

Value Investing – For the Long Term

The Greek stock market (ASE Index) might soon offer good value for long-term investors. But wait for panic.

These days there is a lot of focus at the situation in Greece and lately a lot of rumors about austerity measures such as taxes on deposits held abroad, on changes in taxation of dividends and on a general regulatory crack-down on the immense black economy in Greece. Greeks that have earned a lot of black money in the past decade suddenly have something to fear and might be asked to explain the discrepancy between the size of their deposits and their stated taxable income in the past many years. The changes in taxation of dividends make it a lot more attractive for Greeks to sell their stock holdings domestically held in order to establish offshore ownerships. This is contributing to a selling pressure and an even bigger current account deficit in the short term.

The Greek stock market has dropped 36% from the peak in October 2009, while MSCI World is only down by around 5%. In other words, it looks like a country-specific slow-motion panic that might threaten to evolve into a full-blown panic. And where there is panic, there are usually lots of opportunities. We have therefore screened the Greek stock market for long-term value stocks that might be getting even cheaper if more rumors or even real political action appear.

First thing, where possible we calculate Cyclically Adjusted Price Earning (CAPE), which Mr. Graham and Mr. Dodd proposed. This is the P/E, where E is the 10 year average earnings. In general this calculation generates a number ranging from lower double digits till a few hundred. We follow Mr. Graham and Mr. Dodd's advice by to never pay more than 16x earnings. We are deviating slightly from this approach though and recommend investors not to consider securities with a "CAPE" above 14. Notice that only based on this P/E classifying strategy, we manage to filter out more than 80% of the stocks (41) from the index, leaving eight for further analysis. The securities on the subsequent page are sorted on their price/book value starting with the highest.

Thus the "**trigger price**" (where we recommend putting in a bid that might be hit in a panic) reflects a maximum CAPE of 14 and in some cases significantly lower.

By lowering this value we allow the margin of safety to increase and our rationale for that is the current unstable condition in Greece. If the current "CAPE" is above 14 and thus a borderline security (three cases) we have set the trigger price equal to when the security reaches this critical level, indicating that it's a good buy. You can review the discussed output on the next page.

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	OPAP: (Gambling/lottery)	Hellenic Telecommun: (Telecommunication)	Coca-Cola Bottling: (Bottling)	Hellenic Petroleum: (Oil Refining)
Saxo Ticker	OPAP:xath (CFD)	OTE:xnys ; HTO:xath (CFD)	CCH:xnys ; EEEK:xath (CFD)	ELPE:xath (CFD)
CAPE	8,91	9,31	18,20	22,43
Last Price	15,22	8,74	18,03	8,23
52Wk Low	14,14	8,46	7,98	5,34
Mkt Cap (€)	4820.09M	4283.91M	6599.27M	2515.38M
T12M EPS	2,13	0,82	1,02	0,23
P/T12M EPS	7,09	10,59	17,75	35,36
Est. P/E	7,41	7,89	14,15	12,32
P/B	6,58	3,93	2,65	1,06
Trigger Price	14	8	13,87	5,14
% to Trigger	-8,016%	-8,467%	-23,098%	-37,595%

	Alpha Bank: (Commercial Bank)	Nat. Bank of Greece: (Commercial Bank)	EFG Eurobank (Commercial Bank)	Public Power Corp. (Power/Utility)
Saxo Ticker	ALBKY:xnas ; ALPHA:xath (CFD)	ETE:xath (CFD)	EUROB:xath (CFD)	PPC:xath (CFD)
CAPE	11,05	5,29	10,66	16,38
Last Price	6,81	13,32	5,49	11,11
52Wk Low	3,22	8,12	3,37	10,9
Mkt Cap (€)	3638.38M	8085.79M	2956.89M	2577.52M
T12M EPS	0,53	2,62	0,6	2,51
P/T12M EPS	12,92	5,09	9,21	4,43
Est. P/E	9,07	6,57	10,96	3,55
P/B	0,9	0,84	0,48	0,46
Trigger Price	6,00	8,00	3,50	9,50
% to Trigger	-11,894%	-39,940%	-36,248%	-14,513%

Source: Bloomberg and Saxo Bank Strategy & Research

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