

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

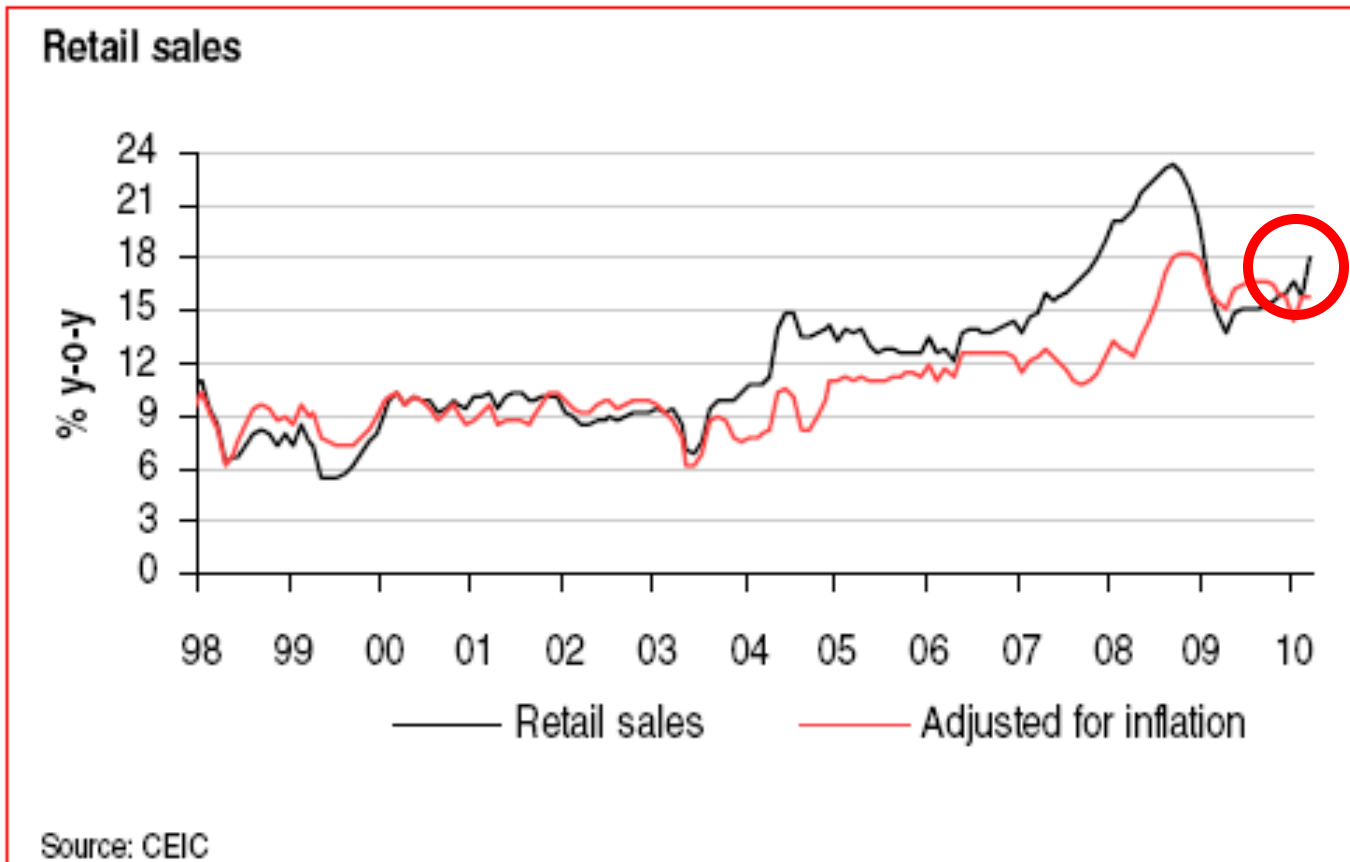
Prices	2/08	Today	Change
Beijing Condo	\$1M	\$2.25M	+125%
Copper	\$3.50	\$4.50	+48%
Gold	\$920	\$1,380	+50%
Oil	\$90	\$88	-2%
LA House	\$3M	\$2.25M	-25%
LA CN House	\$2M	\$2.2M	+10%

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

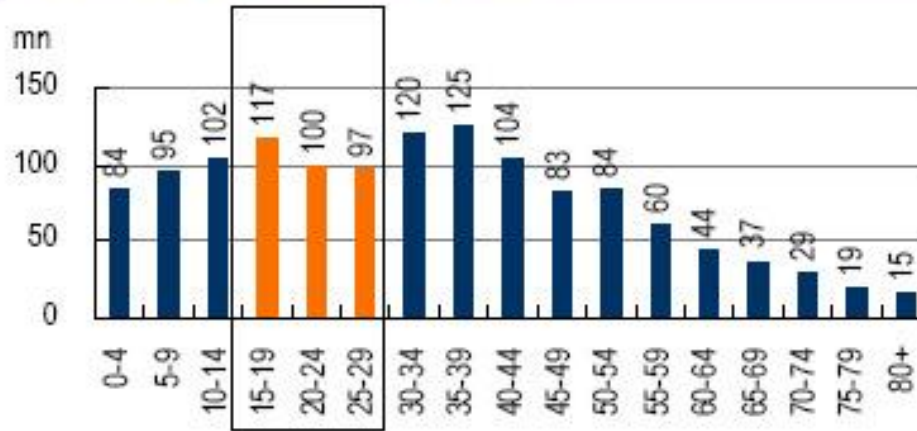
- Population in developed countries is aging: The percentage of people over 60 years-old is increasing rapidly in Europe, Japan and the U.S.
- Currently there are about 5 workers for every retiree in the U.S. system. As baby boomers retire, by 2030, the ratio will drop to 3 workers supporting every retiree - 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

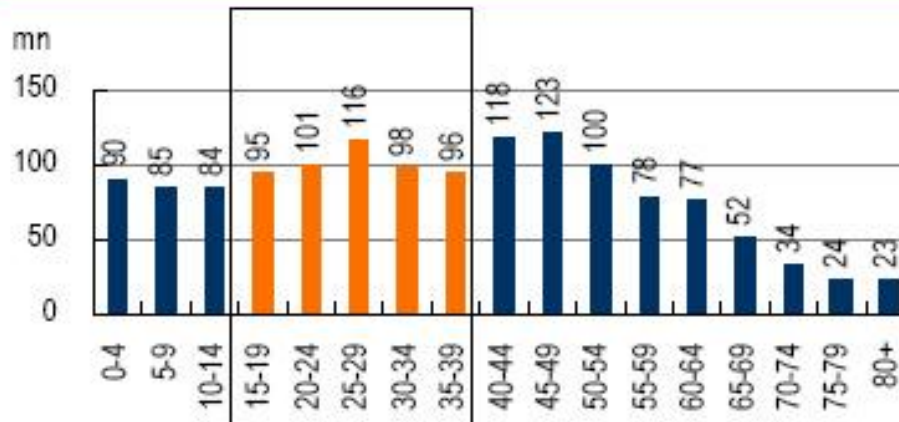
- Driven by urbanization
- Price up over 100% since 2008
- Boom slowing down, but long term trend up.
- Low carrying cost makes residential real estate the favored investment asset class.
- Risk is in commercial real estate.
- Half of demand from investment
- High vacancy rate, low leverage

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

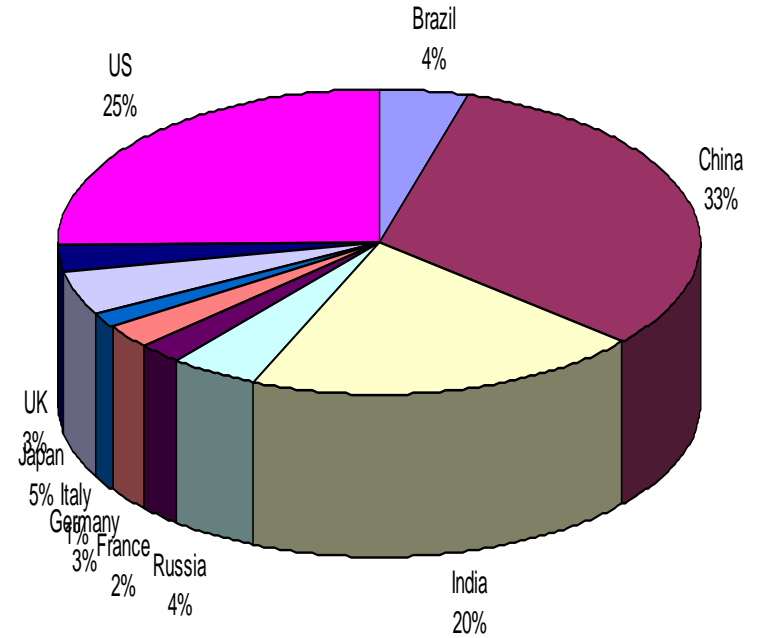
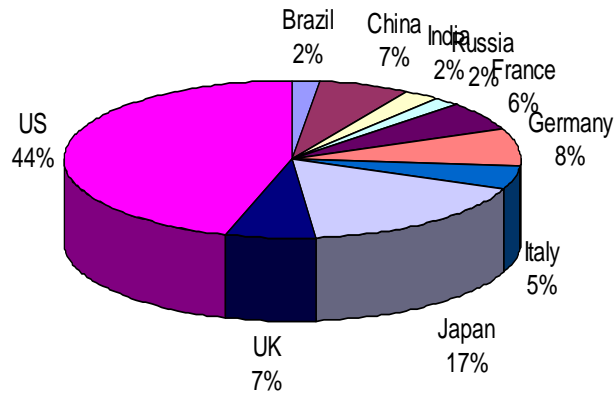
- **16th Century** **Spain**
- **17th Century** **France**
- **18th Century** **Netherlands**
- **19th Century** **Great Britain**
- **20th Century** **United States**
- **21st Century** **?**

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

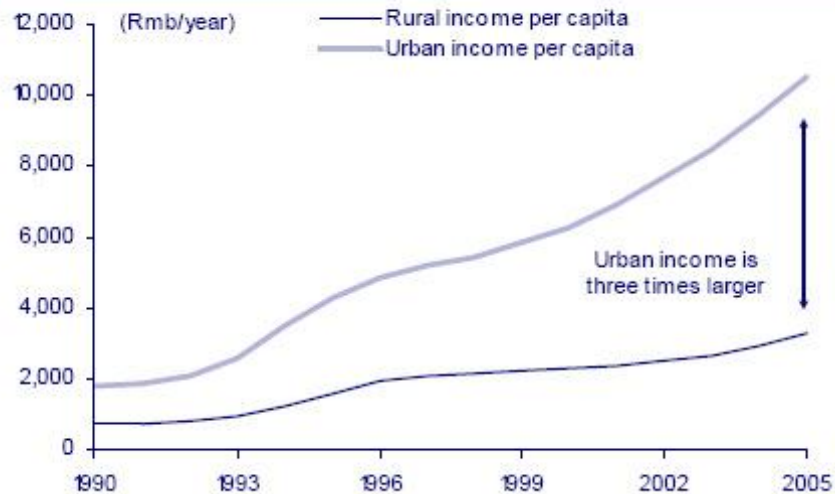
- **Currency: Chinese Yuan Expected To Rally 5% Per Year**
- **Economic Recovery: Strongest in the world, growth about 10%, down from 12% in Q1.**
- **Earnings Growth: Average 15% to 20%**
- **Easy Money Worldwide**

Risks of Investing in China

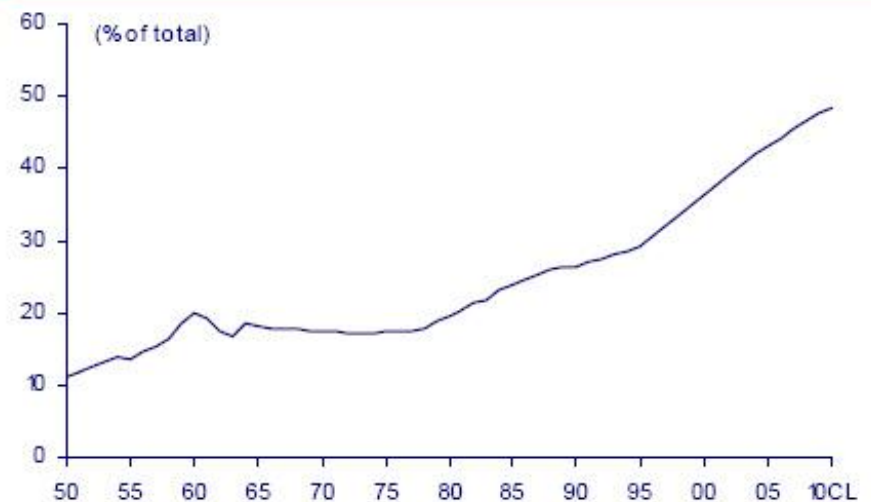
- **Disparity of Wealth Between Urban and Rural Residents**
- **Excessive Loans**
- **Misallocation of Resources**
- **Environmental Issues : Water shortage, dirty air.**

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

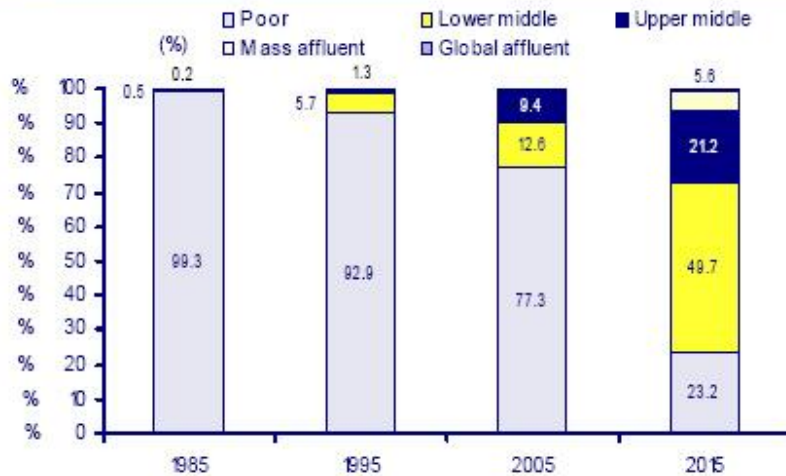
	Refrigerators	Color TVs	Autos	Computers	Cell Phones
1985	6.6	17.2	-	-	-
1990	42.3	59.0	-	-	-
1995	66.2	89.8	-	-	-
1999	77.7	111.6	0.3	5.9	7.1
2000	80.5	116.7	0.6	9.4	18.3
2001	82.2	119.9	0.8	12.5	30.6
2002	87.4	126.4	0.9	20.6	62.9
2003	88.7	130.5	1.4	27.8	90.1
2004	90.2	133.4	2.2	33.1	111.4

The China Consumer Boom

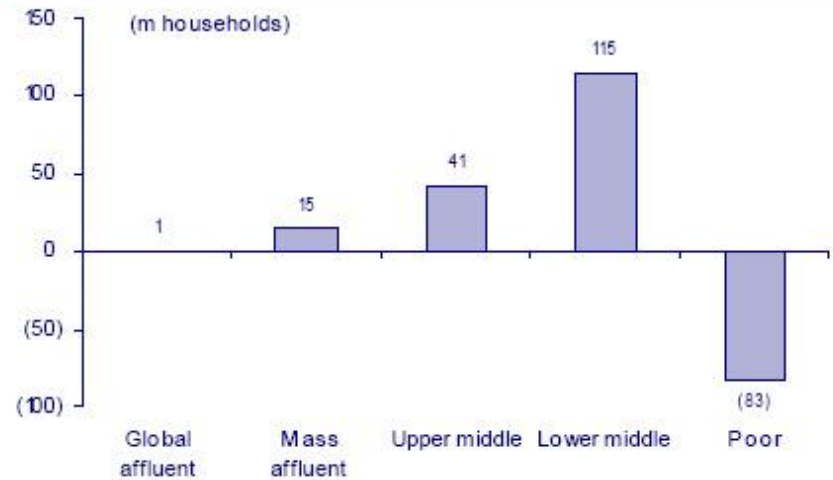
- **Strong income growth 10%+ a year since 2001**
- **International banks operating in China.**
- **Wealth in China controlled by people <45 years old.**
- **No recollection of hard times from the cultural revolution.**
- **Young professionals are getting new pre-approved credit cards**
- **Number of 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



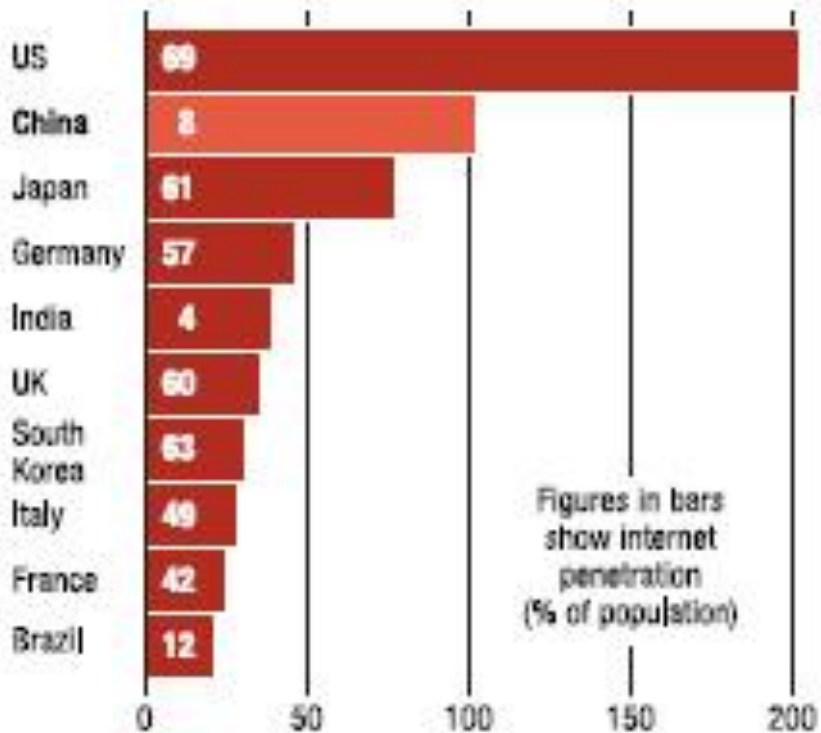
Net change in # of households (2005-2015)



China's Internet users

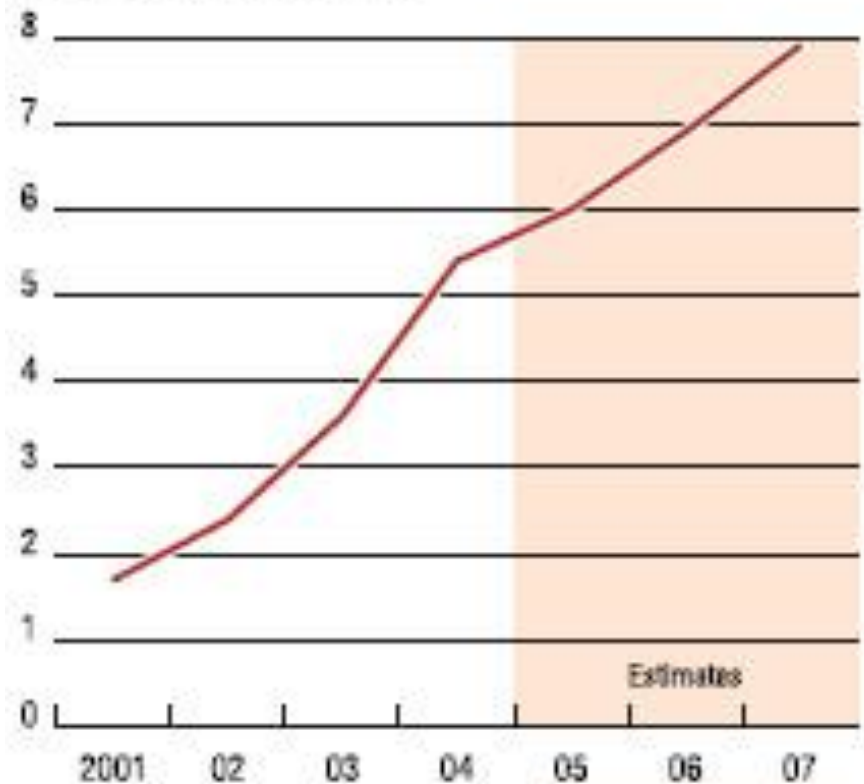
Internet users: top 10 countries

Millions



Chinese online shoppers

As a % of total internet users



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

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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