Trip to Asia: A Rant about the Global Economy and the Oil Crisis

I had the occasion recently to take a quick business trip to Singapore and Hong Kong. This wasn't my first time in Asia, but it was my first visit to Singapore. On my previous trips to the region I was struck by the absolutely obvious energy level and robust economic activity. There were other observations from those previous trips as well, most notably the mix of old economy and new economy, the bicycle (or adult sized tricycle with trailer) loaded with more cargo than should be in a full sized pickup truck, powered by one hard working individual, travelling down the highway alongside modern trucks.

On the 16-hour-plus flight home a recurring thought kept nagging at me. We, and I mean Americans but quite possibly the rest of the non-Asian world, don't seem to fully grasp what is happening around the world. Yes, we all understand that China and the rest of Asia are experiencing unrivaled economic growth. But I don't think we've fully come to grips with the scope or the implications of this growth and I think were missing the big picture because we're focused on the trivial.

Oil Demand

Even though I only experienced a piece of Asia that is figuratively smaller than the tip of the iceberg, it is easy to see why the demand for oil is growing so much. We all know that global demand for oil has been accelerating with much of the demand growth originating in Asia—China and India in particular. This demand for oil is obvious with even the tiniest of views into the region. But when you see the dynamic and obvious growth in person you start to think of it in more concrete terms, in a manner wholly different than the view gained just by examining the statistics in the spreadsheet. That's when you realize that this demand from Asia is insatiable, and you realize that we are only at the beginning of the accelerating demand curve. In thinking about this on the flight home, the real thought in my head was that we (in the U.S. at least) haven't come to grips with the scope or the urgency of the global energy (oil) problem. Our response to the energy problem is to 1) Call the CEOs of the leading oil producers to the floor of the senate to ask them to explain why they're making so much money and to threaten them with an excess profits tax; 2) Have our politicians talk about conservation and energy independence; 3) Fill our media with stories about hybrid cars and ethanol as though those and other "rearranging the deck chairs" solutions will solve the problem; and 4) Find entertainment on the local news as reporters interview motorists complaining about higher gasoline prices.

The truth of the matter is that blaming the oil companies for higher oil prices is to ignore the fundamental reasons for the demand/supply imbalance. And ignoring the fundamental reasons behind the problem means we won't likely find a solution. To have politicians talk of oil independence is to so completely misstate the problem as to make any subsequent discussion regarding solutions laughable. Understand this: so long as we use oil as the primary means of transportation in this country we will never be energy independent. And while hybrid cars and ethanol are exciting, they are not going to make any difference in world demand/supply problem. None. The hybrid may save the owner some money on gasoline (although it might take years for the owner to recoup the cost of switching from the previous car to a brand new hybrid, assuming that the previous car had any meaningful life left), and millions of more fuel efficient cars will make a contribution, but such conservation measures will not affect the global demand/supply equation meaningfully. Complaining about higher gasoline prices is frankly an insult to the global economy. The U.S. enjoys some of the cheapest gasoline in the world (largely because most other nations have substantially higher taxes on petroleum) and enjoys among the highest standards of living in the world. Further, we use approximately 25% of the world's oil each day with about 5% of the world's population. Complaining about higher gasoline prices is less effective than shouting into a hurricane. The world economy doesn't care. More specifically, 1.3 billion Chinese don't care.

Asia and the Global Economy

But the growth in Asia means more than higher energy prices. While in Singapore I had the opportunity to meet with one Malaysian and three Chinese ex-patriots that had left their countries to secure a MBAs from a top Singapore university and to develop high powered careers in the banking/finance industry. Not surprisingly, people that have the initiative to leave their homeland to secure a world class education tend to have a great deal of ambition. And this is not a uniquely Chinese or Asian trait. People from around the world come to America to pursue similar opportunities and it is fair to say that many American students leave to study abroad. That said, it was hard to escape the feeling that these four individuals were extremely ambitious and determined, more so than other ex-patriots in the U.S. and Americans abroad that I have encountered. Further, their intellectual firepower was quite evident. Perhaps most significantly was the realization that these four were the vanguards for potentially hundreds of millions of equally determined and ambitious students looking to maximize their lives.

The economic growth that is taking place in China is unprecedented in human history; never before in the history of the world have so many people seen so much economic growth in such a short period of time. This is what happens when a country of over 1 billion people enjoys 9%+ annual GDP growth for nearly two decades. As with the complete lack of understanding regarding energy, Americans have no real understanding what is happening to the world economy as it rapidly shifts its center of power to Asia. So while these and other facts about Asia have been trumpeted in books, print media and television ad nauseam, it is clear from the public discourse about the region that we are largely ignorant of the ascendancy of China and Asia. How do I know that? As with the energy issue, the public discourse around the region focuses on the unimportant and the inane. Our politicians seem to think China's trade surplus is a function of an undervalued currency. While we're blaming the "weak Yuan" our fellow citizens are borrowing money to consume at a rate above their production. While the U.S. personal savings rate was negative in 2006, the reverse was true in China where the personal savings rate was above 30%.[1] When we complain about the success of WalMart for selling inexpensive goods largely manufactured in China, we're using them as a scapegoat notwithstanding the fact that they've expertly used technology and productivity gains to keep inflation at bay, and not focusing on the fact that much of America is unable or unwilling to compete in the increasingly competitive global economy. Most importantly we Americans continue to act as though we have an inalienable right to live in the most prosperous and dominant country on earth. Our self view and foreign policy start with this dominant view. And while we have enjoyed our day as the world's only superpower and richest nation on earth, we are clearly missing the fact that the rest of the world is catching up. (Note, the U.S. does not head the list for per capita GDP; America is fourth in the list prepared by the International Monetary Fund and sixth on the Central Intelligence Agency list.)[2]

The economic growth in China and the rest of Asia do not represent a threat to us economically. Quite the contrary, the economic growth in Asia and the rest of the rapidly industrializing world represent fantastic opportunities to enrich ourselves and the rest of the globe. The risk we face doesn't stem from their success; the risk is in our reaction to their success.

So what's the point of this rant?

My view on my return from Asia is that, collectively, we're clue free on the major events shaping our world. We don't understand the impact of the Asian and China miracle and

[1] China Daily http://www.chinadaily.com.cn/opinion/2006-08/04/content_656951.htm and Bureau of Economic Analysis http://www.bea.gov/bea/newsrelarchive/2007/pi1206.pdf For slightly different figures see The Economist http://www.economist.com/displaystory.cfm?story_id=9944703

[2] http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(PPP)_per_capita

we don't understand that the world has an energy problem. And while ignorance can be bliss, our ignorance has allowed us to mismanage our response. Individually and collectively we cannot be more unprepared for what is happening now. As a country our foreign policy is bankrupt; it is based on a 20th century planet. Our energy policy is absolutely insipid. (Is there another country on earth that provides tax incentives for SUVs so that white collar professionals can drive in gluttonous style and receive tax breaks in order to keep Detroit profitable?) Our personal and collective consumption, our savings rate and trade deficit may not be the ticking time bombs that others suggest they are, but they are indicative of an economy that has failed to recognize the competitive landscape has changed. Our education system and our sense of entitlement simply cannot co-exist with the emerging and highly competitive global economy. I'm not here to propose policy changes to deal with these issues. My view is that the policy changes will occur when and if we recognize the world as it really is.

Market Performance October 2007

	October 2007	**2007 YTD**	**2006**
Australia	7.50%	40.93%	27.09%
China	16.56%	97.55%	78.13%
Hong Kong	10.86%	42.94%	26.27%
Indonesia	16.36%	49.40%	69.44%
Korea	7.09%	45.92%	11.17%
Malaysia	7.90%	37.02%	33.11%
New Zealand	-1.55%	7.21%	10.02%
Philippines	8.36%	39.32%	55.30%
Singapore	4.40%	34.81%	41.91%
Taiwan	5.42%	20.35%	16.30%
Thailand	10.66%	47.75%	6.76%
MSCI AC Far East Free ex Japan	9.99%	52.61%	31.89%
MSCI AC Pacific ex Japan*	9.16%	50.41%	32.56%

*MSCI AC Pacific includes Australia & New Zealand
(MSCI Indices were used for regional & individual market performance)

Market Review

After a strong performance in October stock prices across Asia have gone into reverse. The Hong Kong stock market has borne the brunt of the weakness as Chinese stocks have given up their October gains. The falls in Chinese stocks have been propelled by a reining back in expectations that a wave of new Chinese cash is about to hit the market in the so-called "through train". The upward pressure on domestic Chinese stock prices caused by a switch in domestic savings from bank deposits in stocks has not gone away and there is still a desire to find an outlet to reduce this pressure. However, the immediate expectation of the market - that individuals would shortly be able to invest directly in Hong Kong-listed stocks - has been deferred. Furthermore, expectations have also had to be modified in as much as funds coming out of China will likely have a broader investment remit than previously thought.

Stock prices across Asia have also suffered in the recent market volatility but it is worth noting that they are responding to U.S. stock market weakness and not as a direct result of a deteriorating operating environment in Asia. To be clearer: while it is expected that consumer demand in the U.S. is expected to weaken and that exports from Asia are bound to be affected, it is also true that domestic economic conditions in Asia are the polar opposite of those prevailing in the U.S.

Therefore, weak market performances in November have been driven by a moderation of the euphoria surrounding Chinese stocks listed in Hong Kong on the expectation that a new wave of demand will come later and perhaps be less than originally thought; the technology companies have been weaker on uncertainty surrounding demand for consumer electronics; and among certain commodities and shippers there has also been some weakness primarily reflecting uncertainty about demand for ores and materials in the event of a global slow down.

We have not, by contrast, seen a significant tightening in credit conditions across the region as liquidity remains ample, exposure to sub-primes assets in the U.S. is minimal and asset prices in Asia are generally rising.

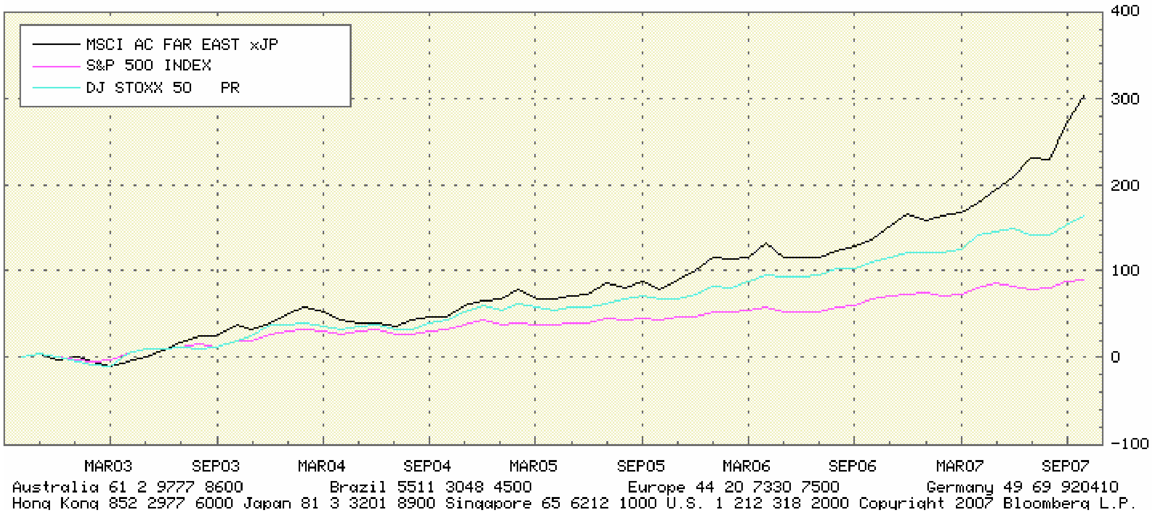
The comparative returns over five years for Asia ex Japan versus the U.S. and Europe are shown in the chart below.

COMPARATIVE RETURNS Page 1/ 6

Range 10/31/02 - 10/31/07 Period M Monthly 60 Mo. Period

	Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1	MXFEJ Index	USD	255.26 %	304.87 %	213.43 %	32.25 %
2	SPX Index	USD	74.92 %	91.44 %		13.86 %
3	SX5P Index	USD	121.73 %	162.86 %	71.42 %	21.31 %

(* = No dividends or coupons)



Source: Bloomberg

Market Outlook

Whether or not the U.S. experiences a recession, as defined as two quarters of falling output, should be a matter of only passing interest to investors. The more pressing question is whether the U.S. will experience a prolonged period of sub-trend growth and what implications that has for Asia in coming months.

The most obvious effect on Asia and emerging markets of a U.S. slow down will be on exports but these are less vulnerable than they used to be. America's share of world imports has come down from where it was in 2000 as the current account deficit has begun to shrink. At the same time economic growth in emerging markets has accelerated as domestic demand has picked up.

Furthermore, many Asian economies are in good financial health; they are generally running surpluses and have built up sizable foreign exchange reserves. This means that they will be in a position to boost spending to offset falling exports if necessary. For China, falling exports demand may cause economic growth to "slow" to around 10% but this would be a boom, relieving some of the pressure caused by the increasing trade surplus.

We have discussed in previous Asia briefs the growing domestic story in Asia and the growth in new investment across the region. China is moving into higher value-added activities; Indonesia and Vietnam are emerging as the new low-cost producers; Singapore and Malaysia are focusing on diversifying the economies away from the high dependence on trade. And all are investing in expanding domestic infrastructure.

As the developed world begins to look sickly, hopes for the world economy lie with the far perkier developing world, with Asia at the forefront.

Edmund Harriss

November 21, 2007

Commentary for our views on Asia Pacific and energy markets is available on our website. Please click here to view.

Performance data quoted represents past performance and does not guarantee future results. Index performance is not illustrative of Guinness Atkinson fund performance and an investment cannot be made in an index. For Guinness Atkinson Fund performance visit gafunds.com.

Mutual fund investing involves risk and loss of principal is possible. The Fund invests in foreign securities which involves greater volatility, political, economic and currency risks and differences in accounting methods. The Fund is non-diversified meaning it concentrates its assets in fewer holdings than diversified funds. Therefore, this Fund is more exposed to individual stock volatility than diversified funds.

The MSCI All Country Far East Free ex-Japan Index (MSCI AC Far East free ex-Japan Index) is a free float-adjusted, capitalization-weighted index that is designed to measure equity market performance in the Asia region excluding Japan. The Index is made up of the stock markets of China, Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand.

The MSCI All Country Pacific Free ex-Japan Index (MSCI AC Pacific Index) is a free float-adjusted, capitalization-weighted index that is designed to measure equity market performance in the Pacific region. The Index is made up of the stock markets of Australia, China, Hong Kong, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan and Thailand.

The MSCI World Index is a capitalization-weighted index that monitors the performance of stocks from around the world.

The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general.

The Dow Jones STOXX 50 Index is a capitalization-weighted index of 50 European blue-chip stocks using free float shares in the index calculation.

One cannot invest directly in an index.

The Price to Earnings multiple reflects the multiple of earnings at which a stock or group of stocks in an index, sells. It is equal to the market capitalization of a stock, or group of stocks in a index, divided by the after tax earnings for that stock or index.

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