

## Investors Cling to Russia As Stocks Take Pounding

By Catrina Stewart  
Staff Writer

Investors clung on to Russia's treasured safe-haven status Thursday as the country's stock market continued its headlong plunge for a third straight day.

The RTS, the country's benchmark index, slowed its fall to drop by a further 2.3 percent, or 50.68 points, a day after the index recorded its largest one-day loss in the past year on the back of concerns over prospects for the United States economy.

But amid growing certainty that the United States is heading into, or is already in, recession, fears that Russia will suffer a knock-on effect were muted Thursday, as Moscow-based investors insisted that the country was witnessing a knee-jerk reaction to what is a global -- not a Russian -- problem.

"There is no rational reason for the market to sell off," said Eric Kraus, managing partner of the Nikitsky Fund. "If you get a few bad days in the global markets, Russia will be hit too. ... But that does not mean there is an underlying problem in the economy."

When asked whether his fund had been hit by the market losses, he said, "Not particularly. We're just a small fund." He did not elaborate.

Analysts blamed "hot money" for the slide, pointing out that committed investors were sitting tight -- for now. Harvey Sawikin, a founding partner of U.S.-based Firebird Management, which has more than \$3.8 billion under management, said that while the company's Russia-focused funds were down about 2 percent this month, it was "really not relevant."

"I think the market has gotten a bit oversold," he said. "The Russian market is very vulnerable to correction. When there's a correction, it's very sharp and very fast."

Gazprom shares continued to slide Thursday, sinking 2.9 percent on MICEX. On the RTS, Norilsk Nickel fell 5.5 percent, Surgutneftegaz by 4 percent, and Rosneft by 2.5 percent. LUKoil bucked the trend to rise by 1.96 percent.

Russia had been largely insulated from the global meltdown. But the tumbling stock markets suggested that the country is not quite as decoupled from global economies as it would like to think.

"I'm not surprised ... [but] I'm still sitting with my head in my hands," said James Beadle, a fund manager at Pilgrim Asset Management. "The situation is still very nervous."

Despite a bout of short-term jitters, investors insisted the longer-term picture remained positive.

"There is a connection [between Russia and global markets], but the correlation is not that strong," said Pavel Teplukhin, president of Troika Dialog Asset Management, who insisted that the country remained a safe haven for investors.

"The stock market in many countries is fundamentally dependent on their economies," he said Thursday. "And the Russian economy is strong and stable, and is growing rapidly. This growth is driven by domestic consumption, which is the best growth in terms of quality."

Economists echoed the sentiment. While Russia's economy could suffer from a global slowdown, particularly if it affects other emerging markets such as neighbor China, the country's growth has gathered a momentum of its own in a high oil price era and the elimination of most of its external debt.

"Barring a severe global slowdown, Russia will churn out 6.5 percent to 7 percent GDP growth [in 2008], which will filter down into corporate earnings," said Peter Halloran, president of the Pharos Fund, a Moscow-based hedge fund with \$150 million under management.

Investors have to take a long-term view, he said.

Merrill Lynch, the world's largest brokerage, added to the raft of bad news Thursday, revealing losses of nearly \$10 billion in the fourth quarter after an \$11.5 billion asset write-down. Similarly bleak news from Citigroup triggered the global stock market shakedown earlier this week.

"A lot of Western institutions -- not just banks -- are liquidity-strapped. So what they are doing is selling good investments [in Russia and other emerging markets] to cover their positions," said Liam Halligan, chief economist at Prosperity Capital, which has \$5 billion under management. "They are cashing in some of the massive Russian gains that they have made."

Russia, which underperformed its emerging market peers last year, is undervalued, said investors. And the latest slide provides a potential buying opportunity. The blue chips, said Halligan, are looking cheap.

"There's no ignoring Russia's wobble," said a London-based fund manager. "But Russia stands up very well in a global context."

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