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MR INVESTOR:
THE TIME IS STILL NOT NIGH :
HOLD BACK BEFORE MAKING A SIZEABLE INVESTMENT

One of the many tricks, employed by very large, property wheeler-dealers in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), is to overpay, purposely, at a public auction for a piece of property, make a big splash about how important the property purchase was to the group, and, then, grant an interview with the Press, making statements as to how bullish the property group feels about the future of the HKSAR – and the group's profits from the purchase, of course.

In truth, what is happening is that the group, which has just purchased the property, is, merely, covering its arse.

Because it is a safe bet that the group has extensive property interests in the HKSAR; and so, by overpaying for one piece of property, it is assumed by senior management that such action will support the high cost of the other pieces of property when it comes time to lease/sell segments of its property assets in the same general area of where the latest property purchase had been made.

In addition, when it comes time to revalue its property assets, the 'independent' property valuator, engaged by the group, may look at property prices in the area of the group's holdings, and, by so doing, establish a market value for the group's portfolio.

Maintaining a certain acceptable level for a group's fixed-asset holdings helps the Balance Sheet, also.

And, it may allow for bonus shares to be issued in lieu of a cash dividend, simply by applying Reserves as the basis for a new share issue, thereby conserving cash and not depleting a company's cash reserves.

All this is all very academic, of course, but it is the bread of professional management of large public companies when it comes time to feast on a certain situation.

It is a legal trick … and a good one, too.

For Mr Average Investor, it would be wise not to be mesmerised, or diddled, by company statements which allege that, within a certain number of hours, all the units in a certain residential/commercial/industrial complex had been sold; or, that a certain company was of the opinion that purchasing a certain piece of raw land in a part of the New Territories would mean boosting up that company's property bank 'to an acceptable and respectable level'.

For the past few weeks, there have been numerous statements, issued by various HKSAR property groups, of all sizes, stating, in essence, senior managements' bullishness about the immediate future of the HKSAR.

The Hang Seng Index, on occasions, has responded, positively, to the Press reports from these property companies: And some investors, those fleet of foot, only, mind you, have been able to ride the crest of the wave for a short time.

But the Hang Seng Index, during the past week, has not been able to rise to any material degree, with the Index, ending last Friday at 12,855.52 points, down about 145 points, or about 1.11 percent, from the close of 7 days previous.

It is said that a stock market, which cannot rise, must fall.

And this is a distinct possibility when it comes to the Hongkong stock market.

The higher, interest-rate concern in the US is still with us, and it is a guarantee that the US Federal Reserve Board would not hesitate to use interest rates as a weapon in order to control inflation in what is, still, the largest, and most important, single economy in the world, today.

The health of the US economy affects nearly every other country's economy. This statement hardly requires extrapolation.

The economy of the HKSAR is, still, dependent in part on its ability to harness its reserves in order to sell goods and services to the US market, which is, still, its biggest single market.

Sometimes, economic pundits of the HKSAR tend to forget this little fact, an oversight which may, on reflection, be a convenient lapse of memory when they work for some mogul, especially a powerful one who puts rice on the table.

In truth, as TARGET wrote on May 3, things in the HKSAR are far from bullish; and, while certain people may point to the calibre of management in the HKSAR, it is clear that, no matter how good is management, sometimes, damage control is the order of the day.

If a situation exists whereby money is tied up in property ventures in the PRC or the HKSAR and there is an insufficient number of willing buyers for the properties, or, if an importer in the US or the European Union (EU) is unable to digest any more sports shoes, condoms, watches, garments, etc, manufactured in the HKSAR, or in the PRC, on behalf of an HKSAR corporate entity, all the management expertise in the world will make little difference.

And the fact that a Mr Smug, of the huge US, UK, and/or EU merchant bank, makes statements about the resilience of HKSAR management, its 'durable' this or that, the underlying strength of the HKSAR workforce, etc, etc, etc, will mean a fat zero if, at the end of the day, profits are down and the stock-market level is too high to justify any further purchases by an enlightened investor.

In short, this may not be the time to buy into companies, listed on The Stock Exchange of Hongkong Ltd, however, having said that, subject to the PRC Government, beating its war drums, it would pay to watch for the first sign of a change in sentiment.

After all, sentiment moves every stock market as soon as fundamentals make it evident that the time has come to ride the waves.

The fundamentals are not prevalent … the 'force' is not with the HKSAR, at this time.

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