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China, Trade War and the market: impressions against facts.

There was a small story about China yesterday, buried in the “World” section of the Wall Street Journal, which might shed some light on much broader things, for us bruised and bleeding investors.

“China Sets Content Rules for Short-Video Platforms” was the headline. In a nutshell, China’s heavy-handed government censors are scrambling to catch up with an explosively-growing internet service which circulates very brief videos of everything from pet tricks to dance moves to mockery of politicians. One of the two main companies behind the short videos has 200 million average daily users; and the other says 15 million new short videos are uploaded every day. Even for China, those sound like big numbers. Both companies already employ 3,000 to 6,000 “auditors” to screen those 15 million daily uploads; and both have internet want ads out for 4,000 to 5,000 more.

The story prompted Outlook to look up the origins of Alibaba and its chairman, Jack Ma. Alibaba, today, is a gargantuan Chinese company which is kind of a cross between Amazon, Google and Facebook. It employs 93,000 people, somewhat larger than the 18 people who started it in 1999. Its founder, Jack Ma, was essentially a nobody in 1999—the opposite of the Communist Party heavyweights favored by China’s massive government-owned industries ever since the Communist Party dropped communism like a hot potato a few decades ago. 93,000 employees and countless billions of dollars of profits later, Mr. Ma hasn’t been a faceless nobody for a long time . . . and also, naturally, has long since lost a chunk of his personal and business freedom. (That’s what happens when Big Brother notices you in China.)

Throughout the market’s 3-month nightmare, whose foundation was the market’s (and media’s) promotion of every conceivable “big economic problem” from future possibility to catastrophic certainty, the “China Trade War and Economic Stagnation” monster was the nightmare’s star player. And the general impression floating around the investment world was, in essence, the notion that only China’s strong growth has been holding up the world (and even U.S.) economy, and the Trade War would surely be the straw breaking the back of a creaky-looking Chinese economic camel. Down would go China, and down would go the rest of the global economy. The market ran with that nightmare for 3 months, until last week’s blockbuster U.S. jobs report reminded it that speculators’ nightmares are not facts—and there are quite a few people in the real world, on Main Street in America as well as China, who act as if getting on with their jobs is more important than wallowing in the latest nightmare with the Wall Street mob.

As Outlook has mentioned a few times, general impressions are speculators’ bread and butter. Sometimes real-world facts come around the corner which seem to support the impressions, and speculators celebrate. Much more often, real-world facts show up which gradually make the impressions look silly, and then the single-minded mob breaks up into the usual crowd of buyers and sellers with differing opinions. Both the Chinese economy and the whole idea of “Trade War” are so poorly understood that they are wonderful creators of nightmarish impressions. At Outlook we think the bucket of cold water which was last week’s jobs report woke a good chunk of the speculating mob from its nightmare, coughing and sputtering; but it’s likely to take more time and the gradual arrival of more real-world facts to make the rest of the mob abandon this powerful source of fear: “Down goes China and everyone else, wrecked by the Trade War.”

Hence the usefulness of those stories. Neither Mr. Ma nor his modern “short-video platform” successors had anything to do with Big Government in China—which the general impression tells us is responsible

for keeping China's economy going in the face of "Trade War" and multiple other problems. The general impression also would like us to believe China's Big Government will fail in that effort—justifying the sky-is-falling scenario for the U.S. and global economy. But these stories say something different. They suggest that we consider the possibility that the real engine driving China's economic miracle, all along, has been countless "nobodies" like Jack Ma and the short-video people, given opportunities to think and act for themselves, rather than China's politicians, bureaucrats and favored bosses of money-losing heavy industries owned by the state.

If that is the real-world truth underlying the Chinese economy, it will be considerably more durable than the nightmare would have us think. The Trade War is unquestionably bad for China—and it's becoming pretty clear that its political leaders think so, too. It's just not the iceberg sinking the Titanic: for China or anyone else. Speculators make their money by conjuring up icebergs and Titanics. Good investors make their money by ignoring the speculators and acting on facts.

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