



## The Betty Letters

*My Dear Grandchild,*

*I do not know very much about buying and selling stocks and shares, but many of my friends in Shanghai and Beijing have told me that I have missed the biggest money boat in the history of China. However, they assure me that there is still some time to climb aboard and that they will help me. They told me of wonderful tales of how, with just a few thousand dollars, today, they have earned hundreds of thousands of dollars. When I asked them what they would do with all of that money, the answer was that the money is, still, invested in stocks and shares so that the thousands of dollars would grow to become millions of dollars. I was impressed, of course, and I wished them well. But I just don't understand this craving by certain people to gamble on stock markets. It is frightening to me because I always thought that gambling is a vice not a virtue. The biggest gamble that I ever took was when I married Bo-Bo. And look at the situation, today: He is a big, fat frog of a man. However, over the years, he has been good to me so that it could be said that my gamble paid off, handsomely. When I married Bo-Bo, I knew a great deal about him. I knew his family, his friends, his business, and, even, his propensity to eat fatty foods (he comes from Shanghai, you see). Translating my criteria for choosing a marriage partner into the buying of stocks and shares, it seems to me that there is, what educated people call, a correlation between the two. I know, for instance, that there is great deal of money in the big, wide world. It is called in the vernacular, I think, 'ample liquidity'. I, also, know that although there may be ample monetary liquidity on a global basis, there are, also, determinations by governments of certain countries to tighten up on too much monetary liquidity because some asset markets can easily become overheated (as happens only too rarely with Bo-Bo – sadly) due to over-speculation. This is something like a child, playing with a toy ... until the child breaks it. On Tuesday, for instance, The Finance Ministry of China announced that, henceforth, the stamp duty on trading in stocks and shares in the country would be subject to a tax of 0.30 percent instead of 0.10 percent. According to my friends, The Shanghai Composite Index – which is the key index of The Shanghai Stock Exchange – has risen by about 62 percent since the start of this year on the back of a 130-percent gain in the 2006-Year. Clearly, abundant monetary liquidity has contributed to gains on asset markets whose key indices have risen, sharply, over the past few years. Granted, many of the gains in the prices of stocks and shares were due, in large part, to better and stronger fundamentals, that is to say greater profitability, stronger and more sustained growth in core activities and improved balance sheets. On The New York Stock Exchange, it seems to me that the fundamentals of many of the constituent stocks of the Dow Jones Industrial Average are not overvalued on the basis of their respective fundamentals and the strong likelihood of future earnings, but the same cannot be said for many of the publicly listed companies, quoted on equity markets in less developed parts of the world. Looking only at the fundamentals of the economy of China, it appears to my little mind that this country has an extremely bright future. Perhaps the brightest future of any country, today. However, are the current prices of the stocks and shares of many of the companies, listed on the stock exchanges of China, in line with assets and earnings, present and future? I read one of Bo-Bo's reports, just the other day, and noted that some of the Price-Earnings Multiples of PRC-Government controlled, publicly listed companies are in the 60s. I asked Bo-Bo exactly what that meant and he said that the shares are selling at 60 times present earnings. That did not make much sense to me because nobody could be that crass as to purchase shares in a company, based on future earnings that are 60 times those of today. So I asked one of my friends, who trades on The Shanghai Stock Exchange, what was the real meaning of a Price-Earnings Multiple. My friend said that she had no idea. She said that everything she knew, and ever needed to know, was what counter to buy and what counter to sell. Buy today and sell tomorrow – at a large profit, she told me. 'Why concern yourself with that technical stuff? It's not for you and me. We just buy and sell.' My friend's answer seems to be very common among stock-market investors, I have discovered. And it*

*is worrying to me because it means that people have no idea what is going on in the companies in which they are investing. And they don't seem to care, too! They are taking terrible risks; unwarranted risks, in fact. The Government of China is, definitely, out to cool down the equity markets in the country because what is happening is, just, not healthy in the long term. If the key indices of China's equity markets should suddenly fall, say 30 percent within a period of one week or so, many people will see their savings completely wiped out. For people who have borrowed money from banks in order to gamble on one or more of China's equity markets, they will find it difficult (perhaps, impossible) to repay their loans to banks. It would be an absolute tragedy. More worrying is that the crash on China's equity markets could well reverberate around the world. The more aggressive is a monetary tightening – as is clear that that will be case in China – the longer will be the market correction. The longer is the market correction, the more bankruptcies and corporate failures will be filed.*

*Greed is a terrible thing, My Dear Grandchild, and I strongly advise you to refrain from it. As my mother used to tell me: Never drink Champagne with a beer pocket. (I never was quite sure of the meaning of this statement, but it, certainly, sounds convincing, don't you think?)*

*Talk to you next week.*

*Chief Lady*

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