Big-name investors are turning to these 10 experts to make sense of China right now

JWarren Capital; Young China Group; BCA Research; MuddyWaters; Taylor Tyson/Insider

- **Insider talked to investors to find the top analysts who cover Chinese markets and politics.**
- **The group hails from research shops and short-sellers like BCA Research, Muddy Waters, and Gavekal.**
- **Here is how the group gathers intel on China and how investors should move forward.**

Investors in Chinese equities have been caught in complete mayhem over the past few months, as a wave of Chinese regulatory crackdowns has wiped off billions in tech stocks.

China has rolled out strict proposals in recent months targeting tech and internet companies after the country vowed to scrutinize the biggest Chinese companies that list on US exchanges. This comes after the US passed legislation in June, known as the Accelerating Holding Foreign Companies Accountable Act. The law prohibits trading foreign securities in the US if a company doesn't participate in audits examined by the Public Company Accounting Oversight Board, an accounting regulator, in the next three years.

More than half a trillion in market value was erased from China exchanges, Reuters reported, in just one week in mid-August. As the pipeline for overseas IPOs dries up, Chinese exchanges have also put on pause over 40 initial public offering plans as they investigate intermediaries working on the deals, according to local media outlets.

Harsh criticism over sectors like gaming from China's state-controlled media has also shaken up the market. The Economic Information Daily called video games "spiritual opium" in an article on August 3, which hit large tech companies like Tencent's stock prices. Later that day, the publication removed its commentary only to republish it hours later with the "spiritual opium" phrase removed, which helped soften the blow for Tencent and its peers.

In a sign of the chilling effect of such regulatory actions, China released a five-year plan that highlighted national security, tech innovation, monopolies, and education as sectors that are slated for regulation.

Indeed, the latest iteration of China's sweeping crackdown came as the country's press and publication administration issued restrictive measures limiting minors to three hours of online gaming per week.

As investors try to wrap their heads around the seemingly endless regulatory directives, they are turning to experienced analysts and economists to help navigate the "profound revolution" in China.

Insider talked to more than a dozen investors including hedge-fund managers and index providers to compile a list of the top China-focused analysts, strategists, and short-sellers they are turning to for guidance. Here's how they are approaching China:

Jing Sima, China strategist at BCA Research


Jing Sima is the chief china strategist at BCA Research. BCA Research

When working with asset-manager clients that invest in China, it's important to be mindful of each manager's risk tolerance, said Sima, the China strategist at BCA Research.

"Some actually see this as a buying opportunity because a lot of those companies like DiDi have very solid earnings. While their market shares may be impacted by the antitrust investigations ... their financial balance sheets are pretty solid," she said. Sima has worked extensively with Chinese data and other parts of Asia for more than 15 years.

For some managers, she said, tensions in the country might be a good buying opportunity.

"But they probably have to hold those stocks for a while, so it really depends on each fund manager," she added, noting that managers typically don't divulge how much they are invested in China.

"They would only tell us they're very concerned or they would ask us, 'What do you think down the road? What's going to happen?"

Before she joined BCA in 2019, Sima held senior roles with the consultancy CS Global Strategies and had worked at The Conference Board for more than 12 years.

Matt Gertken, geopolitical strategist at BCA Research

Matt Gertken is the head of geopolitical strategy at BCA Research. BCA Research

Gertken covers many areas at BCA, where he oversees the firm's coverage of market-related geopolitical, political, and policy developments across the world. He has written substantially on US-China tensions and the economy in China.

In his view, China, which was the greatest beneficiary of hyperglobalization, now stands to suffer in an era of hypoglobalization. The sweeping crackdowns on Chinese companies came at a time when China's special relationship with the US and its "miracle" phase of growth has ended, which will ultimately weigh on its currency, he added.

"The last major crackdown led to a global manufacturing slowdown, exacerbated by the US trade war," he told Insider. "This year's crackdown will also weigh on global growth, but Beijing is already taking its foot off the monetary and fiscal brakes to secure the post-pandemic recovery. Meanwhile, the US is withdrawing from foreign quagmires, closing the strategic window of opportunity that Beijing has enjoyed since 2001."

Gertken has a stark warning for US investors in Chinese assets: "Investors should expect the US and China to inject fiscal steroids, pursue the technological edge, prepare for war in case it happens, and suck up a lot of resources and capital goods in the process."

Thomas Gatley, senior analyst at Gavekal Research covering Chinese corporates

Thomas Gatley is a senior analyst at Gavekal Research covering the Chinese corporate universe. Gavekal Research

At Gavekal, Gatley's approach to navigating China begins with listening to his clients about their immediate feelings and thoughts about a certain market event.

Much of his process includes a combination of those initial conversations with clients and thinking about how those conversations affect long-term structural ideas about the economy and "about how China works internally and how it works with other parts of the world," he said.

"Does this fit with the picture that we've been used to?" he asked. "Or is this a regime change? Do we need to think about this differently?"

Gatley didn't expect his career would end up in researching the Chinese corporate world. He was engrossed in his medieval studies and acquired a master's degree in medieval cultures from Birkbeck, University of London.

He "didn't really think much about what I'd do next," he said. "I had however come to China in 2004 to teach English in Guangdong, so in retrospect, the seed had been planted."

After a few stints working as a financial analyst and a research associate, he eventually landed at Gavekal in 2012.

Zak Dychtwald, founder and CEO at Young China Group

Zak Dychtwald is the founder and CEO at Young China Group Young China Group

Dychtwald's think tank and consultancy focuses on China's younger population and how it drives economic, market, and political outcomes. He wrote "Young China: How the Restless Generation Will Change Their Country and the World," which was released in 2018.

When researching China, Young China Group first divides the population into two classes: the consumer class and the political class. Investors are excited about young consumers in China to drive the economy, while the rest of China's population will propel political volatility for the government, he said.

"Understanding that the goal of the CCP is to remain in power, knowing what causes the political class pain is the best predictor of where the government will regulate," he said, referring to the Chinese Communist Party. "We lead with a people-first approach to understanding those pain points for the people, particularly outside of first-tier cities."

Leland Miller, CEO of China Beige Book International

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Miller's data-analytics firm China Beige Book tracks market-moving macroeconomic trends for institutional investors and corporate clients. He spends much of his time advising senior executives on how to deal with China's policymaking.

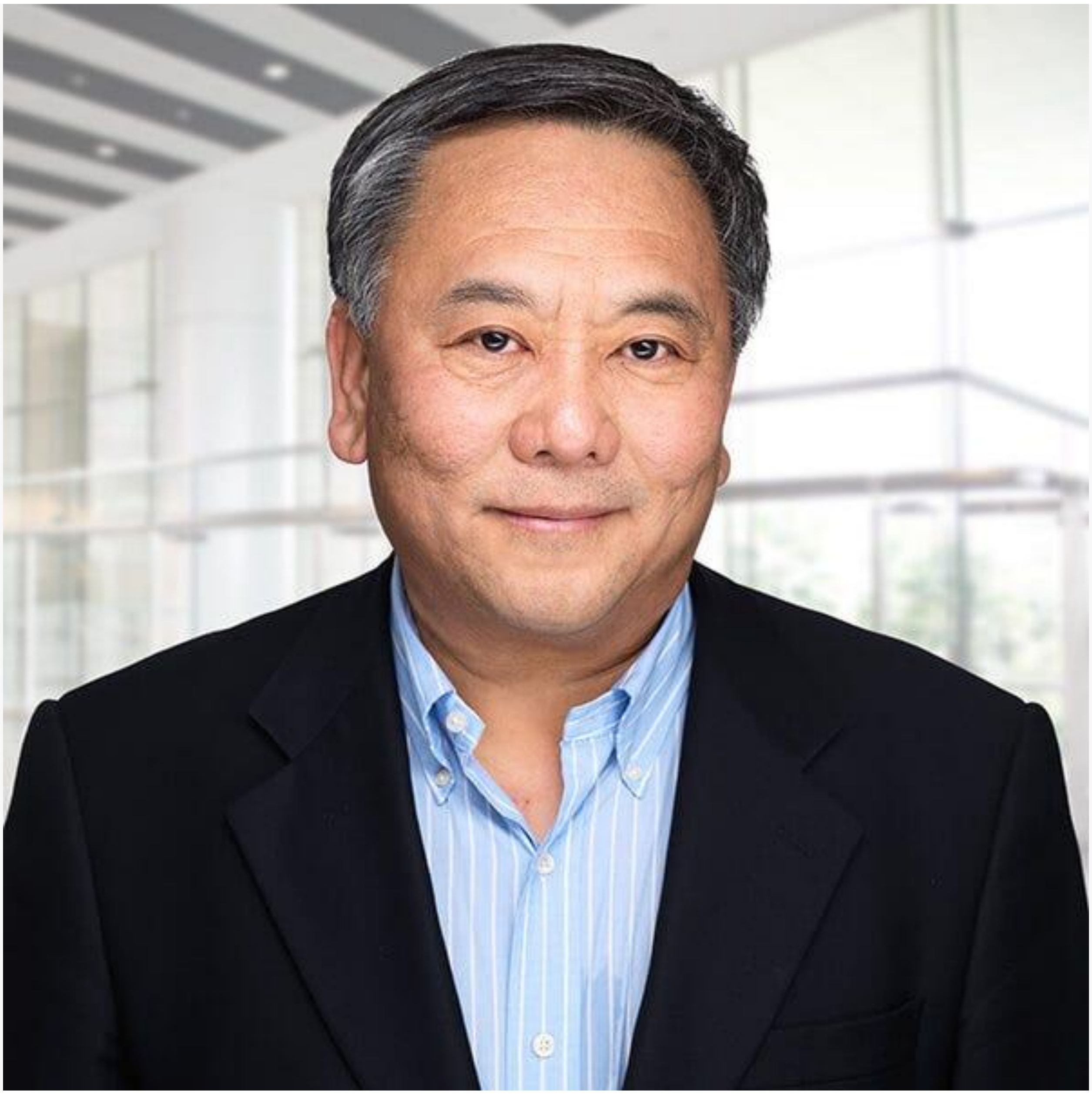
At a recent private event with an audience overseeing a combined $1 trillion of assets under management, Miller pushed back against the idea that Beijing's surprise policy moves this summer have made China uninvestable, he said. Instead, he suggested that the integration of China market intelligence and better data into the investing process is more important than ever.

"These risks didn't appear overnight, but many corporates and money managers pretend they did, and now they're not staffed to be able to assess what's happening on the ground inside China, either across the economy or inside leadership circles in Beijing," he said.

Miller said data analytics has helped them track the Chinese economy in a way that doesn't "force them to assess the changing policy environment in a vacuum" or purely on government announcements.

"We're able to play this role because we've spent the last decade preparing for it."

Chen Zhao, founding partner and chief strategist at Alpine Macro



Chen Zhao is the founding partner and chief strategist at Alpine Macro. Alpine Macro

Zhao's firm, Alpine Macro, has been cautious toward Chinese stocks.

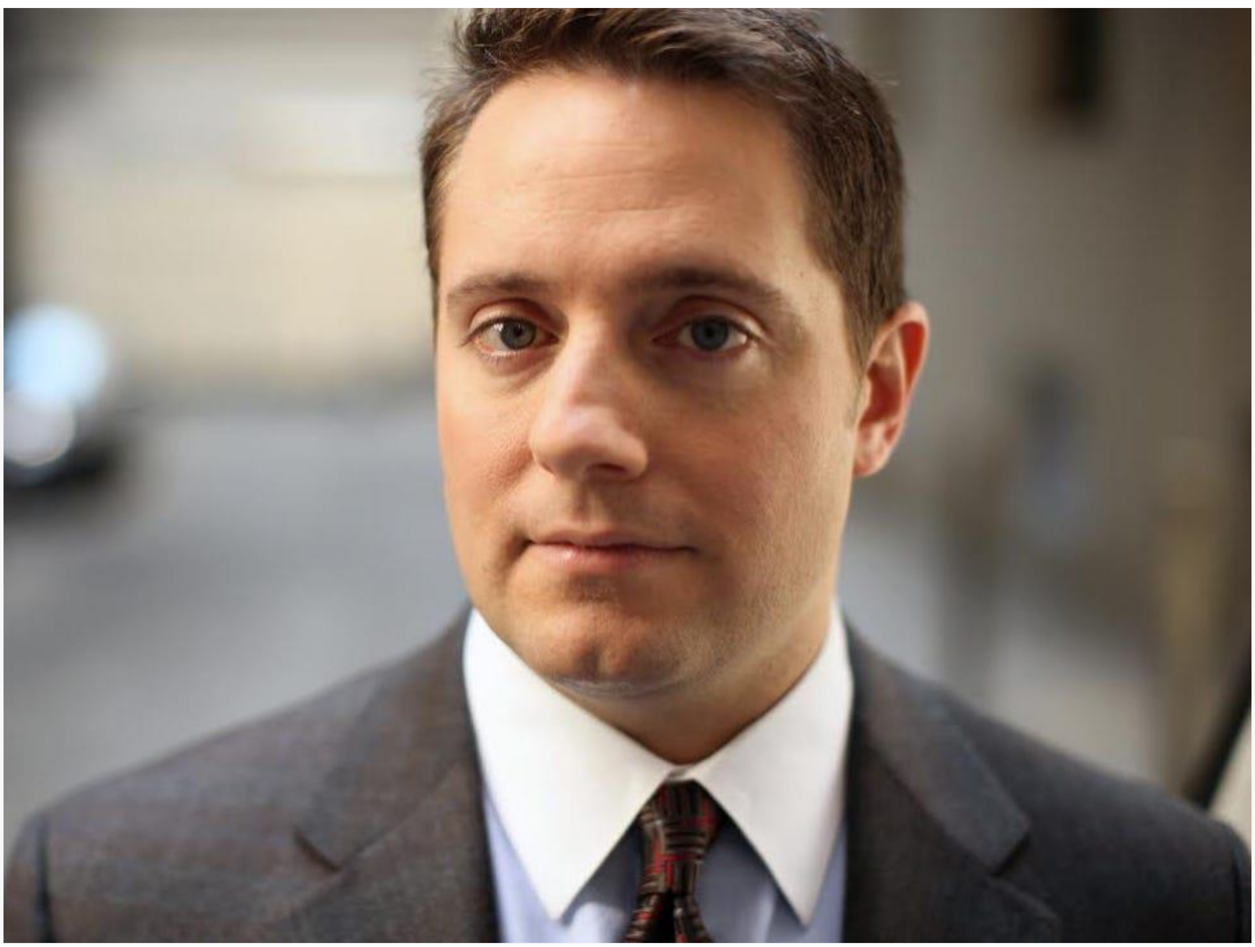
"The regulatory crackdown is just a tip of a much bigger iceberg," he said. "It signals a profound and even radical shift in China's economic policy. For the last 40 years or so, China's economic policy has always placed economic efficiency ahead of equality, a key reason why Beijing has been largely pro-growth and pro-capital owners, entrepreneurs and business people."

The country's credit tightening from earlier this year was a big policy mistake, Zhao said.

The worst "for China's economic slowdown is yet to come, even though some equities may look cheap," he said.

Zhao has dedicated his career to researching global macroeconomic trends and financial markets, with a focus on China for most of his career. Before Zhao started his own firm, he was codirector of macro research at Brandywine Global Investment Management from 2015 to 2016. Before Brandywine, Zhao spent 23 years at BCA Research, where he rolled out the firm's China services in the early '90s.

Carson Block, short-seller and founder of Muddy Waters Research



Carson Block, Muddy Waters Muddy Waters

Block is a high-profile short-seller who became known for his role in exposing fraudulent Chinese companies that went public on US exchanges through back-door reverse mergers with US shell companies in the 2000s.

Block's investment-research firm dives into the world of business and accounting fraud. The short-seller has uncovered deceptive practices at Chinese companies, like Gaotu Techedu, and concluded that up to 80% of its users were fake in a May 2020 report.

Block told Insider in July that his short on Gaotu Techedu, an online-education provider, was "just brutal."

"GSX was the worst stock because we lost money on it overall and because our trading decisions on it were repeatedly poorly timed, showing how difficult it was to short a stock we believe was massively manipulated," he said then.

At the time, Block was unsure on how he was going to move forward in China.

"We were looking at what happened with GSX and Tal and saying, yeah, the reality of the landscape was auditors had every incentive to go in and not confirm a fraud," he previously said, adding later, "and we were getting our faces ripped off by the manipulation,"

Junheng Li, founder and CEO of JL Warren Capital


Junheng Li is the founder and CEO of JL Warren Capital. JL Warren Capital

Li, a former hedge-fund analyst, set up her China-focused equity-research boutique in 2012 with the aim of helping investors gain confidence about their China-related long or short trades.

Li does not think American depositary shares of Chinese stocks are uninvestable as a result of the continued crackdowns, but with the escalating political risks, they become harder to invest in and require more local expertise to parse out.

"Overall, it is clear to us that China is following the German development model that is high-end manufacturing (hardware) driven, as opposed to idea-driven (the American model, software innovation/development driven) development model," she told Insider in an email.

She does not recommend that investors own Chinese internet stocks, but she said she believes that chip design and manufacturing, auto original equipment manufacturers, the industrial internet of things, and artificial-intelligence data centers will benefit from policy tailwinds and continue to grow.

A Shanghai native, Li is also the author of the book "Tiger Woman on Wall Street: Winning Business Strategies from Shanghai to New York and Back."

Jason Hsu, founder and chairman of Rayliant Global Advisors

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Hsu, who was the cofounder and vice chairman of Research Affiliates, established Hong Kong-based Rayliant in 2016 to invest in China and other inefficient emerging markets. The $27 billion firm offers quant strategies that tap into behavioral finance, data science, and local market insights.

Hsu, who has been investing in China since 2009, said he studies China from both the quantitative angle and the perspective of environmental, social, and governance. He started by applying localized quantitative factors to generate alpha, and over the years has added a China-specific ESG screening process to manage portfolio exposure to regulatory risks.

He sees opportunities in China A-shares and said he believes the current volatility reflects a temporary loss of confidence on the part of global investors regarding Chinese policymaking.

Soren Aandahl, chief investment officer at Blue Orca Capital

Soren Aandahl is the chief investment officer at Blue Orca Capital Management. Blue Orca Capital Management

Over the past 10 years, Aandahl has made a name for himself as an activist short-seller targeting fraudulent Chinese companies.

When Aandahl performs due diligence on companies operating in China, he aims to construct "a holistic profile" through a combination of regulatory filings, site visits, court records, channel checks and Chinese language desktop research.

He explains that what most investors do not realize is that the regulatory requirements to operate a business in China are far more stringent. Therefore, Chinese companies create a far more detailed footprint of disclosures to local and provincial governments, which investors can review for greater insight into the market.

"In general, Chinese companies tend to be far more transparent and honest with Chinese authorities than Western investors," he told Insider. "So when there is a discrepancy between how a business presents itself to offshore investors and what it tells the Chinese government, we tend to rely on the latter."