



# MONEY MORNING

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## The Ultimate China Portfolio

**These White-Hot China Stocks Are Putting Their Money Where  
1.3 Billion Mouths Are...**

**This free report identifies the Ultimate China Portfolio – companies  
that will feed and profit from China’s historic growth...**

By William Patalon III  
Executive Editor  
*Money Morning/The Money Map Report*

As we’ve said time and again here at *Money Morning*, every investor has to have a China investment strategy.

And with China in the post-Olympic spotlight, this is a great time to review the long-term case for a China investment strategy, and to look at the key factors investors should keep in mind as they put their investment plan into action.

An old Wall Street adage holds that “the trend is your friend,” a precept that we wholeheartedly subscribe to. Indeed, as we’ve often told readers, the very best profit plays you’ll find will emanate from such powerful global market trends as globalization, the soaring demand for food-and-energy-related commodities, and the emergence of such new markets as Brazil, Russia, India and China.

And right now, some of the biggest global trends are being fueled by China’s white-hot economy, which is expected to advance at a double-digit clip this year - despite a global financial crisis that’s threatened to throw the U.S. economy into reverse.

But many investors are so concerned about that global financial crisis that they’re opting to avoid the volatile China market entirely, fearing there’s just too much risk within that growing Asian dragon.

Such fears are understandable: After all, the benchmark Shanghai Stock Exchange Composite Index is down 55.2% from its October peak, and was down as much as 58% - call it “double-bear-market” territory.

While “total avoidance” is certainly one form of China investment strategy – albeit an extreme

one, at that – it’s not going to be a profitable one, at least not in the long term.

And the reason is simple: By avoiding China, investors are ignoring the facts - including the undeniable truth that China has become the world’s second-most-important country, and a reluctant superpower.

You need proof? Consider these facts:

In 2007, China contributed more to global growth than the United States – becoming the first country to do so since the Great-Depression-ridden 1930s.

China last year took over the top spot as the world’s largest consumer, pushing past the United States as the biggest user of four of the five most basic energy, food, and industrial commodities, *Newsweek* reported.

China’s manufacturing sector is now bigger than its U.S. counterpart, with an output value that eclipses the \$2.7 trillion in annual production generated by U.S. factories – a capability that could ultimately also enable the Asian Grand Dragon to position itself as a military superpower.

And China is now the world’s No. 2 market for automobiles and the No. 1 producer of ocean-going merchant ships.

And this is just the beginning.

During a January 2007 speech in Beijing, economist and former U.S. Treasury Secretary Lawrence H. “Larry” Summers pointed out that Europeans who lived through the Industrial Revolution saw their standards of living increase by about 50% during their average 40-year lifespan. When industrialization spread to the more-entrepreneurial United States, living standards of the beneficiaries improved by four to five times. But residents of Asia - and especially China – who live through the ongoing “Asian Miracle” will see their living standards improve a hundredfold during their lifetimes – or 10,000%.

The wealth created from all this growth during our lifetimes alone will be enormous. But it won’t happen overnight, and it won’t occur in a straight line. Just as we’ve seen here in the U.S. financial markets, there will be periods of political and economic strife that whipsaw the values of such assets as stocks, bonds and real estate. Long-term, however, the trend is for the value of these assets to increase – and at a much steeper rate than we’ll see in any other market in the world.

And that’s also why it’s crucial for every investor to have a China investment strategy. With the benchmark Shanghai stock index down 56% so far this year, you might find that to be a surprising statement.

But consider this: In an [exclusive interview](#) with *Money Morning*, global investing guru Jim Rogers said that giving up on that country now would be like selling all your U.S. stocks at the start of the 1900s – before America created massive wealth by evolving into a world superpower.

“I have never sold any of my Chinese companies,” Rogers said. “You know, selling China in 2008

is like selling America in 1908. Sure, let's say the market goes down another 40% - so what! You look back over 100 years, you look back from the beauty of 1928, or even 1938 [in the depths of the Great Depression], and there is somebody who bought shares in 1908. He was still a lot better off having not sold in 1908."

**[Editor's note: Rogers recently released a new book, "A Bull in China," a page-turner that reveals what China stocks to buy... when to buy. To learn how you can get "A Bull in China" for free, [please click here.](#)]**

Even if the U.S. economy skids into a recession, China's long-term growth outlook remains strong – and that's after nearly 30 years of double-digit growth that country has already logged.

Here are some of the key points – as well as some profit plays – to consider:

**First, China remains one of the strongest economies in the world.** Even after China reduced its growth outlook, the country remains on track for an economic expansion of better than 9% for the year to come. We aren't so naïve as to expect a straight path of uninterrupted growth. But neither do we expect a U.S. downturn to squelch the Red Dragon's long-term growth prospects.

For broad exposure to China's growth, consider the **China Region Opportunity Fund** (USCOX), managed by the San Antonio-based **U.S. Global Investors Inc.** (GROW).

**Second, China remains awash in liquidity, with \$1.68 trillion in foreign reserves.** And much of that excess capital is being focused on the upside, particularly when it comes to boosting disposable income and then building brand awareness for its own products.

And now that liquidity is allowing the country to go on a global shopping spree, enabling its companies and its state-run sovereign wealth funds to pick up such choice assets at bargain prices. One beneficiary of such outside capital: Companies such as **MGM Mirage** (MGM), which is being positioned as a high-profit play on China.

**Third, China's markets are quickly becoming much "narrower."** Money is being reallocated from highly risky ventures into more-predictable enterprises. That's an important trend for investors to track, for history shows time and again that these more-predictable ventures fare the best during uncertain, volatility-laced markets.

One advantage that these companies have, believe it or not, is that they don't have to tap into the credit markets at a time when credit is costly, or not available at all. Weaker companies won't be able to get financing, even if it is available. Consider such potential "New Dragon" companies as online media player **SINA Corp.** (SINA) or fast-growing advertising play **Focus Media Holding Ltd.** (FMCN), for instance. As the economy becomes more "normalized," consumers will increasingly need such products as insurance, so take a look at **China Life Insurance Co. Ltd.** (LFC).

**Fourth, many of China's companies are now reporting real profits.** For decades, most Chinese companies operated on the slimmest of margins, with profits that were actually based on taxes or export-incentive "loopholes." They were kept on life support with an endless stream of bank loans.

All of this is being eradicated by Beijing. Money is being taken out of highly risky ventures, or the uncompetitive, state-run enterprises that are ridden with debt. In China, that capital is now being redeployed into the innovative, more-promising ventures that we refer to as the “New Dragons” – many of which are destined to rival the U.S.-based “Global Titans” as the dominant global brands and investor stalwarts of tomorrow.

One New Dragon that’s already making a global splash is solar-energy player **First Solar Inc.** (FSLR). Also consider **Huaneng Power International Inc.** (HNP), the domestic China power producer that’s also getting involved in projects outside its home market.

**Fifth, the still-weak U.S. greenback will make brand-name imports (both products and services) even more popular in China.** And rapidly growing consumer income will give China’s consumers the cash to spend on such one-time luxuries as travel and tourism. One big beneficiary: **The Boeing Co.** (BA) of the United States, which says that China and other Asian nations will need \$340 billion worth of new aircraft over the next two decades.

**Sixth, look for companies that generate revenue “from” China, even if they’re not based “in” China.** This is a great risk-management strategy: It’s a way for investors to profit from China, while enjoying the investor protections and regulatory oversight of such developed markets as the United States and Europe. The Global Titans are our No. 1 choice here. Many pay a dividend, as well.

If you’re seeking some solid, specific picks, some of the best ones to consider include **PepsiCo Inc.** (PEP), **Diageo PLC** (DEO), **Yum! Brands Inc.** (YUM), **McDonald’s Corp.** (MCD) and **The Coca-Cola Co.** (KO).

**The bottom line is this:** These days, and forever more, every investor has to have a China investing strategy. And while choosing to sit on the sidelines certainly qualifies as a strategy, remember this: Over the long haul, it’s probably not a profitable plan to follow.

**[Editor’s note: The Olympics were only a small window into China’s economic potential. In fact, the Red Dragon is on the verge of handing investors the biggest profit opportunity in its 30-year growth explosion – one that’s about to make the commodity boom look like an ant hill. “The New China Trader” reveals the dozens of Chinese companies set to be tomorrow’s global leaders. [Click here to learn more.](#)]**



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