

BACK TO BUSINESS



Illustration: Lau Ka-kuen



THE VIEW
RICHARD HARRIS

Calling the bottom

Now is the time to make the big conviction call – that the bias should be to buy Chinese stocks

Bill Miller of Legg Mason went from investing rock star to has-been during the global financial crisis when he was caught with too many financial stocks. One bad patch doesn't impact a highly successful 30-year career, but as a friend of his said, "when things are going well, you are a genius. When they are going badly, you are a dope".

Fund managers share a characteristic with football managers and politicians: their careers always end in failure. Top investment managers have always had an aura of super intelligence, while dressed in a cloak of luck. Which can run out.

This not to say that good investors don't work hard, are not smart, or don't piece the evidence together like a detective – but to outperform, you occasionally have to make conviction bets. Your money needs to be posi-

Time to buy?



tioned just right to benefit from your insight. The bigger the bet, the bigger the risk to your overall portfolio, so it is usually those playing with their own money that can wager with the most conviction.

The big call that made George Soros famous was to bet against the pound in 1992. He was short-

ing the currency by some US\$10 billion (mostly borrowed money) knowing that the UK only had US\$15 billion to defend it. He became the first man to make US\$2 billion on a trade by not only carefully thinking it through, but also by deciding to put all of his chips and more on it.

Much more common however are the stories of the "Masters of the Universe" who bet on their big call – and plummeted to earth like Icarus. LTCM failed in 1998 with two Nobel Prize winners in support. Many hedge fund managers have found that a changing market environment (say bull market to bear) just doesn't suit them anymore so they shut up shop.

And if you have made a fortune on your previous bets sufficient for you and your children and your children's children, why not retire "to spend more time with the family"?

So now is the time to make our big conviction call: that the Chinese domestic stock markets are nearing the bottom. Does that mean buying? Perhaps not just yet; but the bias should be for the buy, rather than the sell tickets.

This call may be brave in the light of the recent tumble but, on the evidence of the chart, we look to be within 10 per cent of the bottom. The horizontal line cuts through the previous highs back in 2010 and the plateau early this year and that gives strong support around the 3,300 level.

Charting is an excellent tool in a market known for its emotional volatility and separation from the fundamentals. Of course if we get it badly wrong, the next support level is defined by the sloping line, which shows that the target support is not reached until 2,130 on the index, 30 per cent lower.

Any investment decision contains a little faith; a moment



George Soros was the first to earn US\$2 billion on a trade. Photo: EPA

when you have to suspend disbelief before you can take action.

We can gain some assurance from the fundamentals. A number of factors are moving in China's favour, including better global growth and falling commodity prices. A further fall of 30-odd per cent implies that the Chinese economy has lost all of the economic value that it made since the global financial crisis. That seems unrealistic.



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China's move from central control to a market-led economy is like stepping into a boat. You have to be careful that you shift your weight from the land to the boat quite deliberately or you will get wet. At the moment, we are being splashed by the unforeseen consequences.

For instance, until recently, the government has encouraged margin lending to support the stock market but it has also amplified the recent falls, as shares were dumped in fire sales to pay off debt. The market will remain volatile and those who can pick the turning points will be rewarded.

This call is not such a big one if you have a sensibly diversified portfolio but is it an important one for Asian or Chinese investment decisions – or you too may be "spending more time with the family".

Richard Harris is chief executive of Port Shelter Investment Management