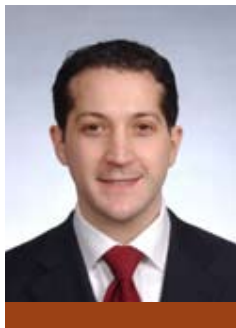


Wading in

Is it time to put your money in Chinese markets?

By **Anthony Noto**



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Many expatriates move to China because they and their companies are firm believers in the future of China and its role in the global economy.

Once on the ground here, expatriates experience the progress and see the dramatic changes firsthand. The level and pace of growth is unprecedented in scale, and many people working here naturally want to invest part of their savings in China to get a bigger piece of the action.

Countless books have been written on the reasons to be optimistic about China's future. Economic liberalisation is spurring massive wealth creation, and some are forecasting China's economy to overtake the US as the world's largest in less than 20 years. China has a high savings rate, large reserves, and plenty of opportunity.

In addition, the Chinese economy has shown itself to be resilient through difficulties such as the Asian crisis and even

the current debt crisis, with the Shanghai Composite up over 80 percent year to date.

How to invest

Institutional investors and high net worth individuals have a wide range of choices for investing in China – such as China-focused private equity funds, hedge funds, venture capital funds and individual stocks.

For the majority of expatriates, however, these investments are unsuitable as they typically have high minimums, poor liquidity and/or a very high level of risk. Therefore, low cost mutual funds and Exchange Traded Funds (ETFs) are the best options for most expatriates that would like to invest in China. An ETF is a security that tracks an index, a commodity or a basket of assets (like an index fund), but trades like a stock on an exchange.

Ironically, foreign investors that want to invest here are best served by funds based outside China. Hong Kong offers a num-



DUE CAUTION: Expatriates should be wary of investing too much in one market

ber of China-focused ETFs and is a more mature market than Shanghai or Shenzhen. China-focused ETFs traded in Hong Kong are made up of H-shares and Red Chips.

The difference between H-shares and Red Chips is that H-shares are mainland-registered while Red Chips are not. China-focused funds are also available in Europe.

For example, Deutsche Bank offers a FTSE/Xinhua 25 Index ETF in Italy, Germany and Switzerland. Lyxor, a unit of Société Générale, offers the China Enterprise Index ETF available in France, Spain, Italy, Germany and Switzerland.

How much to invest

As a global citizen looking at a global investment environment, determining the proper amount to invest in China should be based on a number of factors.

The current weighting in terms of global market capitalisation is a good starting point to consider in deciding how much to invest in any given country. To put this in perspective, China's weighting in the world markets was 2.1 percent in May 2009 according to S&P. The majority of Chinese shares are still not freely traded.

Aside from technical elements such as China's current weighting in world markets, the proper amount to invest is also based on personal factors such as investor needs and risk tolerance.

For example, an expatriate that plans to retire here might choose to hold more Chinese equities to better address currency risk.

Diversification is another impor-

tant factor to keep in mind. China's prospects are attractive, but it is important to recognise that it is still an emerging economy with its share of issues to work through, such as its banking system, a massive overhang of state-owned shares, possible commodity shortages and exposure to inflation, to name but a few.

Use caution

Despite perceived risks, diversifying geographically can lower overall portfolio volatility – particularly as China's economy grows to be less dependent on exports. This means that a portfolio that includes Chinese stocks could be less risky than one without such stocks.

Expatriates captivated by the growth occurring around them sometimes want to invest a significant portion of their savings in China. When deciding to move here, expatriates have already invested their greatest income generating asset in China – themselves. Putting too much savings in Chinese stocks on top of living and working here leaves income and savings in an unnecessarily vulnerable position, as they share too many interrelated risks.

As an example of how dangerous this can be, when the American energy company Enron imploded in late 2001, many employees lost their jobs and, at the same time, watched their savings held in company stock collapse.

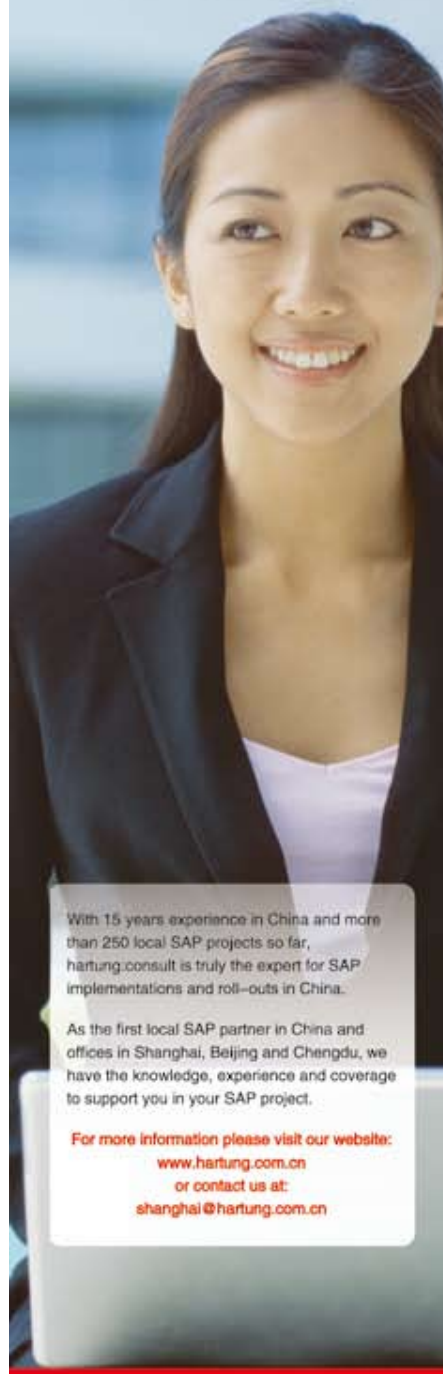
Diversification is a fundamental principle in growing and maintaining personal wealth. Emerging markets like China can be a valuable addition to a portfolio, but expatriates should not get carried away. ■

China-Focused exchange-traded funds listed in Hong Kong

Code	Fund Name
2801	iShares MSCI China Tracker
2823	iShares FTSE/Xinhua China 50 Index ETF
2827	W.I.S.E. CSI 300 China Tracker
2828	Hang Seng H-Share Index ETF
2838	Hang Seng FTSE/Xinhua China 25 Index ETF
3024	W.I.S.E. SSE 50 China Tracker

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