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MONEY

Ian Cowie Personal Account

I warned you that China would come crashing down. I'm backing India instead

AFP VIA GETTY IMAGES

Buildings tumble in a controlled explosion in Shenzhen, where the woes of Evergrande could cause a financial collapse

Chinese whispers that a Shenzhen property developer might collapse under $300 billion (£219 billion) debts have shocked stock markets around the world. Closer to home, many British pensions, unit and investment trusts are big investors in the planet's most populous country and its second largest economy.

Rumours swirled around Evergrande, an ever-so indebted developer that claims to have built 12 million homes, mostly flats in tower blocks, with many paid for before they are finished. Some fears subsided when Evergrande said it would pay 232 million yuan (£26 million) interest on its domestic bonds, but doubts remain about an $83.5 million offshore bond and another $47.5 million interest it is due to pay this week.

Either way, I am glad that I sold all my China investment trust shares in April last year, as reported here at that time. I did so with a heavy heart because I began buying into this fast-growing economy after business trips to Shanghai and Shenzhen a quarter of a century ago.

However, a trade war between the US and China, plus accusations that the latter is responsible for human rights abuses and causing the coronavirus crisis, made me move my money elsewhere. The US president, Joe Biden, claims China is guilty of "genocide" against its Muslim minority, the Uighurs, and his predecessor, Donald Trump, imposed tariffs on China for "unfair trade practices" while pointing out that the virus was first identified in Wuhan.

All things considered, I would rather not have a substantial chunk of my life savings on the front line of a trade war – still less the wrong side of it. So I sold all my Fidelity China Special Situations (stock market ticker: FCSS) and JPMorgan Asia Growth & Income (JAGI) shares at £2.27 and £3.59 respectively in April last year. Even after last week's market wobble, those sales look like a short-term mistake because FCSS bounced back to £3.20 and JAGI jumped to £4.24 on Friday. But the aim of my "forever fund" is to provide sustainable returns to pay for retirement and, without wishing to get into politics, I would rather avoid a regime accused of genocide.

More positively, I continue to gain exposure to Asia's dynamism via investment trusts outside China. These include my first ten-bagger, JP Morgan Indian (JII), where I paid 63p a share in June 1996 for stock that cost £8.44 on Friday; plus a smaller companies specialist on the subcontinent, India Capital Growth (IGC) where I paid £1.20 earlier this month for stock that now trades at £1.25; and Vietnam Enterprise Investments (VEIL) where I paid £4.04 in July 2018 for shares that cost £7.11 on Friday.

Rajendra Nair, a fund manager at JII, told me: "While the near term outlook is dependent on the trajectory of the pandemic, the investment case for India remains compelling in the long term."

David Cornell from IGC, said: "Investors need to take a buy and hold approach to India. Those that have ridden out volatility enjoyed healthy returns." Dominic Scriven, a fund manager at VEIL said that Vietnam was "the principal beneficiary of global repositioning versus China".

All three might continue to gain from displaced trade if the US cold war with China heats up. This month's nuclear submarine defence pact between Australia, the UK and the US (Aukus) is the latest indication of potential conflict in the Pacific.

I wouldn't normally bother my head with such high-flown issues, but stock markets can be moved by politics as well as economics. There is no need to take my word for this. George Soros, the billionaire investor who is most famous for betting against the pound, said last month: "Xi Jinping, China's leader, has collided with economic reality. China has enjoyed a property boom over two decades, but that is now coming to an end. Evergrande, the largest real estate company, is in danger of default. This could cause a crash."

The old boy stopped just short of calling it a Pon Xi scheme.

He warned: "Investors buying into the rally face a rude awakening. That includes not only those investors who are conscious of what they are doing, but also a much larger number of people who have exposure via pension funds and other retirement savings."

Soros explained that many funds follow a benchmark of global stock markets called the Morgan Stanley Capital International (MSCI) All Countries World Index (ACWI) with an environmental, social and governance (ESG) filter.

Whether savers know it or not, this funnels funds into two Chinese technology giants, Alibaba and Tencent. They are two of the top ten constituents in MSCI's ACWI ESG Leaders Index, Soros pointed out.

Coming down from the clouds, while China continues to climb a great wall of worries, I think there might be better bargains before Christmas. So I raised cash on Friday by taking some profits at the technology giant, Apple (APPL), and tractor-maker, Deere (DE), and sold all my International Business Machine (IBM) shares at $146, $350 and $135 respectively. It all adds up to about 4 per cent of my forever fund.

One of the joys of being a DIY investor is that we can make our money matter by backing businesses we wish to encourage and avoiding those we don't.

If half the things being said about China are true, I would rather gain exposure to Asia via India, Japan and Vietnam.


Why I'm walking away from China

Cowie's column from April 26 last year

63p

The price Cowie paid in June 1996 for JP Morgan Indian shares that cost £8.44 this week