

# SOUTH KOREA VALUATIONS CLOSE TO 2009 LEVELS

Jeremy Schwartz – Global Chief Investment Officer  
05/12/2015

Recently I spoke with Jeff Weniger, Investment Strategist at BMO Global Asset Management, about his [thoughts on South Korea](#). Jeff believes that South Korea is attractively priced when looking at the [price-to-sales \(P/S\) ratio](#), which currently is close to the lows of 2009. He also believes a possible catalyst that could unlock this potential value is the central bank, which could be one of the next to embark on aggressive easing policy action. We also have been writing for the past year about the need for the South Korean central bank to do more on the [monetary policy](#) front to stop the appreciation of the won and support the country's export-heavy economy.

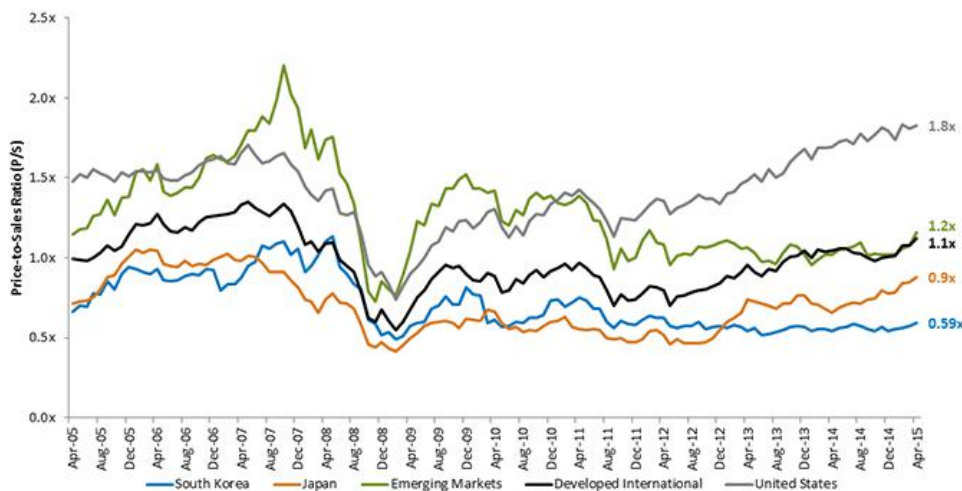
**Currencies Matter** South Korea is heavily dependent on exports—which account for over 50% of its gross domestic product (GDP)—to drive its economic growth. Since the country is so heavily dependent on exports, I feel it has a lot to benefit or lose from currency weakness or strength, respectively. Important people in South Korea have also taken notice:

- South Korean president Park Geun-hye recently stated, “Rival economies are accelerating their chase (to win against South Korea) amid the rapidly changing external environment, including the yen's weakness.”<sup>1</sup>
- Song In-chang, the Finance Ministry's director general in charge of [foreign exchange](#) market policies, recently stated, “Korean companies face bigger difficulties this year than last. What's different is that we have been paying attention to the won-yen rate since last year, whereas the won-dollar was our main focus before that.”<sup>2</sup>
- The Bank of Korea also said its Market Policy Committee “will closely monitor external risk factors such as international oil prices and shifts in major countries' monetary policies.”<sup>3</sup>

As a country's currency becomes weaker, its exports become less expensive to foreigners, ultimately leading to increased sales.

**Price-to-Sales (P/S) Ratio** South Korea is selling right in line with its [median](#) level of 2009 but has seen an approximate 20% expansion in the P/S ratio since its absolute 2009 low, the lowest expansion of any of the markets displayed below. Broad emerging markets witnessed the second lowest expansion in its P/S ratio, at 59%, while other markets all saw expansions over 100%. As a result of other markets becoming more expensive, South Korea is selling close to a 32% discount to Japan, a 67% discount to the United States, and a more than 46% discount to broad developed international and emerging markets. These current P/S discounts are all below the median discount over the past 10 years when comparing South Korea against each of the other markets.

Year	Price-to-Sales	Trailing Ratio
10		



Sources: WisdomTree, Bloomberg, 4/30/05–4/30/15. South Korea, Japan, Emerging Markets, Developed International and United States are represented by the MSCI Korea, MSCI Japan, MSCI Emerging Markets, MSCI EAFE and S&P 500 indexes, respectively.

*For definitions of indexes in the chart, please visit our [glossary](#).* **Will Government Take Further Action?** One of the most crucial questions when thinking about South Korea is whether the government will undertake more aggressive monetary policy actions to protect the country's global market share. Although difficult to know with certainty, I think more can be done, and ultimately the probability of the government doing more is higher than of it doing nothing. Therefore, given the relatively low starting [valuation](#), coupled with the potential for the central bank to provide stimulus to the economy, we may be looking at an attractive combination for South Korean equities. For more research on South Korea, read our Market Insight [South Korea at a Crossroads](#).<sup>1</sup>“South Korea says weak yen a challenge,” Reuters, 10/23/14. <sup>2</sup>“S. Korea Fires Warning Shot to Japan: We’re Watching Yen-Won,” Bloomberg, 5/3/15. <sup>3</sup>Bank of Korea, Monetary Policy Decision, 3/12/15.

#### Important Risks Related to this Article

Investments focused in South Korea increase the impact of events and developments associated with the region, which can adversely affect performance. WisdomTree and Foreside Fund Services, LLC, are not affiliated with BMO Global Asset Management.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

view the online version of this article [here](#).

### IMPORTANT INFORMATION

**U.S. investors only:** Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ([www.msci.com](http://www.msci.com))

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.  
You cannot invest directly in an index.

## DEFINITIONS

**Monetary policy**: Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

**Foreign Exchange (FOREX, FX)**: The exchange of one currency for another, or the conversion of one currency into another currency.

**Median**: The median is the value within a dataset at which 50% of all observations occur above and 50% occur below.

**Valuation**: Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.