

## >: How to Invest in China

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Another huge year of growth in China!

Chinese GDP grew at the fastest rate since 1995: 10.7%. This is incredible growth for any economy, but for one as vast as China's, it is truly phenomenal. The published inflation rates were at only 1.5%, but quite frankly, I don't know how credible a number that really is. It would be quite a feat, indeed, if it were true.

With such a torrid growth rate, inflation must surely follow, and the pressure will be on China's central banks to raise rates. Still, when you're growing at a double-digit rate, a little slowing of the economy is a good thing. Most notably, fixed asset investments, i.e. factories, commercial buildings, transportation infrastructure etc., grew at a frenzied rate of 24% year over year. This huge demand should lend strong support to the global commodity markets, and at this time, it does not appear that China's appetite for all things industrial is anywhere near to being sated.

Long story short, the China story is still very much intact. Of course, there will be scares along the way. It is the nature of all economic expansions, but those will be buying opportunities.

***The three prime areas that you want to focus on are those companies that are tied into the buildout of China's infrastructure in some way, strong consumer brands that are deeply tied into the general Chinese population, and financial companies.***

These three areas will be engines of solid earnings growth for the next several years. It would be unfair to the paying members of my newsletter, *Point & Profit*, to reveal specific picks here, but I want to give you some hints as to where you should be looking.

One of the keys to investing in China is to go with the leader in the space. It's a good bet that they got that way not just because of business smarts but political smarts, as well. Graft is an everyday reality of doing business in China, and political connections are everything. By going with the market leader, you stack the odds in your favor that the company has excellent contacts with the right Chinese ministers.

Also try to focus on those companies that have stocks actively traded on US exchanges and strong US institutional sponsorship. Chinese stocks that are actively owned by US funds are another safety measure that you can apply to help manage your risk. A good place to find ideas is to check the top five holdings of major US-run China funds. This can give you a good list of viable names of stocks to look at and to research on your own.

A quick perusal of Morningstar.com will allow you to isolate those China-focused funds that have been the top performers. There is no shame in piggy-backing other peoples' brains, and all traders do it! I am not ashamed to admit that in the past, I have discovered some huge winners using this same approach, because my attention was drawn to companies that I never would have found on my own.

I'm not suggesting that you blindly buy the top performing China Funds holdings. What I am sharing with you is a way to create a short list of viable investment candidates that you can further research for yourself.

Another great source of names to look at are country-specific Exchange Traded Funds. The ETF providers have a ton of money riding on creating robust ETFs, and the research into securing the component companies in the respective country ETFs is extensive.

In the past, I have found some terrific winners this way in countries where I had no clue where to look for a good investment idea. A quick Google search using the terms 'china etf' will deliver a plethora of results.



Teeka Tiwari  
Chief Investment Officer

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