[021]2030 5888 [021]2030 5999
58 Floor, New Bund Center, NO.555 West Haiyang Road/588 Dongyu Road, Pudong New Area, Shanghai
上海市浦东新区海阳西路 555 号/东育路 588 号前滩中心第 58 层，邮编：200126

Rosefinch Research | 2022 Series # 32

Investing Needs Some of "Lying Flat"

The 2022 Nobel prize in Economics was awarded to three economists for their works on role of banks during financial crisis. "The laureates' insights have improved our ability to avoid both serious crises and expensive bailouts," says Tore Ellingsen, Chair of the Committee for the Prize in Economic Sciences. It's interesting to see the Nobel prizes are usually awarded to those contributing to the hot topics of the times. In 2018, Nobel prize was awarded to economists who integrated climate change and technological innovation into long-term macroeconomic forecasts. And in the very next year, A-share market welcomed a rare 3-year rally in new energy led by photovoltaic sector. Even though there isn't a causal relationship, there's often some connections between the forefront of academic research and the mundane world of real economy. The themes of our times will release signals in multiple places, yet are rarely noticed.

Right now US stocks are positioning for financial crisis with NASDAQ and S&P near two-year lows. NASDAQ's big drop of -36% from its Nov 2021 highs was only previously seen in 2008. Talk of Credit Suisse going bankrupt is spreading fear of another Lehman-crisis over the market. In the beginning of the year, market was talking about recession vs inflation, the pace of FED hike; in the second half, market is talking about balance sheet contraction, possibility of hard-landing, and a repeat of 2008 financial crisis. As Bernanke noted before, excessively tight monetary policy is the core reason for bubble-bursting economic slowdown to turn into recessionary avalanche. **The US monetary tightening is now the most talked about question for the market. Yet, the biggest risk may not be in US or China, but Europe.**

朱雀基金 Rosefinch Fund
[021]2030 5888 [021]2030 5999
58 Floor, New Bund Center, NO.555 West Haiyang Road/588 Dongyu Road, Pudong New Area, Shanghai
上海市浦东新区海阳西路 555 号/东育路 588 号前滩中心第 58 层，邮编：200126

When Bretton Woods system collapsed in 1971, US Treasury Secretary John Connally told his astonished counterparts: "the dollar is our currency, but it's your problem." The problem is still festering: in the past 50 years, every tightening cycle of the FED had triggered regional financial crisis in the weakest links. By now, the script is fairly familiar: first the excessive borrowing during period of low US rates, then a combo of high debt burden and currency depreciation during period of high US rates, which results inevitably into debt collapse. Latam countries lost 10 years, Japan 20, and now the weakest link in the global financial system may very well be the high-debt and high-energy-cost region of Europe. Without energy resources nor manufacturing competitiveness, some say Europe may even eventually fade into a tourist destination.

数据来源：Wind，联合资信整理

图 3 近 50 年美国货币政策及美元指数表现

Source: Wind, others. Blue line is FED rate; yellow line is USD index.

It's worth looking at the Triffin Dilemma which points out the inherent conflict between USD's role as a national currency and a global reserve currency. The differences between domestic and international policy priorities led to US exporting USD in low-rate period, and retrieving USD in high-rate period. The result is therefore the periodic debt crisis by other USD-borrowing nations. The popular economist Zoltan believes the USD-centric Bretton Woods system will disintegrate precisely because of this doubt in the fundamental sustainability of the system. After multiple rounds of wealth destructions, it's also a concerning topic for domestic investors. This is the big backdrop of our current times. There are many different layers of patterns, which also applies in investment. The theme of our time is a higher-order than our individual views. **During critical junctures, the Beta from our times will generate far more profit and risk than the Alpha from any single individual.** This is what Howard Marks referred to as figuring out where we are in the cycle.

Whether or not the USD-centric Bretton Woods system will disintegrate, with US hiking and global recession providing the background, the two core issues for an investor are: first do not blow up, and second, how to capture structural opportunities during period of asset-sell-off. The priority here is to avoid blowing up. After all, no one went bankrupt because of inflation, but there are plenty who did because they tried to beat inflation. For mutual fund investors, in order to reduce the risk of blowing up, you can avoid assets that promise "risk-free 8%" yields, or those PE/VC investments in unfamiliar areas, or those "hot tip" stocks. Some seasoned investors even joked to the newcomers: just don't invest or start new business, and you can have a stable life. When it comes to investor education, it's usually not about telling new investors what to buy, but what not to buy, what not to touch, what to study more closely, and how to be patient. Most likely, you won't get burned holding onto cash or bank deposits. **Protecting your asset is the first priority.**

Challenging macroeconomic environment will impact all risk-assets' prices, but the core rule of investing is still mean-reversion. When the asset price falls to sufficiently low levels, opportunities will appear. The equity investment return for a whole year maybe subject to just a few key periods, such as April this year. And now, we may be at another key period. A-share is now back to around 3000 points, and both CSI300 and Chi-Next's valuations are below last 10-years' 25% level. The downside room is limited while the upside potential has increased significantly: the risk-return profile has become more favorable. In a market that has ample liquidity, future expectations may change quickly. Therefore in the A-market, while it's tough to find profitability in the 3-6 months' window, the 3–5-year horizon shows relatively low holding cost for long-term investment.

A person's life journey may be long, but there are only a handful of pivotal moments. Investment is the same: a person may have 40 or even 50 years of investment career, but there are only a few decisions that'll impact the overall returns. Buffett once said that if we remove the top 10 investments from our portfolio, we are just a joke. 2022 is a year where Buffett has significantly increased his holdings. Between Sep 26th to 28th, Buffett spent 352 million dollars to increase his stake for Occidental Petroleum to 20.9%. A-share also saw energy stocks rallying, with the Wind Coal index up 49% YTD. But the extreme rally also brings extreme risk. In the energy sector, China's photovoltaic sector has more globally competitive assets than fossil fuel sector. The new energy sector has gone through 10-30% of retracement, and now presents good valuations. From a more macro level, photovoltaic sector may be the engine that takes the economy out of recession and into next growth phase. Ultimately, neither China's 4 trillion RMB in 2008 nor the US's QE can fundamentally solve the growth problem – only technological innovation can be the long-term driver.

Every time in history will have its main investment theme: in 2000's, it's the financial, real estate, and consumption; in 2010's, it's the biotech, consumer, and electronics; in 2020's, it will be new energy. These are the three main themes in China's economic transformation. A person's destiny will require both self-motivation and historical progression. Those who are willing will follow the theme of our times, and those who are not will be dragged by the theme of our times. The path less travelled may lead to undiscovered

朱雀基金
Rosefinch Fund
[021]2030 5888 [021]2030 5999
58 Floor, New Bund Center, NO.555 West Haiyang Road/588 Dongyu Road, Pudong New Area, Shanghai
上海市浦东新区海阳西路 555 号/东育路 588 号前滩中心第 58 层，邮编：200126

riches or unexpected traps. An investor must have both confidence and insight to see the difference. Investment ultimately falls back to deep fundamental research on the companies. Whether it's value or growth, what we invest in are the enterprises and not the changing macroeconomic environment nor the shifting stock prices. For the investors, finding the right fund manager to buy the good-value companies at the favorable time is their most important decision. **An investor doesn't have to be the most talented person in the world, but the investor can use other people's talent to achieve success. It's best to therefore apply ourselves at where we are most talented, and outsource to other experts in their respective fields: dentists, teachers, fund managers – this is an efficient resource allocation strategy where you can leverage on others' expertise to achieve the best results.**

In China's mutual fund management market, most of the fee structure are similar, which provides a rare opportunity in the capital market. Choosing wisely is more important than working harder. When investor chooses a good fund manager and then "lying flat", it may yield the best result for a normal investor. Investing and starting a business require very different strategies. Starting a business is like guerilla warfare: it requires constantly exploring, then creating a profitable base, and finally guarding its success. The common battle cry is: let's go for it! Investing is like hunting: it doesn't move easily unless there's a great opportunity, at which point it's aim, shoot, and then observe. **The motto for investing is: just hold it steady, we can do this!**

Disclaimer

The information and data provided in this document is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of any financial products or services. This document is not intended for distribution to, or usage by, any person or entity in any jurisdiction or country where such distribution or usage are prohibited by local laws/regulations. The contents of this document are based upon sources of information believed to be reliable at the time of publication. Except to the extent required by applicable laws and regulations, there is no express or implied guarantee, warranty or representation to the accuracy or completeness of its contents. Investment returns are not guaranteed as all investments carry some risk. The value of an investment may rise or fall with changes in the market. Past performance is no guarantee of future performance. This statement relates to any claims made regarding past performance of any Rosefinch (or its associated companies') products. All rights are reserved by Rosefinch Fund Management Co. Ltd and its affiliates.

Email ir@rosefinch.cn