Avoid Chinese Stocks; Buy Teck Resources Inc. Instead

Description

Sometimes, it's better to avoid a stampede than to be a part of it. There's no better example than Chinese stocks.

The Chinese government has recently been opening up the Shanghai stock market to foreign investors, and Americans have been flooding in. Exchange-traded funds providers like **Blackrock** have now registered almost 40 ETFs tracking the country's domestic stocks and bonds. But this is a party you're better off avoiding.

Why is this the case? Well, below we'll talk about the risks of investing in China, then show you a better way to bet on the world's second largest economy.

The problem with Chinese companies

There are a lot of things that investors in North America take for granted. For example, when we say that a stock is "trading for 10 times earnings", we can be reasonably sure that the company isn't lying about its earnings. Financial statements, while often subject to manipulation, must be backed up by auditors.

And suppose a company is poorly run. For the most part, management teams can get kicked out by angry boards and shareholders (there are many exceptions, but the point remains). Meanwhile, our free market economy ensures that only the strongest survive.

In China, things are a little different. Accounting standards are not as robust. Management teams can be very entrenched, especially if they know the right people. And cheap (government-mandated) loans can keep a weak company going for a long time.

Worse still, there are suspicions about the Chinese motives. As of mid-September, the Shanghai composite index is down 62% from its 2007 high. And the Chinese government has been slowly dialing back the easy credit. There's a chance that the country wants to attract foreign money for all the wrong reasons.

As a result, many advisors recommend devoting only a small portion of your portfolio to these names. Zero percent sounds about right to me.

A better way to bet on China

That being said, some investors may be looking to bet on the Chinese economy anyway. In recent years, this has been a losing bet, as the country's economic growth has slowed more than expected.

But if you'd like to bet on a turnaround, you'll want to buy natural resource-focused companies here in North America. These firms sell products whose price is tied very closely to the Chinese economy.

One in particular you should consider is **Teck Resources Inc.** (TSX: TCK.B)(NYSE: TCK). The company has not done particularly well in recent years; a $10,000 investment in its stock three years ago would be worth $5,400 today. Of course the main reason has been China, whose slowing construction industry is leading to a decline in steel demand.

And that has been really bad news for Teck, whose fortunes are largely tied to steel. So if you're looking to bet on a turnaround, this company is a great way to do so. As a bonus, its financial statements are audited by PricewaterhouseCoopers LLP.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
2. TSX:TECK.B (Teck Resources Limited)

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