HollisWealth®

# "Staying Abreast of Changing Times"

## Recent China Plunge

*"What should you do about the market in China and are you positioned properly now?"*

We believe that is a great question and we thought we would answer it and give our clients an insight as to why things happen, where we think you have strength in our portfolios and what we might expect for the coming year.

There is another question, which may be on a few peoples mind, "Should we be selling?"  So let's see what we are up against now.

The world is in a mess, every country has problems of one kind or another but we ask you to look around and look at businesses and see if you think as we do – sound businesses are being managed very well.  Solid businesses have been growing – they have they been buffered from a lot of the pain that countries appear to be suffering through!  But why?

Why have many of the large businesses done so well in spite of what many people thought would happen, many felt stocks would not do well over the past seven years so why didn't everything just collapse?

The answer is not that difficult and it might be a clue as to where we go from here.

What are the most important things to a free country when things go bad?  Of course, protect the banks and protect the businesses, to fund the economy, to ensure that the banks don't freeze up – but it's deep to understand, so we will make it a little easier.  Interest rates are near zero, the people funded this past period as low interest rates encouraged them to spend and what a job they did, that was a big help to fund the recovery and the cost -- earning extremely low interest rates.  It freed up money for people to spend.

There's more to it than that – but that was the catalyst.  (In a few days we expect to have out our January Newsletter, we hope you read it as it will give you more insight as to how you should invest and why, but your portfolios have already been set up and we do continual reviews, so we don't expect it to change much for you except give you greater insight).

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So let's move along.  Why should we not be too concerned about this dip due to China.   We knew it was going to take place!

If everyone in the world were to go to cash – well I guess the world would crash and there would be no hope for anyone, but it's not going too – not due to China at this time.  So, let's identify the problem.

China's economy will slow this year by 3% in other words an economy chugging along at 9% growth will slow to 6%, that's a lot BUT the US would give their eye teeth to have their economy grow at 6%, as would Canada and almost every country on earth, so why the panic?

It's in China's stock market and to understand we should pit the North American Markets against that of China's.  China's stock market is made up of institutional investors and individuals just as it is in North America, but here's the difference in North America approximately 80% is institutional investing and 20% individuals, while in China it's 20% institutional and 80% individuals (exactly the opposite).  Individuals tend to panic where institutional investors plan.  Also, China's market is new – North America is more mature.

So, we can see quickly we would rather have a mature market with financial savvy experts than a new market made up of millions of individuals doing it on their own.

But what happened in North America and why wouldn't we all go to cash?  Well we do have 20% of individuals and 80% institutional investors; pension funds, investment funds, CPP, Ontario's Teachers Union, and so on.  The institutional investors are not naïve, they have their professionals studying the markets, they have an idea when a downturn is coming and they know they cannot possibly sell 100% of their portfolio and expect to buy back those shares – IE., they must hold, but many of them will go to cash for a part of their portfolio and they know what they want to buy with that cash.

In a portfolio that is 100% invested into equity investment funds there can be a good weighting in cash, but it doesn't show up (in a personal portfolio as such) – it's part of the professional management process.

We think this downturn in China opened an opportunity for managers in North America (again), we expect during that period people have questions, and we encourage those questions.

In addition to the investment fund managers holding cash, we hold cash in the form of DCAF (dollar cost averaging where we moved money to cash to buy back in each week) this is a program we use often when we think markets might give us a buying opportunity.

We look forward to questions.  There's more – much more we can say – such as why do we believe the China downturn will be good for the North American markets, will 2016 be a little more volatile, if so, why?  What's the best way to position in these markets, and so on.

Call us if you have questions 857 0757 or 1 800 263 0770.

***Gary & Dixi***

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