

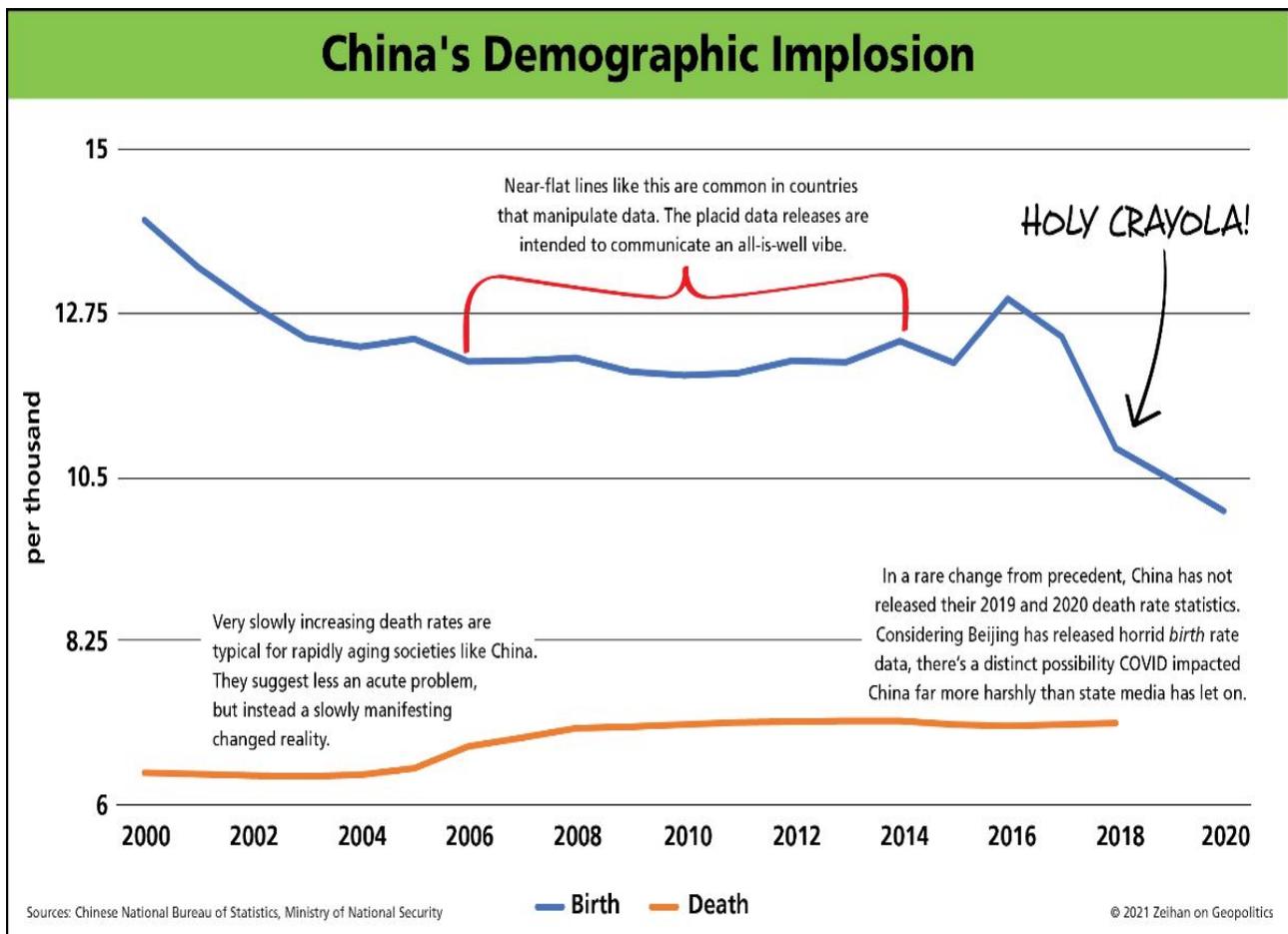
Market Watch with RMH

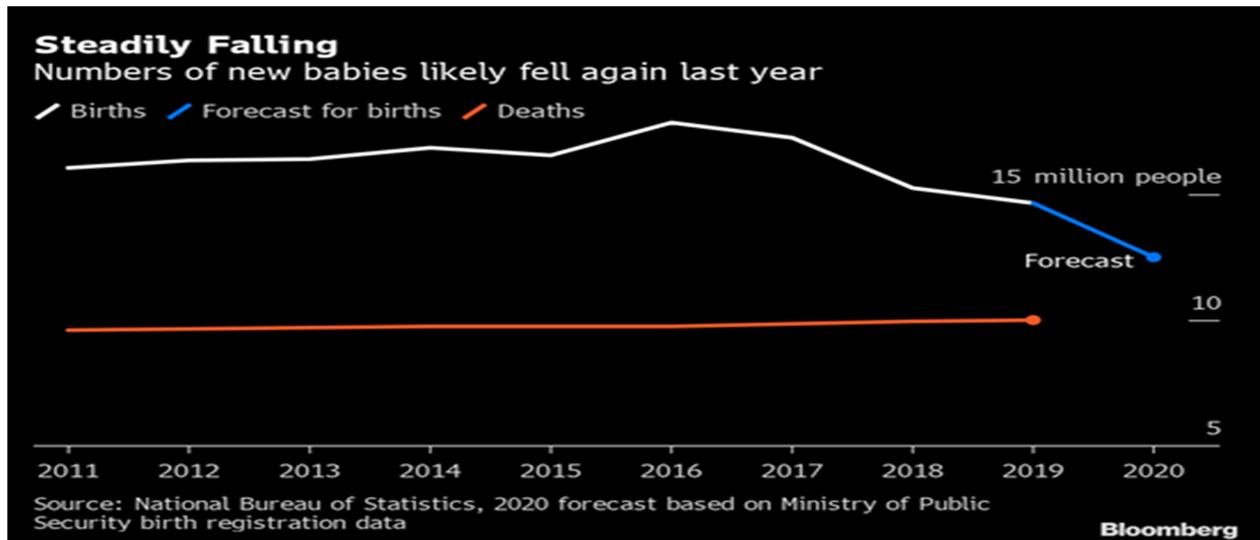
China: the demographic surprise that finally comes to light

Wow, a huge surprise from China with regards to its impending demographic collapse when it was finally broken by Peter Zeihan. **China's Demographic Implosion** as seen in the chart below. As long time clients will remember, I have met Peter, and seen him at several CFA Institute Global Conferences where he was a headline speaker. He is a geopolitical strategist that looks out into the future, which is needed and necessary in today's fast moving world.

Below is a link to the video I received from Peter Zeihan;

https://www.youtube.com/watch?v=KY_zsc0wf1Y





The following is from Bloomberg New Economy :

... True, the Chinese economy is also humming along, but Xi and his advisers are spending more of their time grappling with its enduring vulnerabilities.

Mounting debt constrains their options. More fundamentally, the Chinese state is at odds with its leading entrepreneurs. It's becoming clear that the regulatory assault on Jack Ma's digital empire, now spreading across China's tech landscape, is much more than just anti-monopoly: Data is power, and the Party-state doesn't trust private business to control it.

For Xi, however, these dilemmas are dwarfed by a challenge over which he has almost no control: demographics. This week brought startling claims that China's population may have started to shrink. That's huge news if true.

But even if it's not, the trend is clear: China's hardline birth control measures have disastrously backfired. If the Chinese population hasn't peaked, it's likely to do so soon, acting as a long-term drag on investment and growth. Indeed, the tables may be turning on the conventional wisdom regarding the next few decades.

At some point in ten or 20 years, James Liang, an economist at Peking University, told the Economist, America "will retake leadership and China will never catch up."

In conclusion, China will do well for the next several decades, then with the birthrate just above 1.2 births per family, they could effectively see their population shrink dramatically. **Best case**, they muddle through this by increasing the retirement age. Or, come up with incentives for greater population growth, however that is still a generation away. **Worst case**, try and grab Taiwan for their technology, as a tech grab to counter all of the growth they will lose through bad demographics.

The following is from Joachim Klement who is from the UK, and one of my favorite daily reads to try and stay on top of things. This article is a “good tongue in cheek” article of the fine art of investment management, where we must not always take ourselves too seriously. Glad the reindeer had good investment performance, however their “people” skills were lacking in discussing the results with their clients.

Those reindeer are good

Joachim Klement Apr 16   

First results have been reported and boy, those reindeer are some good investors. Apparently, a couple of economists had too much mulled wine last November or nothing better to do during lockdown than to take a bunch of reindeer and let them pick stocks from the pages of the Wall Street Journal. They distributed the pages of the Journal on a field in New Hampshire (the economists work at Dartmouth) and noted, on which stocks the reindeer put the points of their hoofs.

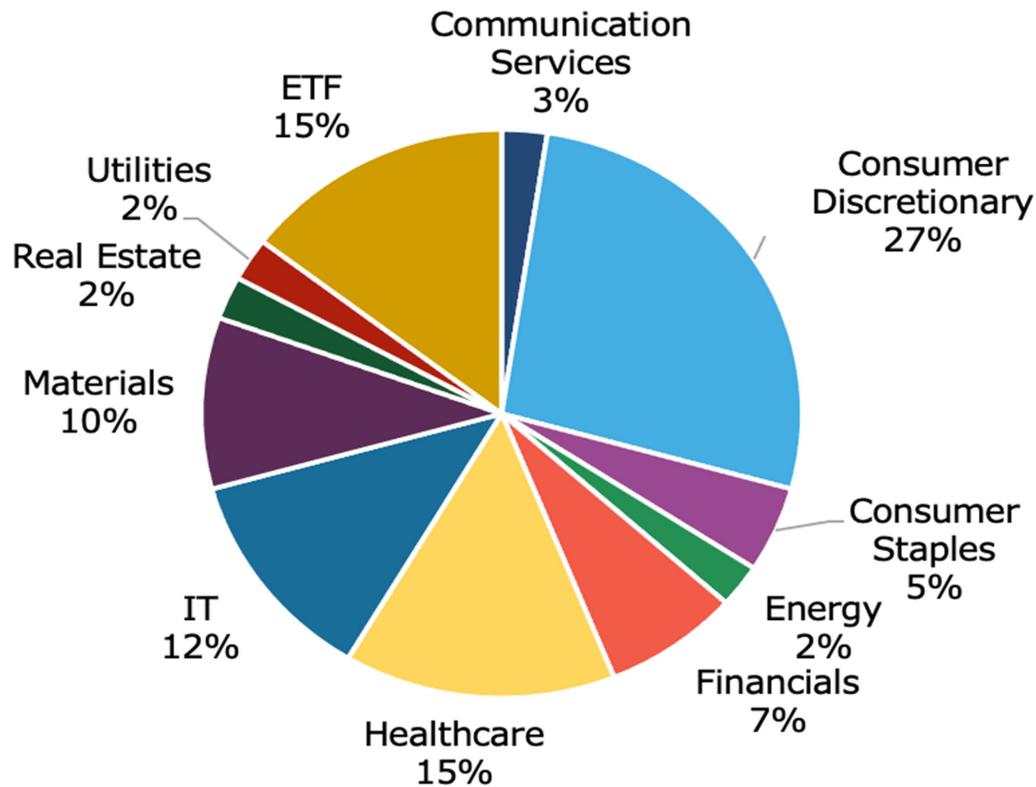
They did that in order to test if reindeer are better stock pickers than members of US Congress, a group of investors that often have inside information on regulation but no insider rules to prevent them from trading on this information. I won't go down that rabbit hole or reindeer den because the results are always the same: Even though members of Congress have inside information, they still don't manage to outperform the S&P 500 or benefit from that inside information.

Instead, I want to focus on something else that is reported in the first dispatch of the results. The researchers reported the performance of the stocks and ETF picked by reindeer and compared them to the top picks as published by analysts at top investment banks in the United States. In total, the portfolio of 68 analyst top picks entered a competition with the 41 stocks picked by reindeer and the S&P 500.

The study notes that the reindeer are momentum traders that exhibit significant herding behaviour since they picked stocks that did well in the 12 months before and focused strongly on Covid winners like healthcare and tech stocks. Only one reindeer seemed to be a contrarian investor picking Chevron amongst other stocks – a particularly remarkable pick given Chevron's

contribution to global warming. Only two of the ten reindeer participating in the study seem to be financially literate enough to know about the benefits of diversification and selected ETFs instead of single stocks.

Sector composition of reindeer portfolio



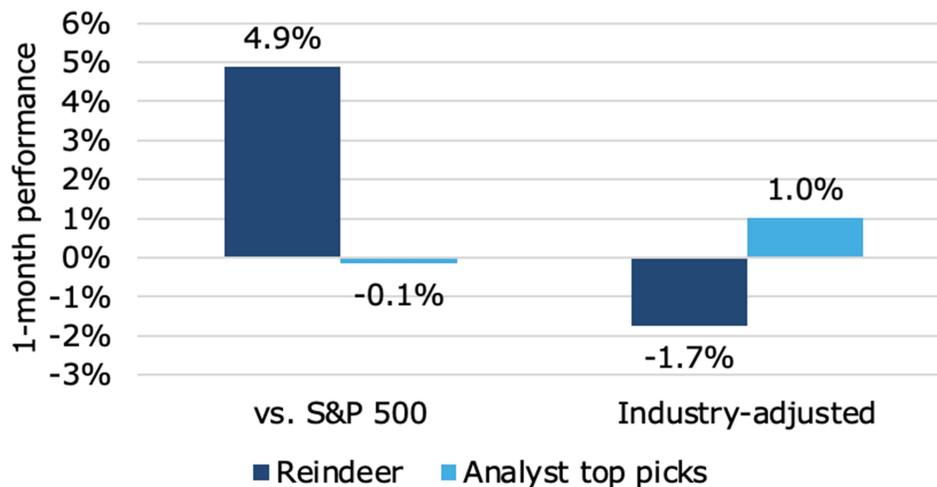
Source: Belmont et al. (2020).

Stocks were picked in November and December and performance was tracked beginning 40 days after they were picked to match the disclosure period for US members of Congress. Thus, the portfolios were effectively tracked starting in 2021. And so far, the reindeer seem to be doing quite well compared to the analyst top picks. In the first month, the reindeer portfolio beat the S&P 500 by 4.9% or 77.3% annualised while the analyst top picks underperformed the S&P 500 by 0.1% or 1.6% annualised.

However, it seems as if the reindeer mostly benefit from their herding behaviour and do not exhibit skill in picking individual stocks. Once the differences in industry composition between portfolios are eliminated, the reindeer portfolio underperformed the S&P 500 by 1.7% or 19% annualised. The analyst top picks, meanwhile, showed stock picking skill insofar as they beat the S&P 500 on an industry-adjusted basis by 1.0% or 13% annualised.

The problem in practice, though, is that you can't eat industry-adjusted returns, but you can eat total returns – and reindeer. I for one would choose the reindeer.

Performance after one month



Below is a fun picture I have always enjoyed seeing from 1932 when they were building the Rockefeller Plaza in New York City. I have always asked myself the question, would I be able to eat lunch as they were doing. Yes, I know this was a staged picture, **the question still stands!**

The story behind "Lunch Atop A Skyscraper": A nice 6 minute or so video.

https://www.youtube.com/embed/7QCYDzsQ_vM?rel=0

When I watched the video, I was taken aback by the clothes they were wearing, the shoes, lack of concern for safety. Going through the Wikipedia and other sources researching this picture was very illuminating, especially some of the back stories. 1932 tough times, people took tough jobs to survive. The gentlemen on the right side end with the bottle in his hand, was from Slovak, and wrote to his wife; *"Don't you worry, my dear Mariška, as you can see I'm still with bottle. Your Gusti"*. Of the eleven men on the beam, they only definitely identified 4.

https://en.wikipedia.org/wiki/Lunch_atop_a_Skyscraper



This was a fun RMH Market Watch to write, a lot to learn and try to disseminate in a readable form to a varied and different group of readers.

What steps are we taking at RMH?

- We are looking at the portfolios and rebalancing where necessary.
- We are taking advantage of tax loss selling to lower future capital gains.
- We are looking at what insiders are doing with some of the stocks we have purchased.
- We are talking with portfolio managers on a one to one basis and participating in conference calls.

If there are ever any topics you wish for us to explore, please let us know. *We are here to help and guide you through these times.*

We thank you all for taking the time and reading “Market Watch.” It is meant as an educational piece on the always evolving markets. It is something we plan on providing every month, and your feedback is very important to us.

On a personal note, RMH is now in the position to bring on new clients so please be sure to share this informational letter with whomever you wish. RMH’s focus is on the customizable investment needs of individuals, families, and foundations. We enjoy working with our clients to better understand their goals, values, and passions for what is important in their lives. In expanding our client base, we look forward to working with people who share these same desires

Richard Munding, CFA

Sources:

Peter Zeihan - Video Dispatch: China's Demographic Decline; April 28, 2021

Bloomberg - The New Economy Saturday: Maybe China won't win after all; May 1, 2021

Bloomberg - Next China: What the big picture obscures; April 29, 2021

Bloomberg – Andrew Browne - New Economy Saturday; May 9, 2021

Economist – “The most dangerous place on Earth”; May 1st – 7th, 2021