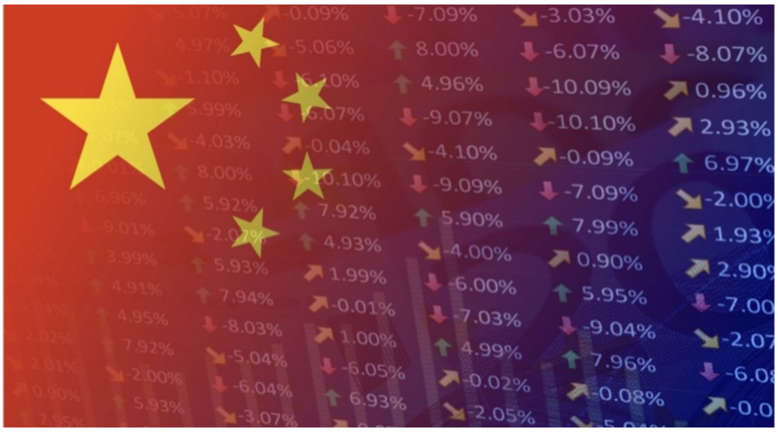
Written by **Bob Adelmann** on January 6, 2020

Money Manager Claims Now Is Time to Buy China Stocks



Eric Moffett, a portfolio manager for mutual fund giant T. Rowe Price who works in Hong Kong, told the *Wall Street Journal* on Saturday that he thinks investors should consider investing in China "because we're at a sentiment low [and] we think it creates a lot of opportunities."

It's no wonder that investor sentiment is low: Investors in the Shanghai Composite Index for the last 10 years have made nothing. Zero. Nada. And this was while China's economy was allegedly growing at better than six percent a year.

Investors suffered through government manipulations of that index, watching their accounts quintuple from the summer of 2005 to November 2007 and then lose two-thirds of their value in the following 12 months. And what did they gain for all that suffering? Nothing. The index trades today at the same level it did 10 years ago.

Manipulation was made easy as large Chinese companies and banks make up most of its capitalization. Four of the largest stocks in the Shanghai Composite Index (also known as the SSE Index) are Chinese banks controlled by the Chinese government, while the other six are insurance and energy companies also controlled by China. Most of the other companies making up the index are inefficient state-owned or –controlled companies with little incentive to make real returns for their investors.

Apologists for the Index's poor performance claim that since retail investors (most pension fund managers are wisely staying away) make up the vast majority of those invested in it, they have turned it into a "casino," treating the stocks in the index as speculative plays rather than adopting a long-term buy-and-hold strategy.

They explain further that the index's 10-year zero return is because two of the largest Chinese companies — Tencent and Alibaba — aren't included in the index (they're traded in Hong Kong and New York, respectively).

Moffett suggests that since sentiment is low, and the Index has gone nowhere for 10 years, now is the time to buy because the stocks are cheap. He fails to mention that those stocks could get cheaper. Much cheaper. For instance, Helen Oaio, chief economist at Bank of America's Global Research division, stated, "We think there is further downside risk to growth."

What growth? The communists running China since 1949 have been fudging the country's growth numbers since the early 1980s to make it look healthier than it is. There's a cottage industry that has sprung up to track China's real growth numbers, including the China Beige Book (CPB). Last week it reported that business cash flows of Chinese businesses are rapidly deteriorating while new orders are falling. CPB said that fourth-quarter delays in "payables and deliverables" soared "to the worst levels we've [ever] recorded."

Xiang Songzuo, a professor at the Renmin University of China who previously worked as the chief economist at the Agricultural Bank of China, has had the temerity to expose reality. He cited internal reports as saying that China's real GDP growth for the year 2018 could be 1.67 percent or even negative.

Michael Pettis, a professor of finance at Peking University, gave a speech in Shanghai last March in which he charged that the communists perpetuate the myth that Chinese "zombie companies" are still viable rather than writing them off. He told his audience, "If we were able to calculate [China's] GDP correctly, it would probably be half of the [official] number."

Even the Federal Reserve Bank of St. Louis isn't buying the Chinese faux growth numbers. Back in 2017, it asked rhetorically, "China's Economic Data: An Accurate Reflection, or Just Smoke and Mirrors?" It admitted that "some people" remain skeptical about the "official" numbers coming out of Beijing and so decided to look into the matter.

Its 10-page report looked at "alternative variables like energy imports that are correlated with output," claiming that these "alternative data series are particularly useful if they are not compiled by the Chinese [communist] government."

The Fed was impressed with the work being done by Thomas Rawski, emeritus professor of economics at the University of Pittsburgh and co-editor of *China's Great Economic Transformation*. Rawski looked at China's energy usage, using outside sources, and found that "between 1997 and 2000, official [Chinese government] figures reported that Chinese real GDP grew by 24.7 percent, yet energy consumption decreased by 12.8 percent." The Fed admitted that this "seems unlikely for an industrializing economy."

The Fed noted that several private-sector research firms have developed their own measurements of the Chinese economy, including freight volume, passenger travel, electricity output, construction indicators, and purchasing managers' indexes. The Fed concluded: "All the indexes suggest China's GDP growth is lower than the official estimates."

WikiLeaks exposed a U.S. diplomatic cable from 2007 in which Li Keqiang, then China's vice premier, admitted that China's GDP numbers were "man-made" and, therefore, unreliable.

The Fed went on to look at still another way of measuring real GDP growth in China: luminosity. Said the Fed:

> Another alternative method uses satellite data that measures the intensity of man-made night lights (luminosity). Unlike indexes of human-produced economic data, these data are immune to falsification or misreporting.
>
> The night-lights data we examine are gathered by Air Force satellites circling the earth 14 times a day since the 1970s. The satellites measure the light intensity emanating from specific geographic pixels….
>
> One way to assess the quality of Chinese economic data is to look at the difference between the growth rate of real GDP reported by the government and the estimated growth from 1992 to 2006 using the night-lights data. Reported real GDP growth in China over this period is about 122 percent, while predicted growth using the night-lights data is only 57 percent.
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> This sizable gap suggests cumulative Chinese growth over the years *could be overstated by as much as 65 percent*. [Emphasis added.]

It’s no wonder that “investor sentiment” in the Shanghai Composite Index is so low: It’s based on the price performance of stocks controlled by the Chinese communist government, which are manipulated for its own political purposes. Why would investors even consider investing there when they are likely to find much better places to invest such as in the United States, where the numbers are transparent, revealing an economy that is booming and likely to remain so?

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