Investing in China: Confidence and Determination (Dialogue with APS co-CIO Wong Kok Hoi)

Moderator 00:26
So welcome back to China, and thank you very much for joining us today, Mr Wong. Would you like to say hello to our audience and friends?

Wong Kok Hoi 00:33
Hello, everyone. I am Wong Kok Hoi, founder and co-CIO of APS Asset Management.

Moderator 00:41
Thank you. So, Wong Kok Hoi is the founder and co-CIO of APS Asset Management. He has 44 years of investment management experience, including being the CIO at Cititrust Japan, Senior PM at Citibank HK and Senior Investment Officer of GIC. Mr Wong also completed the investment appraisal and management program at Harvard University.

Moderator 01:03
So Mr Wong, we know that you have very profound experience on investment of over 40 years. And do you have any books that you would like to recommend to our audience and friends?

Wong Kok Hoi 01:15
I think there are many investment books in the marketplace. Today, Maybe I would like to recommend a very old book by John Maynard Keynes, one of the most brilliant economies of this century. The title of his book is “The General Theory of Employment, Interest and Money”. In that book, there are two or three chapters about investor expectation and their impact on share prices. Yes, investing is about fundamentals, but it is also important to understand investor expectations.

Moderator 01:59
Thank you very much. So this book will also be our gift for our audience friends today. So if you join our lottery today, you have the chance to win this book. So having visited China this year and last year, are there any changes in China that have impressed you?

Wong Kok Hoi 02:20
In the last two years in particular, most investors and businesspeople who have I’ve met have been extremely pessimistic. But I think after September 24th, at least I see a little optimism amongst them. But they’re still cautious, though.

Moderator 02:43
Yeah, that is exactly what we saw last year. And I remember when we were quite pessimistic about the stock market and the overall situation for the most part of 2024, you were one of the very few China fund managers who still had some hope in us. And in the August 2024 edition of APS’ China Monthly essay, titled “The Forgotten Fundamentals”, you wrote that maybe things were not as gloomy as we thought at the time. You emphasized that despite that China

was facing multiple headwinds at the time, there are also many positives that we should not ignore. And I remember you went a step further by suggesting that the stock market might be near its trough at the time. So I want to know what gave you such confidence that the rebound was at hand during August.

Wong Kok Hoi 03:28
Now firstly, I think there were many dynamics at work in the economy as well as in the stock market in the last five years. But I felt that most investors focused only on the negatives and also ignored the valuation of the market. The principal difference between me and many of the China bears is that, yes, on the one hand, I agree that China was and still is, facing multiple headwinds. But most of the headwinds or economic problems are widely known. And therefore, my sense is that many of the negatives are broadly discounted in the market. That said, there are also positives taking place in the market. So let me elaborate what I mean by the dynamics that were at work.

Now, firstly, there were four powerful forces at work. And maybe one, once in a century event that sort of disrupted the four forces. Firstly is the transformation of the Chinese economic model from investment-led infrastructure and property economy to an innovative, high value add economy. Now the decision made to transform China's economy was the right one. And of course, such a transformation, would take time. It cannot be done in 3 or 5 years. It has to be at least 10 to 20 years, if not longer.

Now, I would say that China has already made quite good progress in this transformation. And I would dare say that China is probably the leader, in maybe 60 or 70% of the high tech industries, say for instance, in telecommunication, like 5G. China is clearly the leader when it comes to 5.5 and 6G, China without doubt will be the outright leader, with no distant second. And then you have got solar cells, in which China is dominant. Then you have got your EVs. And your batteries.

Again, here, China is the outright leader, right? And all the other foreign car makers are panicking as we speak. Right. And then you got your drones. You've got your Beidou, you've got your high-speed rail. Only probably in semiconductors, and maybe AI, China lags that of the U.S. Mostly the US I wouldn't even say Japan or the other European countries.

Now thirdly, is the urgent pressing need to correct the excesses that were created during the high growth era. One would be environmental degradation, corruption, and maybe monopolistic business practices and so on.

Moderator 07:21
So in terms of the different conditions that made our economy and stock market quite low in the past, are there any conditions that have experienced some changes that you have noticed during that time?

Wong Kok Hoi 07:39
Now, of course, during that time, the US launch five wars against China: geopolitical, trade, technology, investment, and information wars. These five wars have impeded and slowed down China's growth rate. Yes, it's creating a little inconvenience for China, but I think Washington's actions are probably a little too late in containing China's rise. Eventually, I think, China would make it. To put it another way, the train has left the station. The fourth factor I think would what I call the drifting entrepreneurs. In your last 40 years, the most powerful asset that China has is this group of entrepreneurs that have powered China's phenomenal economic success.

Wong Kok Hoi 08:53
And partly because of the anti-corruption and tax evasion investigation, many have chosen to lie low because making the next million or next billion is no longer their number one priority. This is a great loss and a little sad for China and also for them, because they are, I think, the best entrepreneurs in the world. If there's a way to rekindle this entrepreneurs period, I think it'd be great for China.

Wong Kok Hoi 09:34
The last is covid, which disrupted the economy for three years. The first two years I think were excellent in that the government managed the delta virus variant very well. It's only in the third year when China had this Omicron virus, that maybe decisions made were not ideal, which affected the economy somewhat, but more critically, I think it left behind a psychological scar on them. But overall, I think China managed Covid pretty well. It's only the last year that it could have been done better.

Moderator 10:28
Yeah, I think you made some very good points. So in terms of the signals that happened on September 24th, I remember some investors did believe that the signals were very crucial for our stock market. But still, there are some other investors who are missing the stimulus measures at a time, that no matter the monetary policies or the fiscal policies, they were insufficient to improve the weak economy or lift the stock market. What was your view? What were your views on the different policies or stimulus measures?

Wong Kok Hoi 11:04
I get a sense that most economists and analysts focus on the measures announced since September 24th, and try to make a judgment as to whether the measures were enough to stimulate the economy, stabilise the property market and so on. I think that focus is probably not correct. To me, I think the more important point is whether or not the top political leadership is serious and determined to do what they said that they will do. I remembered over a just a few days, the top leaders, from the president to the top regulators met with the press. To say that they recognized that the economy is not progressing well and that they must fix the economic ills of the country. So to me, I think the direction of travel is clear. And I think China is enough tools to do what it sets out to do. Some problems may take it longer time, some can be fixed in a matter of months. Now if, for instance, the tools or the measures in the next few months may not be enough to do or achieve what they want to achieve, China can resort to their final weapon, which is the money printing machine.

Wong Kok Hoi 12:46
Because remember, during the covid years, Chinese policymakers were very disciplined. They refuse to give out money or extend handouts to its households and also to small and medium size businesses when most other countries did it. Therefore, after Covid, there wasn't much revenge spending expected because there were no handouts during the Covid years. So maybe now, it is time for China to make up for what they did not do. To be fair, I think now the government is already doing part of it through the trade-in subsidy program. And I think that's the right thing to do, and I think they are likely to extend that program into more product categories this year.

Moderator 13:44
Yeah, I agree with you on that. I also believe that as long as we have the willingness to address this problem, we do have many different tools and measures that we can look forward to in the future. And also, you are the first investor I remember to coin the term "PBOC put", that is a very creative one. So why do you think our investors can have this kind of assurance and confidence that our People's Bank of China will support our stock market in the long term.

Wong Kok Hoi 14:15
On September 24th, PBOC Governor Pan Gongsheng said very clearly that he will provide 500 billion yuan to non bank financial institutions to buy shares, and another 300 billion yuan to listed companies and their major shareholders to do share buybacks. But most interestingly, he said that if that's not enough, there'll be two more rounds of equal amounts. And I watched his body language very carefully. So I get a sense that he and the top leaders must have decided that one effective way to reverse the negative wealth effect that had afflicted the economy, especially consumer spending, is to boost the stock market. So to some extent, it can reverse the negative wealth effect. And I believe the PBOC had never undertaken such a commitment. So to me, I think the PBOC will provide whatever liquidity that is needed to boost the stock market, i.e. investors now have a "PBOC put", And therefore, I think the recovery in the stock market last year should continue into this year. For a very simple reason: if there's enough liquidity injected in the stock market, it will go up. It's Economics 101.

Moderator 16:01
Yeah, indeed. I do think our investors should definitely have more confidence in this year. And recently, we are entering the Trump 2.0 era. So what kind of challenges or difficulties do you think the Sino US economic cooperation will face in the Trump 2.0 era? And how should the US-related Chinese companies prepare in advance to cope with these kind of business challenges?

Wong Kok Hoi 16:29
The first question is, will Trump 2.0 be the same as Trump 1.0? Some say yes, I think probably there may be some similarities in terms of goals and tactics, but I think there will be also significant differences.

Wong Kok Hoi 16:50
For a number of reasons but let me just name three. One is that Trump will not have to worry too much about losing his supporters' votes because, there will not be another presidential like election for him. Two, Trump has spent more years as a businessman than a politician, and therefore, I think one of his goals is not to do things to damage his family's business interest. Three, he may want to leave behind a legacy, and therefore, the country's interest to be as important as his family's business interest. Now if you look at the lineup of his cabinet, it is not clear to me that he and his cabinet would certainly antagonistic and hostile towards China, as predicted by many. I think it remains to be seen that Trump 2.0 would be exactly like Trump 1.0. Already, I think we are seeing signs that he may be more moderate in his term, this time. Look at TikTok for instance, he said, two weeks ago that he is looking into the ban on TikTok and has asked the Supreme Court to review the case. I think that's a positive sign.

Moderator 18:36
Yeah, you made a very good point and recently there are also some discussions about the tariff rate. So do you think in the future, the actual tariff will turn out to be lower than most people expected.

Wong Kok Hoi 18:52
Yes, there's a lot of concern in this country that Trump will impose a sweeping 60% tariff on all the China imports. I think it is not realistic and practical to impose a 60% tariff on all China imports for two major reasons. One is that you will certainly push up inflation in the country which would then lead to much higher interest rates. The US Economy is a very leveraged economy, federal government debt is already $36 trillion dollars and it's increasing every day. The corporate sector and consumers are also very leveraged. So I'm not sure whether the economy is able to take on much higher interest rates for an extended period of time. Two, indeed, if he were to fulfill his election a promise many U.S. Companies would get into trouble. Just take two companies for instance, overnight, Apple's product should be 60% more expensive. And they will lose their competitive edge over products from say Korea, Europe, Japan, and so on.

And I think Apple would get into trouble right away. Two, maybe half of the products on Amazon shelves would be 60% more expensive. How can the average consumer stomach that kind of increased price? And we must not forget, Trump has also promised his supporters that he would lower the cost of living. How can he help his supporters lower their cost of living when he's increasing prices on most things?

Wong Kok Hoi 21:13
Yeah, so I don't think that he would impose a 60% tariff on all China goods. He may impose a 60% tariff or even higher on certain products. As an aside, it's interesting to note that the US had actually imposed 60% tariff, if I remember correctly, it was 59.1% under the Smoot Hawley Tariff Act in 1929, which led to the Great Depression. And I'm sure many of Trump's cabinet members are aware of what happened during the Great Depression. So if indeed Trump would fulfill his promise, I think the world would go into a great recession and therefore all bets would be off on the stock market, not just for China, but for all global equity markets.

Moderator 22:24
Yeah, every tariff policy has a price.

Wong Kok Hoi 22:27
Yes.

Moderator 22:29
So in the future, under what circumstances could there be improvements in the bilateral cooperation? Are there any chances?

Wong Kok Hoi 22:40
That's a difficult question. I think firstly, if for instance China can help the US to create jobs, maybe a million jobs, that will be taken very positively by not just president elect Trump, but also many politicians. One of the goals or major goals of politicians is to create jobs, for their constituents. And therefore, if the Chinese government were to negotiate with the US government, to work together to create jobs in your country where the US government will provide cheap land, tax incentives, and the Chinese government will provide some support, maybe many Chinese companies would consider setting up factories in 20 or 30 states so that those products can be sold in the US. The one good example would be electric vehicles. Trump has said Chinese EV companies could set up factories in the US, and sell in the US. So this would be a win-win outcome for the US and China. Two, is for China to grow its economy so that in maybe 5 or 6 years time, China's GDP would be as large, if not larger than the US; then I think the trade war, or whatever war, would end because then American companies who want to sell in China. The Chinese market will be a huge and attractive market for them, and the US businesspeople will then lobby the politicians to be more friendly to China so that they can sell their products or provide services to Chinese consumers.

Wong Kok Hoi 24:57
US politicians go to elections once every 2 years. To win an election in the US, you need money, and it is the corporates that are the biggest donors to politicians. In other words, the politicians will do what the businesspeople or the business corporations ask them to do. On the one hand, you can say that this system is a little corrupt, but it is institutionalized corruption where politicians do what the political donors ask them to do. So these are two ways in which bilateral relations can improve.

Moderator 25:50
Yeah, these are all very practical suggestions. Some people in some quarters in China, may be concerned that China might be facing “Japanification”, meaning that China might encounter a decade or two decade-long balance sheet session similar to what happen to Japan in the 1990s. So we know that you have worked as the CIO for Citi Trust Bank Corporation in Tokyo in 1980s. So I would like to know whether you think China’s current economic situation is similar to that of Japan in the 1990s. To be more specific, will Chinese companies choose to deleverage in the current, low interest rate situation?

Wong Kok Hoi 26:39
Yes, I experienced firsthand the Japan economic bubble in the late 80s, then the bursting of the bubble in the 90s. There may be some similarities between Japan in the 80s and today’s China, but I think the differences are more stark and more significant. Let me just mention a few differences.

One, yes, both countries had property bubbles, but the Japanese bubble was much larger than China’s. At the peak of the Japanese property market, the Imperial Palace, which was about 2.5 acres, was worth as much as the entire state of California. Two, yes, both stock markets had bubbles. But again, the Japanese bubble was much larger because, at the peak of the stock market in December 1989, the Price to Earnings multiple was 70 times. And the Chinese stock markets Price to Earnings multiple peaked at 15 times, 4 years ago. Yes, there were certain sectors and stocks that were very expensive, but that was balanced out by many cheap stocks in the financial services sector, maybe the low value add manufacturing sector and so on. So from the property market and stock market, you can tell that the bubbles were of different proportions.

Three, when the real estate market burst, almost every Japanese bank, big and small, were bankrupt. Many had to be bailed out by the bank of Japan, and also many were allowed to file for Chapter 11 Protection. Now across the sea of Japan, as far as I know, no Chinese bank is under a threat of insolvency. None. Maybe one or two small banks might be in trouble, but most of the Chinese banks are in a good shape, partly because their exposure to the real estate sector was less than 10%. Fourthly, yes, there was this a balance sheet deleveraging in Japan, but this is for a cultural reason not mentioned by many economists.

In Japan, most senior management staff, including the Chairman, CEO, are all salaried staff. They are not shareholders, or they own a very small stake in the company. And their number one priority at that time, was to make sure their company would survive the economic crisis. And therefore, the way to increase your odds of survival is to pay down your debt. Therefore, even when there were business opportunities, they didn’t want to take additional risk. Because to them, it was their job security that was more important than company’s profitability. So they continued to pay down debt for ten to fifteen years.

But in the case of China, it’s different. Most companies are either SOEs or private sector companies that are owned by one or two major shareholders. On the private sector companies, they still want to make money if there is a business opportunity. Yes, maybe in the last year or two because the economic environment has not been very robust, so they are a little cautious. But if there’s an opportunity, if they can identify an opportunity, I’m pretty sure they’ll borrow, then invest just like many high-tech companies. Take for instance the semiconductor companies. As far as I know, they have been investing heavily every year. Whilst the Japanese semiconductor companies stopped investing. That’s why today, have you heard of any large and successful Japanese semiconductor company? No, because they’re not invested. As a tech company, if you don’t invest enough for 2 or 3 years, it will be game over for you.

So, will China go into this balance sheet deflation? Absolutely not. I've not even mentioned the SOEs. Today, most of the SOEs, as far as I know, very cash rich. Whether it's China Mobile, CNOOC, and so on; look at their balance sheets, plenty of cash.

Moderator 32:33
Yeah, we do see many very ambitious or very hardworking entrepreneurs still working in the company now.

Wong Kok Hoi 32:42
Absolutely, the corporate structure between Japan and China is starkly different. Maybe another point to add is that in the 90s, when the bank themselves were in big trouble, were they able to lend? No, they also had to repair their balance sheets. Today in China, it is completely different, right? They are flushed with cash, their household deposits, I think surpass $18 trillion. They want to lend but they're not finding enough borrowers. You see, there are huge differences between the two countries.

Moderator 33:35
Yeah, there are indeed many differences. So in your annual investment letter to your investors, you said that China has the condition for a decade long bull market. I think not everyone shares your optimism. So how is this possible given that the current global protectionism the world is actually facing, and our economy is undergoing a structural and cyclical adjustment. Could you explain a little more on that?

Wong Kok Hoi 34:05
I think most investors, focus on the short term factors or the headwinds, but we as a long term investor, look at really the long term trends.

September 24th was the first major turning point, which should lead to a better economy. The second major turning point, I think, would be around 2026, when the output of China's high-tech sector will surpass that of the property sector. In last few years, the economy has been a dragged down by the very weak performance of the property sector. And as we speak, it is still the largest sector in the economy. So after 2026, I think the economy would be in a much better shape because it would be the high tech sector that will lead economic growth and I also believe that this sector will get stronger. Take for instance, the EV market, the auto market is a three trillion-dollar market. Huge. This is equivalent to about maybe 16-17% of China's GDP. they have just started to dominate. They may not be able to sell to US, but no big deal, because they can sell their EVs in southeast Asia, Africa, some European countries, Latin America and the Middle East. The other major turning point I think would be 2030. That's when I think 6G is likely to be introduced. In a 6G world, I think the society will be very efficient, also the manufacturing sector, 6G, as you know, would be very fast, maybe 100 times faster than 5G. So many things would be possible, including IoT, remote surgery and so on. That's when I think the Chinese society will be much much more efficient than many societies. So I think if my predictions would turn out be largely correct, the Chinese economy would be competitive and efficient. Companies would make much more money and therefore, the stock market would discount that.

Maybe I'm looking a little too far out, but as a long-term investor we always look out for as far out as we can. So this is how I see China for next maybe seven, eight, or even 10 years.

Moderator 37:26
Yeah, you made a very good point on there are many things to look forward to every year in the future. I know that you came from Singapore and your country has done very well in the past. So despite the disparity in size between the two countries, what kind of lessons do you think China can learn from on Singapore's past success?

Wong Kok Hoi 37:48
As you said, the Singapore is a small country. I'm not sure whether there's much for Singapore to share its experiences with China. But since you asked this question, let me share with you just maybe two or three points. One is that I remembered in our nation building years, our political leaders, Lee Kuan Yew and his team regularly engaged its citizens and even other world leaders about the country's policies and strategies. So that people can feel that they're part of a big, broad strategy. So in China today, because of the many uncertainties and having spoken to many Chinese, I get a sense that they have very faint ideas of where the country is heading, not because this country has no strategy. I think this country has strategy, but it's political leadership, including government officials, have not engaged enough its citizens and maybe also with the world. I'm an overseas Chinese, we are guided by these Confucian values, under which we are trained that, silence is golden. But I think in this internet world, and now when China is facing multiple headwinds, somehow, I get a sense that maybe it'd be useful for the country and its people that policymakers including regulators would engage its people a bit more regularly, so that they know where the country is heading. Is it heading for Japan style deflation or is it heading for better times?

Wong Kok Hoi 40:15
Now I say this because China has actually made a lot of progress on the high-tech front, but not many Chinese know. I visit factories all the time, I speak with the senior management of high-tech industries. So in addition to my reading, I get a sense that China is actually heading in the right direction, I.e., it should be a technologically advanced and modern nation maybe by the year 2030 or thereabouts. And therefore, that gave me the confidence that at current market levels, as a long term investor you should, as some people say, go "All in", or at least stay invested in this market.

Two, what Singapore has done well in over the decades, is this a rule of law and a protection of property rights. So China now is at the stage of becoming a developed nation. So maybe it's about time for this country to give a bit more thought to see whether it should do more in this area to give comfort to its citizens and its businesspeople. Three as I said early on, China's success today is due to a large part to its very enterprising businesspeople. Not only are they enterprising, but they are also very hard working. But they seem to have lied flat, which is a big loss for the country. In Singapore, we also had our anti- corruption campaign in our early years. Of course, Singapore is of a different scale, it is very small. So our anti-corruption campaign ended pretty quickly. So China has this anti-corruption campaign for 10 years now. Surely, it's not in the interest of the country that it will continue forever. So there must be a cutoff point. If this country can come up with some imaginative ways to address this issue, I think this country would be a great nation in no time because the entrepreneurs of this country are some of the best, if not the best entrepreneurs in this world. Because over the years I've met with hundreds of entrepreneurs. They all have impressed me. They are extremely smart and still very hard working.

Moderator 43:37
Yeah, yeah, you made a very good point. And maybe we should learn from Singapore and try to give our entrepreneurs more comfort and give them more encouragement in the future.

Wong Kok Hoi 43:47
Absolutely.

Moderator 43:49
Talking about these macro related issues. Could you share with us about your basic investment philosophy? And how is your philosophy reflected in your investment strategy in China?

Wong Kok Hoi 44:02
Maybe on just some investing rules that I abide very closely, one is to buy low, sell high. Yeah, you should be a contrary investor most of the time, you would buy when everybody is a seller and vice versa. But this country, I think there are more momentum investors than contrary investors, right? In China there is a saying you only buy when the asset price increases, and never when it decreases. Buy high, sell higher. Two is to buy what you know, as investors, we like to listen to stories, rumors, which I think is not a good thing to do. You should not. Yeah, if anything, you should buy what you know. Four, I think you should be a long term investor. Now don't trade. It's very difficult to be a good trader, believe me that I've done that in my early years and I've realized that it's much easier to make money by investing for the long term. Next, I think maybe its diversification because in investing, you always have to face uncertainties. And no matter how much research you do, you can be wrong. And therefore, diversification is important, i.e. you should not put all your eggs in one basket.

Now if you were to buy individual stocks, which I'm sure some of you do, I think you should do a few things. One is to understand the business model of the company, at least have some under rough understanding of the business model. Like for instance, are the entry barriers high? Is there a lot of competition in that business? Two, you need to also know the people behind the company, the founders and the senior managers. Have some idea on why they are, what's their background? Can you trust them? And these are important things, or at least very important to our PMs and analysts in APS. Three, you want to also study the balance sheet a little. The P&L is probably less important than the balance sheet. So in APS we like to study balance sheets for at least five years because if the management is hiding some skeleton, if you will, in other words they massage their earnings or they do some naughty things, it will show in a balance sheet, especially in the fine print. So we like to read the fine print. Four, check if there is this frequency of change of CFOs, auditors and independent directors. A well managed company or a sound company should not be changing its CFO or independent directors or auditors too regularly, right? If you change regularly, not to say that you can't invest, you have got to know why they are changing their CFOs 3 times in 5 years? Or why are they changing their auditors from a top 4 auditor to each time change takes place, a smaller auditor.

Moderator 48:06
There must be a reason.

Wong Kok Hoi 48:09
Yeah, these are danger signs and you have got to be very careful.

Moderator 48:15
Yeah, you made a good point. All these are very practical suggestions for us. And also, we know that you have experience in investing in the Hong Kong market. So I would like to know whether you think there are some characteristics or advantages of Hong Kong market compare to others, for example, the US market or the A-share market.

Wong Kok Hoi 48:37
I think it's just valuation. Many of the China stocks are listed in Hong Kong are very cheap. On average, they are half the prices in Chinese Mainland. And therefore the dividend yield would be double that of A-shares, even though they are the same company, one hundred percent the same. Nothing is different. Just that some of the shares are listed in Hong Kong. So obviously as a deep value investor, we buy cheap stocks.

Moderator 49:14
Also, do you think this kind of undervaluation is a long term thing? Or in the past, there are some time when the Hong Kong stocks are overvalued compare to the A-share stocks.

Wong Kok Hoi 49:30
I think this undervaluation, this deep undervaluation will not continue forever for sure. Will it continue for another 6 months, 12 months? I don't know.

Moderator 49:43
So you prefer to put relatively significant positions in the Hong Kong market in your portfolio, right?

Wong Kok Hoi 49:50
For the same companies, yes. Take for instance, China Mobile, right? The H-share price is half that of the A-shares, right? Or take SMIC, I think the Hong Kong share price is just one third of the A-share price for the same stuff. Obviously, I'll buy one that is significantly cheaper.

Moderator 50:17
Yeah, yeah, that's right. So as a very experienced investor, you have witnessed the transitions and the change of the Hong Kong market in the past years. So do you think there are any differences in the recent years compare to a decade or two ago in the Hong Kong market?

Wong Kok Hoi 50:36
Yeah, of course. I think one big difference is that the Hong Kong market has borne the brunt of the selling by foreign investors, which explains the deep discount of many of the stocks there relative to their counterparts in China. I think that's the single largest difference today, compared with, say, five or seven years ago.

Moderator 51:10
Yeah, you made a very good point. And so also in your over 40 years of investment experience, have you experienced any time we call it the dark hours? Was there a time of event that made you need to adjust or reevaluate your investment strategy? Have you experienced some very difficult times?

Wong Kok Hoi 51:32
Yeah, certainly. I remember when I was a young portfolio manager working in Tokyo, we had this Black Monday event, I believe was October, maybe October 19, when the New York stock market crashed 20% in a single day and the Japanese stock market could not even open, right? I think there were only three or four stocks that traded, out of maybe five thousand stocks. So at that time, most investors felt that the world would enter into a Great Depression, that we are in a financial crisis. I was young at that time, or younger. So I had also believed that the world has plunged into a deep crisis that would take years to recover.

But I was wrong. the market recovered within months. Now, at that time, I remembered that the Japanese policymakers engaged investors and the public every day, assuring them that Japan's fundamentals were intact. And within a month, I think, the Japanese stock market recovered. That's why I said it's important when there is a crisis or when a country faces challenging times, policymakers, including regulators, must engage the public. Yeah, especially the retail investor. So, I'm not sure whether China is currently in this situation, but I think there's no harm, right? That government officials, engage the public regularly. because in this country many things are heading in the right direction. That’s my view. Many things, maybe not all, And therefore, by engaging the public, I think confidence will slowly improve.

Moderator 53:47
That was a very special experience for you. So looking forward into this year. What is your investment outlook for China this year?

Wong Kok Hoi 54:00
Now, I think firstly, we’re in a bull market. Yeah, let me explain why I think we’re in a bull market, right? You need probably four conditions for the bull market. One is a negative sentiment, or maybe extreme investors sentiment, two, attractive valuation. Three, declining interest rates and fourth, improving economic data and earnings recovery. So the first three conditions were already satisfied more than a year ago, right? You look around, most investors are bearish, domestic or foreign. Two, the Price to earnings multiple is about 10 times, much lower than the US, Japan, India and many other emerging markets. Three, this year, I’m sure there would be more interest rate cuts. Yes, nominal interests maybe low, but because there’s no cost push or inflation-pull inflationary pressure, the real interest rates actually are high. The real interest rates actually high, despite low nominal interest rates. And therefore there’s still room for PBOC to cut interest rates, given that economy is weak. Before September 24th, what was missing was this expectation of economic recovery and earnings recovery. But after September 24th, I’m sure this year, 2025 maybe not every economy data point would be good, but I think maybe 70% of the economy data this year would be better. Bearing in mind that last year was a very difficult year, very bad year. So you’re comparing 2025 with a very bad 2024. Likewise, I expect earnings to recover maybe 10 to 20%, again on a very low base.

So with these four conditions, I think, the stock market would do well against very bearish expectations currently. See the other point I want to mention is that last year was very bad, wasn’t it? And everything was very bad. What did the stock market do? It was up in the high teens. And therefore, if the economic environment were to improve, I see no reason why the stock market would not go higher. I may be wrong, but this is my current view.

Moderator 57:13
Yeah, that is very clear. And for crucial signals that you mention are all very helpful for us to understand. One is extreme pessimism and one is the current attractive valuation. Yeah, and also you see some improvements in the economic data.

Wong Kok Hoi 57:32
I should add one point, which is that the best time to buy stocks is when everything is very gloomy, i.e. at the darkest moment or time of the day or year. That’s when I think you’ll be able to buy stocks at a trough. And I would say, of course with the benefit of hindsight, that might have been sometime last year that when everything was very gloomy.

Moderator 58:09
So in which specific industries do you see the main opportunities in this year? For example, technology or manufacturing industry?

Wong Kok Hoi 58:17
Broadly speaking I like two categories of stocks. One would be the stocks in the high tech sector, mainly because they represent the future of China. Yeah, not the yesteryear stocks like the internet or real estate, or low value add manufacturing and so on. But of course, the high-tech sector is a big sector. You have semiconductors, we have EVs, you have automation, you have telecommunication and so on. The other category would be deep value stocks, mainly

because of the bear market from 4 years ago. So many high quality stocks, maybe not many I think maybe that's not fair, I think there are enough high quality stocks have been sold off massively by investors. So you can find today, many attractive stocks with very compelling value. So these would be the two broad category of stocks that I think will do very well in coming years.

Moderator 59:44
Yeah, so how do you view the competitiveness of China's manufacturing industry, including the EVs and so on, in the global market. Does it still have a very strong advantage in the upcoming years?

Wong Kok Hoi 59:57
One Hundred percent. I think the EV war is won by China just in the last two years, right? And now every year, Japanese, American, European and Korean car manufacturer feels the threat from China. And I think they've given up the fight because not only are Chinese EV cars cheap, but the quality is amazing, the quality is just amazing, right? So I think the future auto market belongs to China.

Moderator 01:00:48
So do you think there are some problems? For example, the capacity problem or intense competition between different EV companies? Do you think this problem is threatening?

Wong Kok Hoi 01:01:00
Yes, China is a clear leader in the EVs, but the competition among the EV manufacturers is intense, very intense, which may last for another 6 or 12 months or even 24 months, that I do not know. But in this process, the weak players will be flushed out. And then the survivors will be able to increase prices to make money.

So today, although we like the sector very much, we're not buying the EV stocks yet because of the intense price competition that is underway. On the other hand, we are buying the component manufacturers, the high quality component manufacturers. They will be the winners anyway, regardless of who will survive in the EV market, right? And they have done well, but at some point in time in the future, I think we would like to own one or two EV stocks.

Moderator 01:02:06
Yeah, so in terms of the high quality but undervalued stocks, what specific area are you choosing from?

Wong Kok Hoi 01:02:14
I think we are spread all over the market. Amongst them, we favour those stocks that pay high dividends because there are so many cheap stocks in the marketplace. So we can pick those that are cheap and yet, pay high dividends. Many of them are amongst the SOEs actually, like CNOOC, China Mobile, the banks and some of the financial leasing companies which are paying yields of 7 to 10%, significantly higher than bond yields. I think this is something that is not seen in China in the last 20 years. Where you have your stock dividend yields to be a few times higher than bond yields, right? And this is also one of the reasons why I turned bullish. And I can assure you when bond yields drop further, you can expect some money, maybe not a lot, some money to move from bank deposits to the stock market. Why would you want to put your money in a bank to earn 1.5% or 1% in 6 months' time. And not by a high quality company that pays you a dividend yield of 7 or 10%.

Moderator 01:03:48
Yeah, that is a good point. I think currently many people have this need to move their deposit into the equity market.

Wong Kok Hoi 01:03:59
Yeah, because you want to earn a decent return, on your wealth.

Moderator 01:04:05
So a broader question on the previous industrial revolutions happened in Britain and also in the US. So when you think the next kind of industrial revolution will take place.

Wong Kok Hoi 01:04:18
Well, many people say it is the AI revolution. I don't know, but we have been talking about AI for the last 50, 60 years. Is this time real, I'm not an expert so I don't know, but I think AI would change now the way we live and also the way we work. But is it going to be the next industrial revolution? I don't know. Based on my limited reading in science, maybe it would be a quantum computing, which I think would be even larger than AI. Everything will be done at the atom level and the speed will be infinite. If indeed there will be a major breakthrough in quantum computing, everything will change. Everything in this world will change, including the way you discover new drugs for Alzheimer disease, for cancer and so on. So what we are sure of, is that technology can change very fast. So what is the next industrial revolution? Is it AI? Is it quantum computing? I'm not an expert to give you a more definitive answer. I think the jury is still out. The jury is still out.

Moderator 01:05:51
So we have talked a lot about the different opportunities. So in terms of risk, where do you see the biggest risk, domestic or overseas?

Wong Kok Hoi 01:06:03
I think the world has entered into a multi-polar world. And that is not good for the world. It's clearly one pole would be the US and his allies. The other pole might be the BRICS probably led by China. Would it be good for world peace? World economy? I don't know. My gut feel is that maybe not. So that's one risk, right? So in a bipolar or multi polar world, the world economy will surely have to slow down. Because you do not want to trade with each other. Just like the Americans today want to impose much higher tariffs, they have already imposed more tariffs. They're not willing to sell some of the products to China, right? So how can this world be a better world? So this, I think, is an investment risk.

Now, would there be a war in this scenario? Maybe not. I'll put it this way, the odds of a war, I think will be low because the major powers have got nuclear weapons. It's a new world. In a nuclear war, it would be mutual destruction. But men have been foolish many times in history. So we can never be sure that there will not be a nuclear war. But let's keep our fingers crossed that world leaders would be composed and smart enough now to avoid a nuclear war.

Three is the US. Many people believe that the US is an exceptional country. They use the term exceptionalism, which I think is a dangerous word to use. The Japanese used that word maybe a different word in the late 80s, right? I remember that when I was working in Japan, most Japanese were very confident that their economy will surpass that of the U.S. That's why land prices went through the roof, because they said our land supply is limited, nobody can stop our economic success and therefore, our land prices will continue to rise in Japan. And Japan at that time had a term called "Land Myth". That's why the banks extended unlimited loans to anybody who wanted to borrow to speculate in the property market. Fortunately PBOC and the government had the common sense to control the speculation. Although, yes, property prices did go up very much, but at least not to the extent of Japan's experience. So as you know, the US stock market is very expensive. Can company earnings grow at 20, 30% a year for many more years, which is what the stock market has price in? I'm not sure. And should US interests rise, I think that will pose a significant risk to US capital markets and the economy. So you ask me, where do I see the risk? I see more risk in the US than in China, actually. Because expectations are so low, right? In any economy where expectations are low, risk would be low. And in any contrast, when expectations are high or very high, then you have risk. That is the experience of financial markets the last 100, 200 years.

Moderator 01:10:37
I agree on that. So I think you talk with many different types of foreign investors every day. I would like to know what is their biggest concern at the moment for investing in China or Hong Kong.

Wong Kok Hoi 01:10:53
I think there are, firstly, there are two types of investors out there. Yeah, one will be the investors from the Anglo Saxon countries, right? They have exited or sold down significantly their exposure to China, not because they do not believe in the future of China. I think they reduced exposure significantly because geopolitical reasons. Yeah, and then there's another group of investors which come from Asia, maybe the Middle East, Africa and so on. I think they are probably more mixed amongst them. Some have actually increased their investments in China, although not in a big way. I believe in coming years, they would diversify more of their assets away from the US to China and many other markets. So there are two groups of investors out there. And I believe eventually, if China could get its act together and address some of the problems, the stock market will go much higher. And I can assure you that most investors, whether in China or elsewhere, are momentum investors. They chase the returns, i.e. in the market rebounds for a period of time, they will come back.

Moderator 01:12:30
Lastly, we have a part called truth or dare. So I would like to add something maybe not so relevant to investment. For young people who want to pursue a career in the secondary market, what kind of advice will you give to them?

Wong Kok Hoi 01:12:51
That's a tough one. I think firstly you must have passion in investing, it is very interesting, very exciting, but also very stressful. So you have to decide first and foremost whether you indeed have the passion for investing, don't join the industry because the money is good. I think that would be the wrong reason for joining the industry. And then if you really want to do well, you have to make sacrifices. you cannot say that, oh, I want to be a fund manager, at the same time, I want to pursue my other hobbies. I want to travel around the world, I want to play lots of golf. I want to enjoy my music. You'll most likely not do well, if you enter this business. Because I worked with a lot of people many times smarter than I am. At APS alone, I've hired a lot of smart people from Peking University, Tsinghua University, Fudan University, Jiao Tong University, Harvard, MIT, Yale, Stanford, Oxford, Cambridge. You mention them, I've hired from them in my last 30 years. And of course in the GIC and Citi, I've also worked with very smart people. But these guys, they have multiple interests. Like all smart people. And most of them have not done well in investing. Very strange. Take for instance, Warren Buffett, he is a smart guy. What are his hobbies beside work? It's work.

Moderator 01:14:47
Yeah, exactly.

Wong Kok Hoi 01:14:49
Why did he and his first wife divorce? Based on what I know, when his wife organized a party in his home, Warren Buffett would join the party for 30 minutes. Then say, guys, goodnight. I'm going out to my room. What did he do in his room? He was reading his investment reports. That's why he did all his entire life. So maybe these are two small pieces of advice for young people who want to pursue a career investing. Maybe a third one. So if you want to join

this industry, I think it's important to join the right company. By that I mean to join the right company with the right investment philosophy and investment process so that you learn the right way to invest. It's very much like martial arts. If You want to be a good martial arts pugilist, you may want to go to the Shaolin Temple, to learn from the best Shaolin masters. Because in investing, as you know, there are many ways to invest. As we say, there are many ways to skin the cat. I was fortunate that I started my career in the GIC, where my first superior was an American portfolio manager who was a fundamentalist. He was 100% fundamentalist. His name was a Douglas Salmon, the late Douglas Salmon. So he told me Kok Hoi, don't waste your time learning about technical analysis and all the other BS stuff. Just focus on fundamental investing and you should do pretty well. So I'm very blessed and grateful to my sort of my late mentor, Douglas Salmon, who showed me the way to investing. Therefore in APS I've told all my PMs and analysts, in APS, we invest in just one way, the APS way which is the Four Alpha Hat Approach.

Moderator 01:17:25
Thank you very much for your suggestions. I think they're all very inspiring for our audience friends. So that's all for today. And thank you very much for your time and your sharing all the ideas you just shared were very insightful and very inspiring. Thank you very much. We're already looking forward to the opportunities in the market this year. Thank you.

Wong Kok Hoi 01:17:49
Yes, I think we can be a little more optimistic this year.

Moderator 01:17:58
Yeah. Thank you very much.

Wong Kok Hoi

Wong Kok Hoi is the Founder and co-CIO of APS Asset Management. He has 44 years of investment experience, including CIO at Cititrust Japan, Senior PM at Citibank HK, and Senior Investment Officer of GIC. He was the recipient of the Monbusho Scholarship in Japan and graduated with a Bachelor of Commerce degree from the Hitotsubashi University (1981). Mr. Wong also completed the Investment Appraisal and Management Program at Harvard University (1990). Mr. Wong is a CFA charter holder.

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