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INVESTING IN STOCKS AND SHARES:
BUY, SELL, OR HOLD ?

The Stock Exchange of Hongkong Ltd: To buy; to sell; or, to hold?

What to do in these uncertain times?

TARGET (), unequivocally, says: Buy! Buy! Buy!

But stick to quality and beware of the armies of outright crooks and fast-speaking conmen and conwomen!

The following is this medium's reasoning for being bullish in respect of 2013.

The Situation at Hongkong Banks, Today

One used to hear, some years ago, that banks were an honest businessman's best friend because, come rain or shine, management of responsible banks would try to work with the owners of businesses, umbrellas in hand when inclement (business) weather strikes, unexpectedly.

This is not the case, any more: Those days of understanding banking partners of businesses are gone, relegated to the pages of the books of history that, sadly, are buried in the dusty archives of this territory.

Banks know, only too well, that the idea of customer loyalty no longer exists. Customers, to a very great extent, have been dealt too many body blows over the past few years to be loyal to any single lending institution, operating in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC).

Today, many heads of businesses tend to scorn the armies, employed by banks, those of all ranks, and do their level best to avoid even seeing these gentlemen who, in days of yore, were treated with the utmost respect.

Today, managements of most Hongkong banks know very few of their customers other than, perhaps, having seen their names on lists, but, as for physiognomical characteristics, they have no idea because things, today, are done according to checklist not according to what used to be called, simple common sense.

The super-rich customers, of course, are known to all banks' hierarchy, but managements of small-to-medium-sized businesses are not even able to put a foot in the door of a minor officer of a bank's management.

And banks like it that way.

According to one businessman, in a conversation about outsourcing with a bank employee, **TARGET** was told, emphatically, that the policy of her bank was to avoid spending too much time with small-to-medium sized enterprises because it takes the same amount of time and management energy as it would to try to arrange a business transaction with a large, much, better-heeled corporate entity.

Banks do not pay much by way of interest on depositors' accounts and, therefore, there is little reason for the bulk of depositors to use the services of banks as custodians of money.

As for banks, agreeing to lend money to customers for any reason, this is akin to trying to pull out the teeth of a hen.

Keeping deposits of material sums of money in banks, therefore, is a good way to witness wealth erosion because the interest factor that banks are offering is woefully insufficient to meet current inflationary trends.

But banks do want customers' money – if they can squeeze it out of them – and this becomes only too apparent when, on a visit to a bank's branch office, perhaps to make a deposit or to pay a bill, one is encouraged by a member of the bank's very junior staff to purchase products, currently on offer by the bank.

The clerks of the bank are told, definitively, that this is part of their duty: To try to induce customers to buy bank products.

Also, banks load customers with a multitude of new charges of all kinds and even threaten penalties whether or not customers' accounts are considered sufficiently active.

Traffic in a bank is, always, one way.

Most bankers of all ranks in Hongkong, today, are, simply, the mechanical cogs of corporate machines: They go round and round, getting nowhere, very fast.

In short, banks in the territory have lost their way.

<u>China in 2013</u>

This year, the PRC's economy will, no doubt, experience growth, albeit, perhaps nothing like the extraordinary business expansions of past years, but positive figures will be recorded, probably somewhere close to a nine-percent improvement, Year-On-Year.

In Europe, the economic situation is lamentable, with one economy after another, recording two or more quarters of negative growth, defined, in economic terms, as being in recession.

This situation is more than likely to continue throughout the next 11 months – at least.

Unemployment in a number of large, European economies is at a point that has led to widespread unrest, leading to unruly behavior by tens to thousands of the completely demoralised downtrodden.

Businesses are closing down or being downsized, materially, and, in some cases, large factories, owned by Asian and US interests, have moved out of Europe, back to their home-bases in Japan, the PRC or North America because sales of their products, formerly manufactured in Europe, have fallen to such an extent that to maintain their establishments would be to court financial problems.

Very well-heeled, US-based multinational corporations, seeing the writing on the wall for the remainder of this year, have followed the line of their Asian counterparts and have moved out.

An example of the above was noted by this medium when, last October, Ford Motor Company reported heavy losses in its European operations in respect of the company's third quarter, undermining the strong performance in the North American market.

Most automobile producers, throughout Europe, are seeing fewer and fewer buyers, coming to their showrooms, with sales at their lowest levels of the past two decades.

Ford, one of the world's largest, motor-vehicle producers, fully expects to report a loss of more than $US1.50 billion (about $HK12 billion) for the 2012 Financial Year, ended December 31.

Ford has shut down three of its European factories for a loss of about 5,700 jobs.

On January 11, 2013, Honda Motor Europe, the motor-vehicle leviathan of Japan, announced, inter alia:

> *'Sustained conditions of low demand in European markets make it necessary to re-align Honda's business structure. As such, Honda of the UK Manufacturing (HUM) will enter into formal consultation with its Associates to consider these changes and the proposal that it will reduce the workforce by 800 Associates by Spring 2013.*
>
> *'"Honda remains fully committed for the long-term to its UK and European manufacturing operations. However, these conditions of sustained low industry demand require us to take difficult decisions. We are setting the business constitution at the right level to ensure long term stability and security" said Ken Keir, Executive Vice President, Honda Motor Europe.'*

And so it goes on, one corporate entity after another, leaving Europe – with a bloody nose.

In The United States of America, the economic situation is far from being positive and, although, periodically, one is told that there is an economic resurgence of activity, it is difficult to believe – as hundreds of thousands of new homes, stand idle, with very few people, willing to take the plunge to purchase a new home.

(For more on this subject, please refer to **TARGET** Intelligence Report, Volume XV, Number 23, Published on February 1, 2013, Headlined: **'*BELIEVE NOTHING THAT YOU HEAR AND 50 PERCENT OF WHAT YOU READ*'**.)

Clearly, investing in Europe or the US is questionable, at this time, with one of the best alternatives to these parts of the world, being the HKSAR.

What to Buy and When?

To answer the first question, first: The time to buy is now.

What to buy is a matter for individual judgement, of course, but, as far as **TARGET** is concerned, there are two important considerations with regard to investing in stocks and shares in the territory.

The first consideration is to understand the core business of the target of a prospective investment, listed on The Stock Exchange of Hongkong Ltd, and noting its profits, during the track record over a period of the previous five years or so.

If the company has a decent track record, the next consideration, in this medium's opinion, could well be to calculate the historic yield in terms of dividend payments, vis-à-vis the historic, average stock-market price of the shares over a period of time. This would give an indication of management's dividend policy.

(It is assumed that the target of an investment in a company takes into consideration that the target company is engaged in a growth industry, such as retailing in the PRC, manufacturing products with a known market for the products or, alternatively, being a major supplier of components to a manufacturer of such products, part of the bread-and-butter industry, such as the operator of a hospitality entity(ies), restaurants, transportation companies, cruise-line operators or part of the tourist industry, and so on.)

What not to purchase are units/stocks/shares in an investment company, especially one that is domiciled offshore, such as an offshore fund – of any description. Some of these funds may have done well in the past, but investors should think of the future, not the past.

The trouble with buying into investment companies, generally, is that one is never quite certain about senior management and whether or not there is churning, taking place, at the expense of holders of the scrip of such entities.

Also, as this medium has discovered, some middle-management employees of certain banks and other types of lending institutions have been known, after becoming friendly with senior management of publicly listed companies, to load funds, over which they have some control, with the shares of select, financially *'sick'* companies that have not a ghost of a chance of a recovery.

These shares are simple mixed in, in the large pool of publicly listed shares, secreted for eons within the fund or within a number of funds, with nobody, ever being the wiser – other than the wealthy, now former middle-management employees of the entities for which they, once, held a duty of fidelity. Singapore has become the home for some of these, former bank employees.

Many of these Hongkong lending institutions have their head offices in Europe. And, still, do to this day.

There are many good companies, listed on The Stock Exchange of Hongkong Ltd from which to choose, and there are a good many companies to avoid, especially those whose managements, very frequently, have fund-raising exercises, such as pitching Rights Issues, issuing bonds/debentures, etc, of one colour or another, or senior management, being in the habit of dipping into the companies' coffers by way of salaries, perquisites, bonuses, expenses, etc.

Learning to read and to understand the intricacies of the financials of publicly listed companies is a real asset to an investor, but it is not as important as using good, common sense when looking at a Profit and Loss Account for a single financial year and matching it against the five-year, track record of the target company.

From **TARGET**'s point of view, senior management of a publicly listed company is, also, among the most-important facets when trying to make a determination as to whether or not to invest in a company.

Recently, this medium analysed one Initial Public Offering and discovered that its Founder had had 30 years of experience in managing the company, which is in retailing in the PRC, and the company had never wavered from the aims and objects of its stated (and published) business philosophy.

This company's track record is exceptional and, in years to come, there is every reason to believe that it will continue to be one of the shining stars in its firmament.

Carefully selecting the publicly listed company in which to invest should result in an investor, obtaining dividends, equal to at least five percent, per annum, at today's market price of the shares.

In addition, one should be able to obtain an increase in the price of the shares of about 20 percent, yearly, all things being equal.

And that is a great improvement over putting money in a bank where the interest rate on deposits is a pittance.

Therefore, all things taken into consideration, investing in select stocks and shares in Hongkong is the best way forward for the next 11 months or so.

But one has to be careful: Caveat emptor.

Lastly, avariciousness is one way to lose money. If one is satisfied with one's gains, bail out in order to leave a little for the next guy: There is an abundance of fish in the sea.

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