

Chris Gilchrist

How cheap is China? – an update

If China really had had a gigantic bull market, then the tumble of recent months would not have any sensible investor getting ready to buy. But as my chart shows, this simply hasn't happened. It is only the domestic indices of speculative stocks that soared – in the case of the Shanghai Composite, by 120% from last October to June 2015.

But look at the poor old Hang Seng index of blue chip HK and China shares – it managed just a 40% gain over the same period and after the crash it is now trading at last October's level.

Given the bungled way the authorities tried to put a floor under the market, it's not surprising that most now mistrust all official pronouncements. But last week

the government confirmed it wanted to sell off more stakes in State Owned Enterprises. That simply will not be possible until and unless domestic sentiment improves.

Meanwhile the FT reports that the powerhouse factories in South China are struggling to recruit enough workers to keep their production lines for Apple, Benetton and others humming. And retail sales are rising at around 10% and so are wages.

So I think investors should either start investing or add to their China holdings in coming months. Fidelity China Special Situations investment trust, with 30% gearing and at a 15% discount, is my own choice.

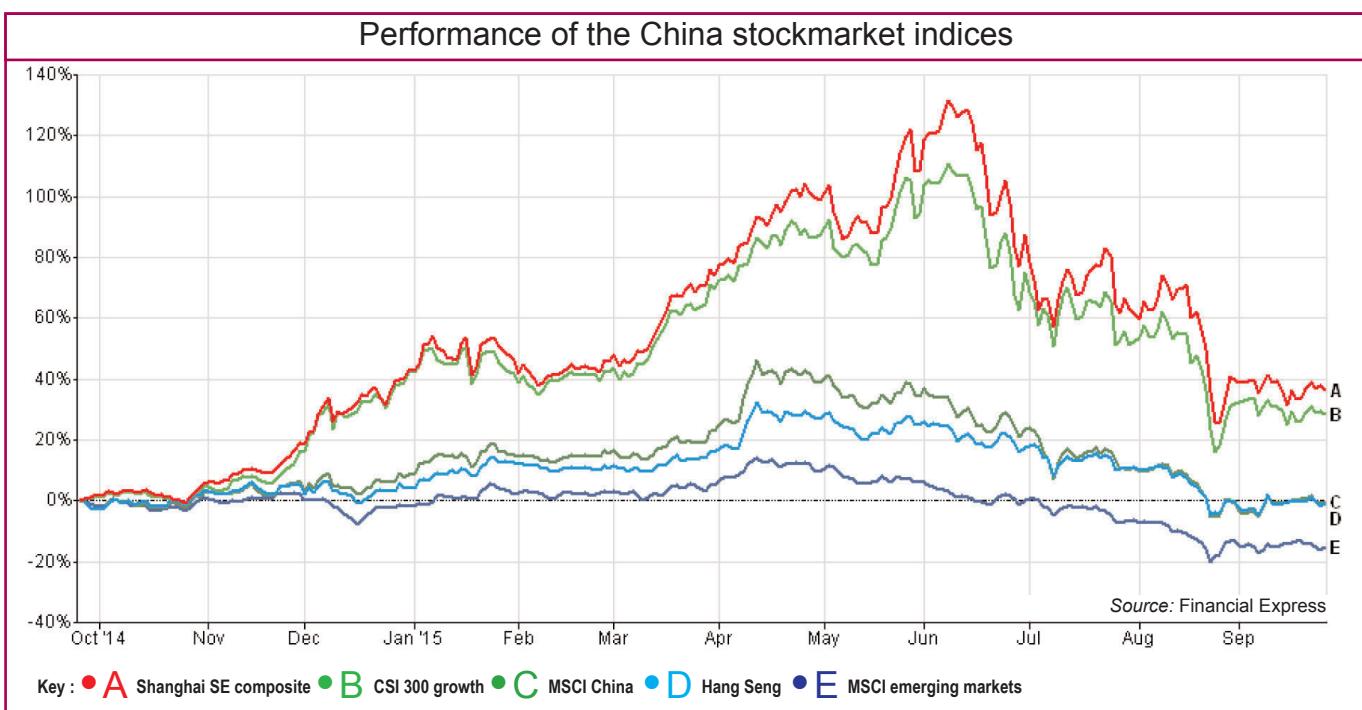
But real contrarians should be looking at Latin America. Here is

an investment that has fallen by 20% over three months, 25-30% over six months and by 35-50% over the past 12 months. This is the one to buy if you want to prove your contrarian credentials.

I have indeed started buying, on a monthly drip-purchase. I have chosen Invesco Perpetual Latin America, an OEIC managed by Dean Newman, IP's head of emerging market equities who has been managing this fund since 1994. He has seen this movie before. Rollercoasters can go up as well as down.



Chris Gilchrist is editor of The IRS Report.



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