

Matthews Asia Perspective

Off to a Wild Beginning in 2018

It has been a crazy start to 2018, with some big price moves!

First, of course, bitcoin. As I write this, the cryptocurrency is down 50% from its peak. Where will it stop? No one knows because no one can articulate a sensible fundamental value, in my view.

Elsewhere, the main trends of 2017 have continued. Mega-cap technology names are performing strongly. Also in favor have been some of the region's biotechnology companies—sometimes because of real advances in technology and sometimes because of little more than hope. Chinese financials also have performed well, more due to the reflationary Chinese economy than a fundamental change in business. In Japan, shares of factory automation and robotics companies have soared, too, as investors have been attracted by the potential demand from a strengthening global economic cycle.

I would not argue that the rallies in some of these thematic growth sectors are entirely analogous to bitcoin. They are not because, unlike cryptocurrencies, these companies do have a fundamental value. In my mind, however, I find it impossible to completely separate the two phenomena in terms of the kind of market sentiment that is driving prices.

If the market is driven by Greed and Fear, most certainly Greed is in the driver's seat right now (next to its passenger, Hope). Part of me wants to celebrate because for too long Asia has been ignored by global investors. Another part of me cries "Beware!" I believe Asia will remain the world's fastest-growing region over the next few years and I remain optimistic about the environment for corporate profits and investment in Asia. At times now, however, it seems as if people are willing to buy growth "at any price" or to put too much confidence in businesses that are not fully tested. All but ignored are the solid businesses that perhaps do not have such exciting stories behind them or such potentially fast growth ahead of them.

This both concerns me and excites me. It concerns me because I don't want Asia to be perceived as a short-term trade. That is, somewhere you invest just for the thrill of a few months or a year and for the promise of maybe making high returns (or losing your shirt). It excites me because for long-term investors, this is where you start to see some potential bargains. The promise of bargains comes at a cost, however, and that cost is patience. It seems to me that the investment world is running short on patience—and that ought to make it a valuable thing to possess.

So, yes, a crazy start to 2018. Exactly the time when we need to be mindful of valuation and keep



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