

Putting Markets in Perspective

What I learned on my Chinese vacation

In the past couple of months, the Dow has moved from its peak of 26,966 on Oct 3 to its level of 24,821 at the time of writing. That works out to a decline of 9.2% - just a tiny bit shy of a correction, defined as a 10% decline. Markets have a tendency to exhibit corrections every year or two, so what we've seen so far is well within the bounds of a very normal and very healthy market. I can't promise you that they won't go down further or that they will recover quickly. I think it's likely to come back fairly quickly, but there's no way to know. What I can say is that this is incredibly normal behaviour and that, if you are one of our clients, then we've built your portfolio with volatility in mind and are doing all we can to take advantage of it.

What I really want to impress upon you though is what moves markets in the long term. I just spent the last two weeks in China and quite frankly, my view of what's going on in the world has changed.

It's important to first understand that stock markets like the Dow are simply a score card that measures the current value of the companies in the index. For example, just add up the value of each of the 30 stocks represented in the Dow Jones Industrial Average and you get the value of the Dow. Second, it's important to understand that really big companies have a tendency to track along the economy of where most of their customers are.

The biggest surprise to me on my trip to China was that, in spite of what I've heard all my life, China is NOT a communist nation. It is very much a capitalist country. In fact, a good argument could be made that it is more capitalistic and the people more entrepreneurial than we are here in the west. There are very poor and very rich and everything in between. While the Chinese government has a very strong control mentality, it is very willing to allow most individuals to operate in a free market environment. I would say that the best description of their political system is that it is a Capitalistic Dictatorship.

The second biggest surprise to me was just how hard the Chinese people are trying to pull themselves out of poverty. Working multiple jobs. Buying property and renting it out. My guess is that now that people have seen so many examples of the government allowing others to prosper, more and more are working harder and smarter to get ahead.

China is a country with a population approaching 1.4 billion people, the vast majority of whom are still living in what we would consider to be poverty. A quick google search tells me that in 2016, the average annual income in China was 67,569 yuan (or about \$13,500), but there is a huge disparity depending on the region. For example, in Shanghai the average was 119,935 yuan (or about \$24,000 CDN), while in Henan it was only 49,505 yuan (just short of \$10,000 CDN).

What does that mean for us?

They are pulling themselves out of poverty and they are doing it quickly. As they do, they will be MASSIVE consumers. Chinese households are going to want to buy refrigerators and washing machines. They will want cars and iphones, big screen TVs and flush toilets. The demand for these goods means that companies who sell those goods will have a massive new customer base to sell more to. That means that they are likely to prosper more in the future than they have in the past which translates to higher and higher stock prices. Also, as they prosper and save, they will become investors, further driving up stock prices.

And by the way, I'm just talking about China now. India isn't very far behind.

Yes – there are problems. Air pollution is a huge issue. It's being addressed, but more needs to be done. Also, the mentality in China seems to be more about surface issues rather than creating quality product. About the sizzle rather than the steak. But competition should correct that over time.

Ultimately, at the end of the day, I am even more convinced now that world economies will thrive over the next few decades and that markets will follow. It's my opinion that the next 20 years are likely to be the best years we've ever seen. At least the best in the roughly 200 years that we've been keeping track of them. Don't let the tiny little bit of volatility that we're seeing now scare you out of what will likely be the best opportunity of your lifetime. In fact, run towards it and invest as much as you can while prices are still as cheap as they are.

Please don't hesitate to contact us at any time for anything you need. We sincerely appreciate your trust and your confidence.

Thank You



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