Subject: The China opportunity is huge
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CSH Investment Management LLC

The Great China opportunity

Investment	Revenue Outside of Home Country
Chinese Tech (KWEB)	3%
Chinese A-Shares (KBA)	8%
S&P 500	28%

www.stansberryresearch.com Source: KraneShares

The China trade war gets all the headlines. And Chinese stocks have indeed suffered. The result in my opinion is a unique buying opportunity. Let me explain.

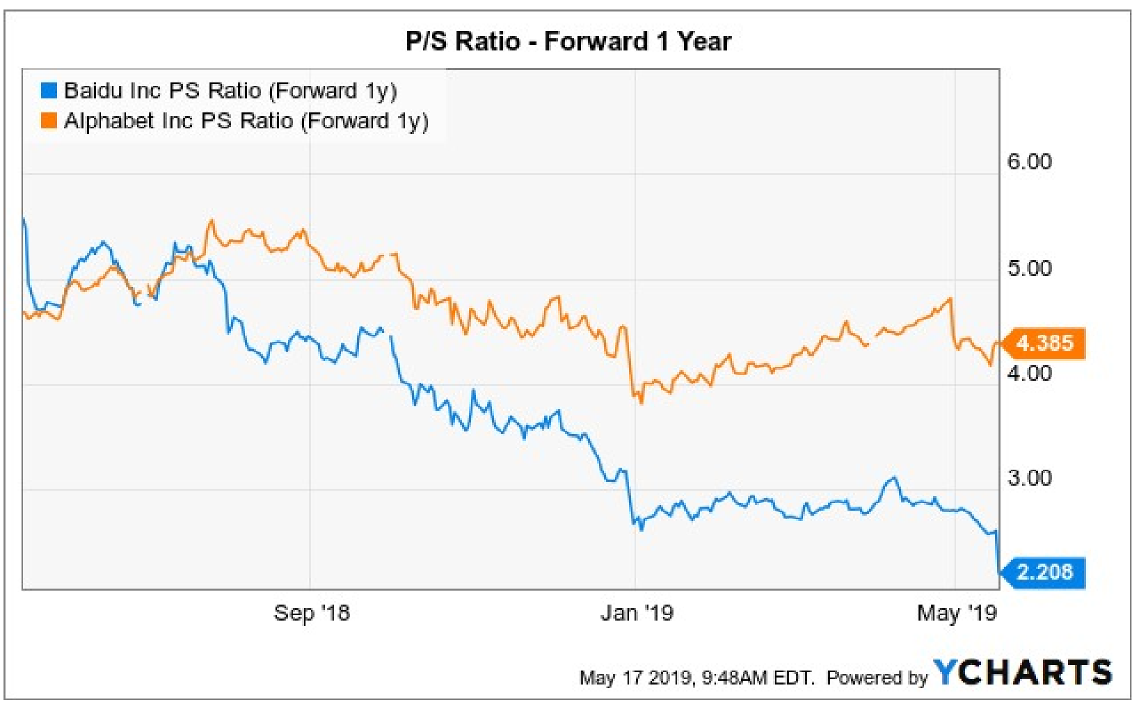
The reality is the most prominent Chinese companies get hardly any revenue at all from the U.S. or the rest of the world for that matter. The table above illustrates this quite well. Chinese tech companies get 3% of their revenue from outside of China. But the market has hammered such powerhouses as Baidu and Alibaba anyway.

As I've indicated before China stocks will be added to the international indexes over the next decade. In fact yesterday the MSCI index added its first round of A shares this year purchasing $16B in A-shares.. There will be two more rounds before year end. Even Wall Street firm Morgan Stanley is getting in the act publishing a report that $100B-$220B every year for the next 10 years. (Uh...your a little late Morgan Stanly we've been talking about this for a year) Anyway Wall Street is always behind the curve, however the point is our investment thesis is going mainstream.

There are two other catalysts in place for a decade long bull market in China. It seems that China's one child policy has left their social security system severely underfunded. The Chinese government understands they need more growth. So late last year they announced that their pension system would be opening up to allocating as much as 37% of their assets into China A shares. The math on this is pretty simple another $1Trillion. It just makes sense really why not buy China shares now and front run the rest of the world. Pretty astute in my opinion.

And also late last year China announced they will be opening up their own modern stock market. You see in the past companies such as Alibaba and Baidu had to come to market in the U.S. That's why they trade on NASDAQ. China did not have a mechanism for them to raise money. Now they will. Now young Chinese companies can come to the public markets without leaving their home country. Morgan Stanley estimates in total over the next decade $2-3 Tr in Chinese stocks will be purchased. (Thanks Morgan Stanley your so cutting edge).

But wait there's more. Not only is there huge tailwinds but Chinese stocks are cheap. Especially relative to the U.S.



Above is the Price to Sales ratio of Baidu compared to Alphabet, the parent company of Google. They're comparable because they pretty much do the same thing. As you can see last summer both stocks traded at nearly identical

P/S ratios. Fast forward to today and Baidu trades for almost 1/2 of Alphabets valuation. In other words the stock's valuation has dropped 50%. Now understand that ratios have limitations. I would not ever buy a stock based on P/S. However it does tell us a value of one stock or industry or market relative to another. This is because P/S is a gross number. It doesn't take into account expenses, capital improvements and so on. But it is very clean and can't be manipulated unlike other ratios.

Let's look at another chart.

	P/BV Ratio	P/S Ratio	P/E Ratio
S&P 500	3.3	2.1	18.4
Chinese H-Shares	1.0	1.0	8.4
Discount	-69.7%	-52.4%	-54.3%

www.stansberryresearch.com Source: Bloomberg

On the top line we have 3 ratios. Price to Book value ratio, Price to Sales ratio, and Price to Earnings ratio. The first data line is the S&P 500, a great proxy for the U.S stock market. Note the values. S&P 500 stocks sell for 3.3 times book value, 2.1 times sales, and the most common ratio you hear 18.4 earnings. These are all fairly high based on historical numbers, but that is not the point. The second data point is Chinese stocks that trade on the Hong Kong exchange. Remember foreigners can't buy A shares just yet but they can buy shares in Hong Kong. These are H shares. As you can see Chinese shares are very cheap in relation to the U.S. By almost any metric China shares are half as expensive as U.S. stocks.

To understand the historical significance of those metrics you need to realize that the last time the U.S stock market sold at 8.4 times earnings was 1982. Yep, its been almost 40 years since the U.S market was a cheap as China's. And what happened then?

What followed was a 35 year bull market for stocks and bonds. From 1982 to today the financial services industry would grow 10 fold. Of course there were hiccups along the way. I'm under no allusions that it will be straight up. China has some problems as well. But you must get your head around the size of the opportunity here and the significance of the numbers.

Of course the U.S. market was bolstered by the baby boom generation entering the investing world for the first time. China's population is 4 times the size of the U.S and the total market capitalization of all Chinese stocks is smaller than the U.S. in 1982. If just a small percentage of Chinese participate and start saving and investing what do you think that will do to asset prices?

Just think what would have happened had you started investing in 1982. You would have taken some lumps for sure. There were significant draw downs over 35 years, several over 50%. What if you would have added to your investments during those drawdowns? Would you have invested knowing what you know now. Of course...…….

The China opportunity is giving you another chance.

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