

Investing in a Bi-Polar World

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Who Is Robert And Why Should We Care?

- **Former global macro trader at Goldman Sachs Hedge Fund Strategy Group.**
- **Professional trading experience in international equities, currencies and commodities markets.**
- **Absolute Return Capital Advisors: Started fixed fees money management firm that applies multi-strategy investing for private managed accounts.**
- **Editor of *China Strategy* and *Asia Edge*, two top investment newsletters. Author of *China Fireworks*, Amazon bestseller.**

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What Is Your China Strategy?

- Every investor needs to have a strategy incorporating China's emergence.
- May or may not include investing in Chinese stocks
- More important than ever to understand a global economy dominated by G2 – U.S. and China

China Buying = Higher Prices

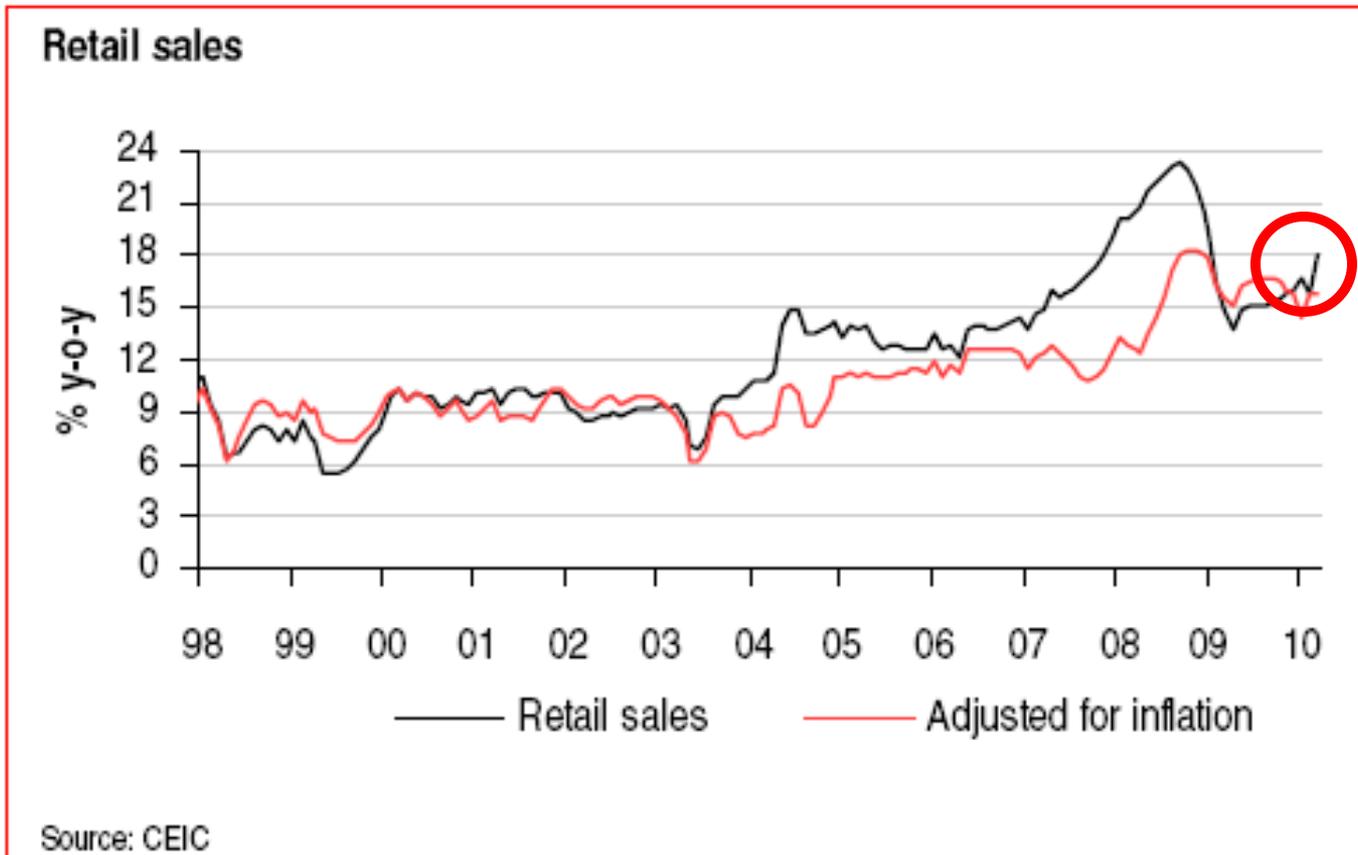
| Prices | 2/08 | Today | Change |
|---------------|--------|---------|--------|
| Beijing Condo | \$1M | \$2.25M | +125% |
| Copper | \$3.50 | \$4.50 | +48% |
| Gold | \$920 | \$1,380 | +50% |
| Oil | \$90 | \$88 | -2% |
| LA House | \$3M | \$2.25M | -25% |
| LA CN House | \$2M | \$2.2M | +10% |

China Macro Picture

- Growth recovery remains firmly on track
- Money and credit growth remains at a healthy level
- Money supply up sharply
- Inflation picking up
- Chinese Yuan less undervalued
- Huge wealth created at the top

Rising Consumption

- Sharp increase of Retail Sales in 2010, up 16%



Aging Population in Developed Economies

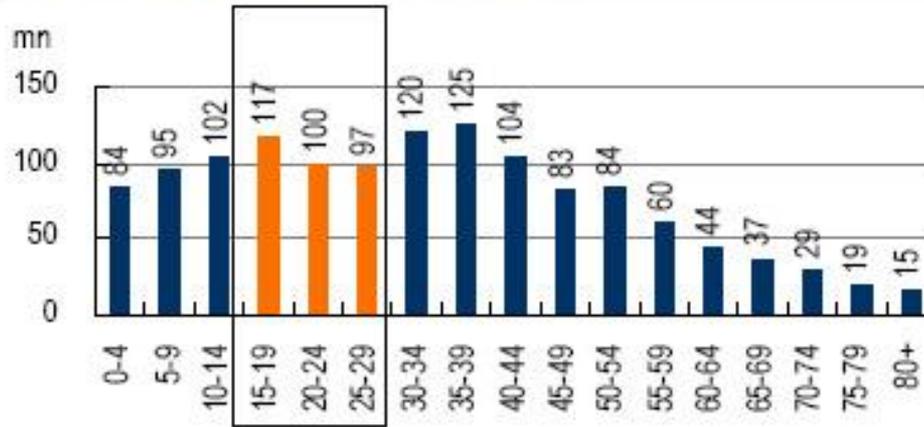
- Population in developed countries is aging: The percentage of people over 60 years-old is increasing rapidly in Europe, Japan and the U.S.
- Currently there are about 5 workers for every retiree in the U.S. system. As baby boomers retire, by 2030, the ratio will drop to 3 workers supporting every retiree - not a recipe for economic growth or bullish stock market.
- Less than 50% of Americans are under 40 years-old
- This happened in Japan between 1990 and 2007. The Japanese stock market is down 65% during this time.

China Real Estate

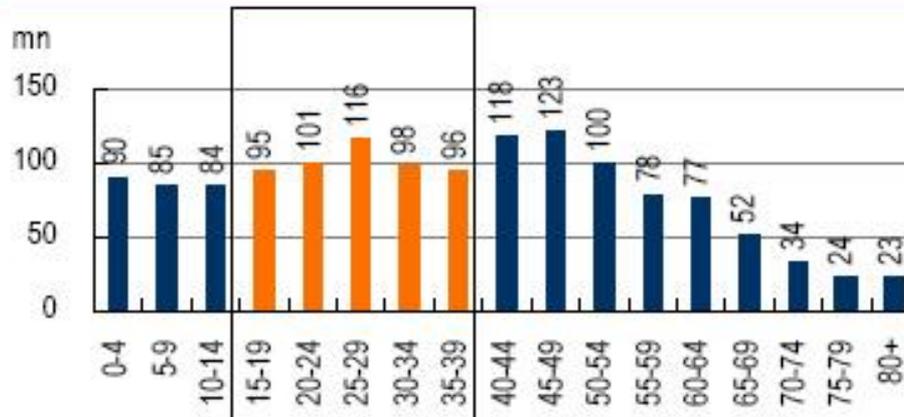
- Driven by urbanization
- Price up over 100% since 2008
- Boom slowing down, but long term trend up.
- Low carrying cost makes residential real estate the favored investment asset class.
- Risk is in commercial real estate.
- Half of demand from investment
- High vacancy rate, low leverage

China Demographic Profile: 944 million people under 45 (73% of total)

China Demographic Profile by Age, 2005



China Demographic Profile by Age, 2015E



Rise And Fall Of Great Powers, 500 Years

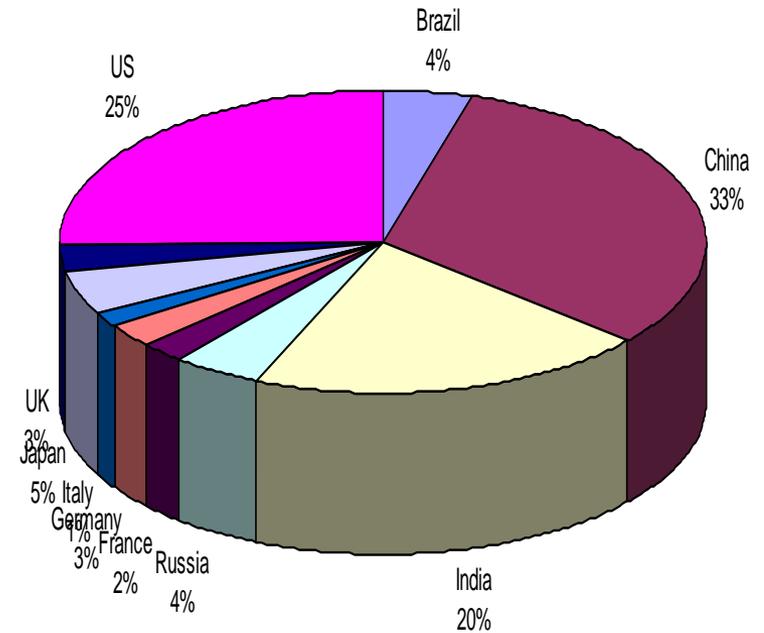
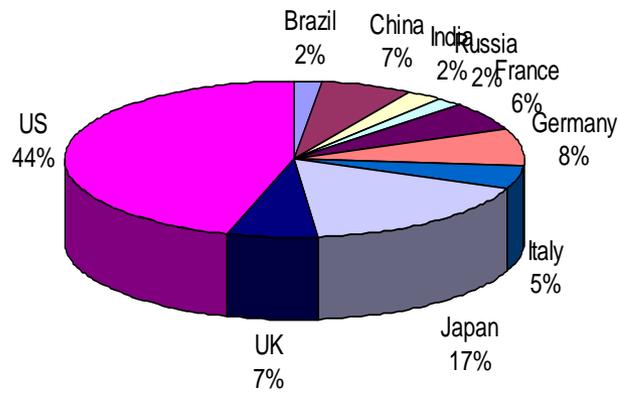
- **16th Century** **Spain**
- **17th Century** **France**
- **18th Century** **Netherlands**
- **19th Century** **Great Britain**
- **20th Century** **United States**
- **21st Century** **?**

History shows that great powers tend rise and decline every century.

Rise of the BRICS

- **Internet and fall of Berlin Wall accelerated globalization trend.**
- **Multinational firms have little national loyalty**
- **In October 2003, Dominic Wilson and Roopa Purushothaman of Goldman Sachs wrote a paper that shook international finance circles titled: *Dreaming With BRICs: The Path to 2050.***
- **BRIC- an acronym for Brazil, Russia, India and China- are the four largest emerging market nations in the world.**
- **According to the paper, BRIC economies will overtake G6 countries and challenge the U.S. as the largest economic power in the world.**

Goldman BRIC paper: Global GDP Share: 2005 vs. 2050



3 China Misconceptions

- China can not grow without rise in exports.
Domestic consumption and investments are more important now, 1.3 billion consumers.
- High real estate vacancy is a sign of bubble.
Many properties owned by investors are left empty on purpose, no property tax in China.
- China is a socialist country.
For the past 25 years, the country's focus is on wealth creation. Benefit the ruling class.

China's share of world population and GDP

| Year | Population (m) | % World Population | % World GDP |
|------|----------------|--------------------|-------------|
| 1000 | 59.0 | 22.00 | 22.77 |
| 1500 | 103.0 | 23.53 | 25.01 |
| 1600 | 160.0 | 28.79 | 29.14 |
| 1700 | 138.0 | 22.87 | 22.29 |
| 1820 | 381.0 | 36.60 | 32.93 |
| 1870 | 358.0 | 28.19 | 17.23 |
| 1913 | 437.1 | 24.41 | 8.92 |
| 1950 | 546.8 | 21.66 | 1.2 |
| 1973 | 881.9 | 22.54 | 1.15 |
| 1998 | 1242.7 | 21.04 | 3.52 |
| 2009 | 1332.5 | 20.53 | 8.92 |

Why Invest In China

| | China* | U.S.* |
|---------------------------------|---------------|---------------------------------|
| Economic growth, 25 yrs | 9.7% | 3.2% |
| Stock Performance, 2000- | +400% | -20% |
| Currency, 2000- | Up 17% | - |
| Earnings Growth 2010 | 25% | depends on credit market |

U.S. stocks outperformed in first half, but I expect China to catch up in the second half as credit tightening fears ease.

*Chinese stocks based on Hang Seng China Index, U.S. based on S&P 500

Source: Bloomberg

China At A Glance



Our China Investing Philosophy

- **The Chinese people, not the government, is the real driving force behind the China Miracle.**
- **China may become the world's largest consumer market, but it is already the world's most competitive market.**
- **Bet on entrepreneurs, not government bureaucrats.**
- **Only invest in State-Owned Enterprises when they have special power and dominate a heavily regulated industry.**
- **Invest in Non-Chinese companies that benefit from Chinese economic growth.**

China Stocks

- ***H Shares*** - companies incorporated in China but listed in Hong Kong.
- ***Red Chips*** – companies incorporated in Hong Kong with direct or substantial indirect ownership by a Chinese state entity, listed in Hong Kong.
- ***B Shares*** – companies incorporated in China and listed in Shanghai or Shenzhen. Available to foreign investors and domestic investors who hold foreign currency.
- ***A Shares*** – companies incorporated in China and listed in Shanghai or Shenzhen. NOT easily available to foreign investors, shares are denominated in renminbi.
- ***China Plays*** – companies incorporated offshore with significant amount of businesses coming from China.
- ***China ADRs*** – companies incorporated in China with bank issued certificates traded in U.S. exchanges backed by company shares

Bullish Factors

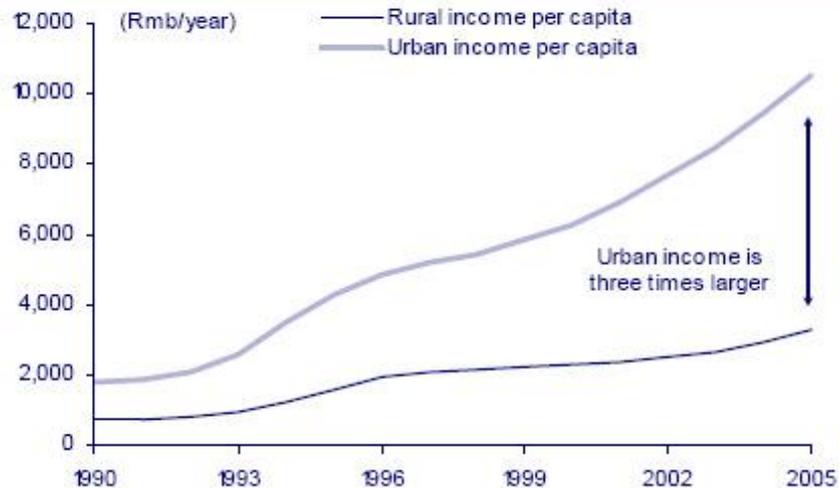
- **Currency: Chinese Yuan Expected To Rally 5% Per Year**
- **Economic Recovery: Strongest in the world, growth about 10%, down from 12% in Q1.**
- **Earnings Growth: Average 15% to 20%**
- **Easy Money Worldwide**

Risks of Investing in China

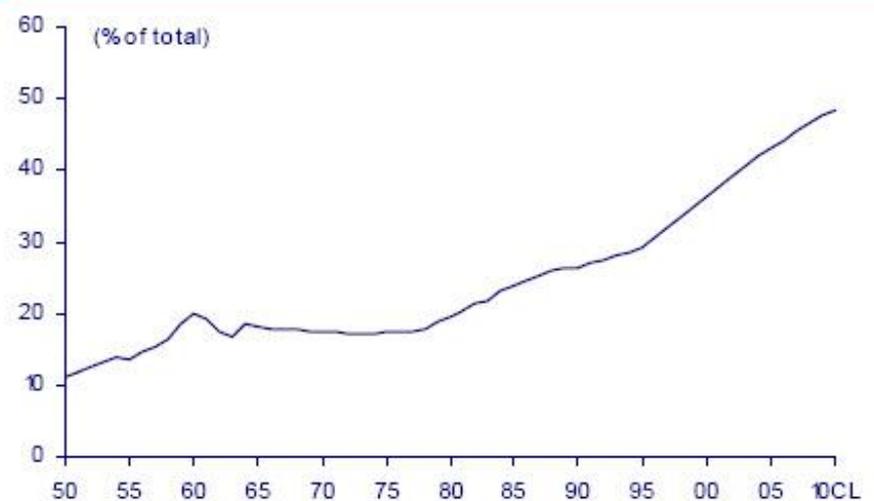
- **Disparity of Wealth Between Urban and Rural Residents**
- **Excessive Loans**
- **Misallocation of Resources**
- **Environmental Issues : Water shortage, dirty air.**

A multi-year growth story: China's income growth trends and urbanization trend – even rural peasants are better off

China's income growth trends



China's urbanisation trend



Rise of a New Global Consumer Class

Number per 100 urban households

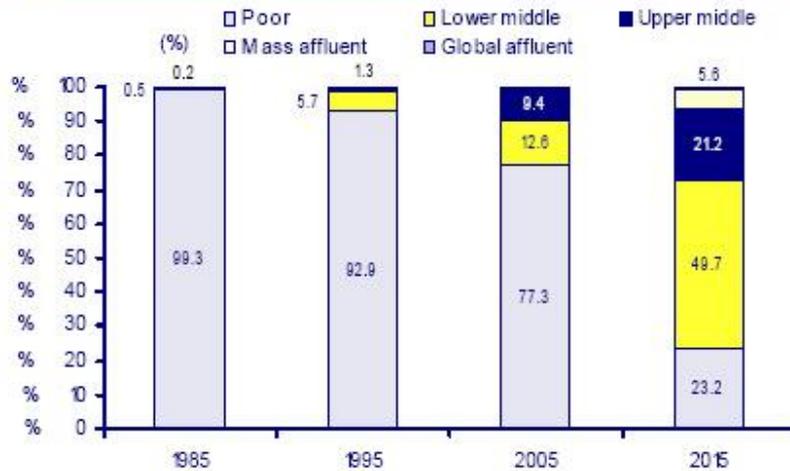
| | Refrigerators | Color TVs | Autos | Computers | Cell Phones |
|-------------|----------------------|------------------|--------------|------------------|--------------------|
| 1985 | 6.6 | 17.2 | - | - | - |
| 1990 | 42.3 | 59.0 | - | - | - |
| 1995 | 66.2 | 89.8 | - | - | - |
| 1999 | 77.7 | 111.6 | 0.3 | 5.9 | 7.1 |
| 2000 | 80.5 | 116.7 | 0.6 | 9.4 | 18.3 |
| 2001 | 82.2 | 119.9 | 0.8 | 12.5 | 30.6 |
| 2002 | 87.4 | 126.4 | 0.9 | 20.6 | 62.9 |
| 2003 | 88.7 | 130.5 | 1.4 | 27.8 | 90.1 |
| 2004 | 90.2 | 133.4 | 2.2 | 33.1 | 111.4 |

The China Consumer Boom

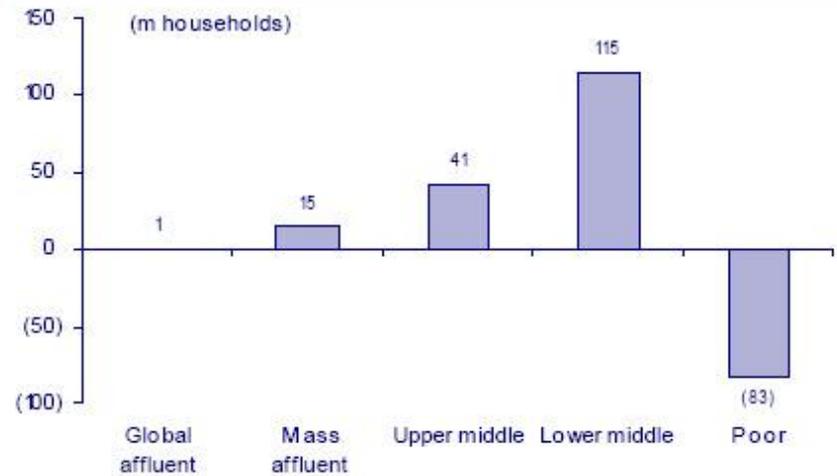
- **Strong income growth 10%+ a year since 2001**
- **International banks operating in China.**
- **Wealth in China controlled by people <45 years old.**
- **No recollection of hard times from the cultural revolution.**
- **Young professionals are getting new pre-approved credit cards**
- **Number of credit cards in China doubled in past 12 months.**
- **In 2007, domestic consumption surpassed exports and investments as main growth engine.**

An emerging middle class

China household breakdown by income level



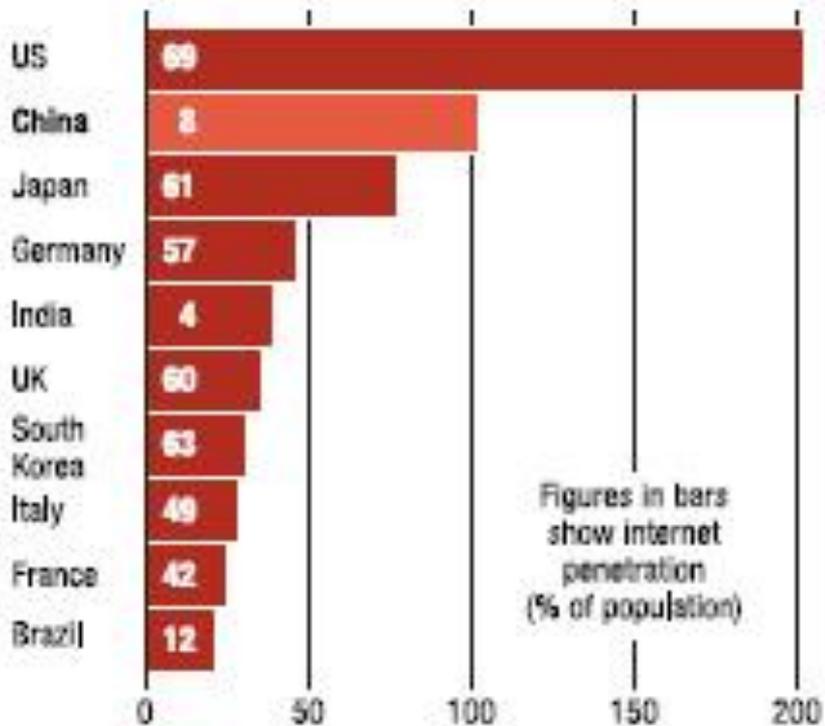
Net change in # of households (2005-2015)



China's Internet users

Internet users: top 10 countries

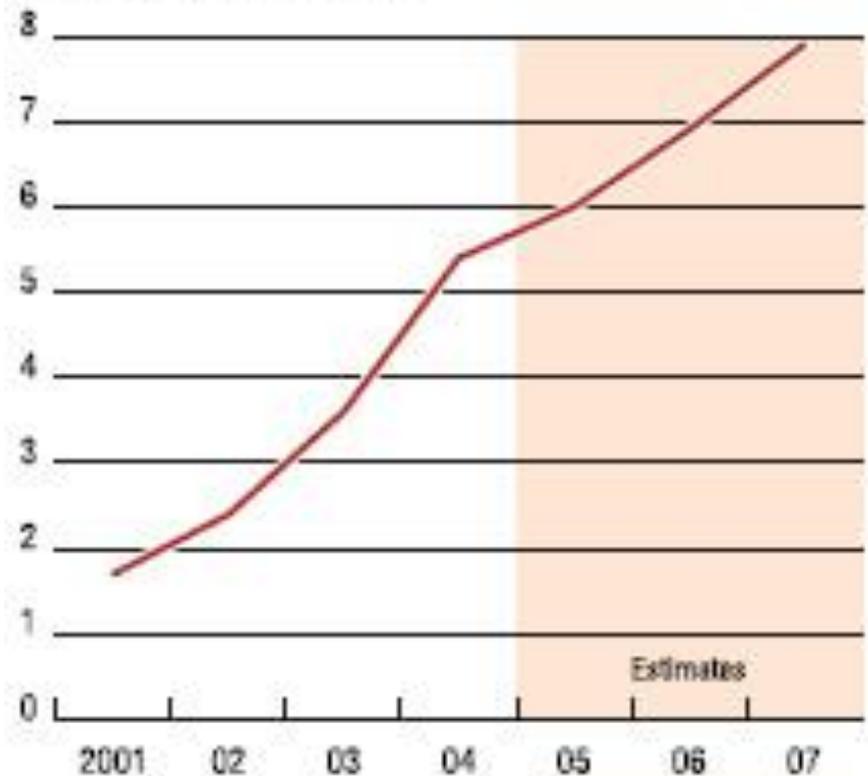
Millions



Sources: Internet World Statistics (from national sources); iResearch

Chinese online shoppers

As a % of total internet users



Recommendations

1) Oil – CNOOC (CEO), offshore oil exploration and production, government backed SOE

2) Internet – Ctrip (Ctrp)

Retirement Income

Brazilian Government Bond

- 12% coupon, 10% yield pays, pays in real
- Brazilian real highly correlated to commodity prices, acts as inflation hedge
- Currency up 40% since 2008
- Maturity 2016, before Rio Olympics
- Minimum purchase \$250,000
- ARCA can buy smaller amount for clients

What To Do Now?

- Understand that the world is changing
- Invest in economies that are growing rapidly, like China. Less upside in slow growth economies.
- Invest for income as well as growth
- Consider hiring a professional money manager

Our Investment Programs and Objectives

- Global Income: Double digit return with lower risk than S&P 500. Up 7.4% YTD
Up 17% in 2010, Up 21% in 2009
- Natural Resources: Inflation hedge. Up 8.2% YTD, Up 21% in 2010, Up 36% in 2009
- China Focus: Focus on Chinese growth stocks
Up 8.4% YTD, Flat in 2010, Up 88% in 2009

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