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BY PHILLIP DAY

Fund Manager Scoops Up India Stocks Amid War Threat

Jon Thorn has been buying all the Indian stocks he can get his hands on over the past two weeks. Mr. Thorn, manager of the $15 million **India Capital Fund** has almost completely run down his fund's cash holdings in his current buying spree.

Doesn't this guy know there could be a war?

Of course he does. Tensions on the subcontinent have been rising since India blamed Pakistan-supported militants for a terrorist attack on New Delhi's Parliament in December. The stock market has been one of the victims. Bombay's Stock Exchange Sensitive Index, or Sensex, hit a six-month low Thursday as India and Pakistan exchanged artillery blasts across the Line of Control that separates the two countries in disputed Kashmir province. The market rebounded a bit on Friday on some conciliatory words from Indian Prime Minister Atal Behari Vajpayee, but nervous investors sent the market down again on Monday, by 0.4%. About a million Pakistani and Indian soldiers now face each other along the border.

But Mr. Thorn has weighed the risks and sees the current market turmoil as a "a spectacular buying opportunity," war or no war. Under anything but the worst-case scenario-a nuclear exchange between India and Pakistan-the $500,000 or so Mr. Thorn has spent on Indian stocks over the past few weeks could turn out to be a canny investment, based on past examples.

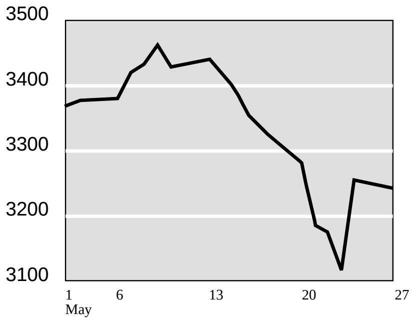
Mr. Thorn is paid to invest in India. For investors who have a choice, and have considered putting money into India in the past, he provides a compelling argument for investing there now.

"You have to take a stand on whether there will be a big war or not," Mr. Thorn says from his Hong Kong office. "My answer is no, which means I can't afford to miss this buying opportunity." He judges that the market will rebound, even if there is a limited armed clash like the fighting that took place between the countries in 1999.

Most investors aim to buy low and sell high. But most end up doing the opposite because it's always easier to follow what everyone else is doing. If everyone is selling out of a market, it's a brave investor who buys in. Since tensions again started to rise between India and Pakistan in recent weeks, there haven't been many brave investors when it comes to Indian stocks.

Time to Buy?

Bombay Sensetive Index daily closes



Source: Thomson Financial Datastream

There certainly seems reason for pessimism. After the Pakistan missile tests, Mr. Vajpayee responded by again accusing Pakistan of backing terrorism in India. "The world community should understand that there's a limit to India's patience," he said in a nationally televised speech Sunday.

Right now, the market is trading on "maximum fear," says Mr. Thorn. But if anything less than an all-out war results from the current tensions, he expects to profit from that fear.

History is on Mr. Thorn's side. In 1999, Pakistani troops moved into disputed Indian territory in Kashmir near the town of Kargil. India responded by sending in its troops, the Pakistani military readied its nuclear arsenal, and over the next two months thousands of soldiers from both sides died in the fighting. On May 28, a few days after India started trying to force Pakistani troops from positions high in the mountains near Kargil, the Sensex hit a low of about 3773. But markets began to rally well before Pakistani troops withdrew about two months later. By July, as the conflict wound down, the Sensex was hitting all-time highs of about 4542, up about 20% from the lows.

"After the initial worry about the fighting started, the market barreled back up," says Mr. Thorn. Investors tend to overreact, especially when a market is moving on fear. In 1999, when investors realized that it remained business as usual for most companies even after the firing started, they began buying again.

This time around, a peaceful solution is more likely because the U.S. has an even greater reason to see the two sides back down from a war.

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