If you like FANG stocks near their highs, you should love BAT stocks while China's in a bear market

Description

One of the most lucrative acronyms coined over the last half decade has been FANG, credited to Mad Money broadcaster Jim Cramer and RealMoney.com analyst Bob Lang early in 2013. FANG famously stands for **Facebook**, **Amazon**, **Netflix** and **Google** although some have added **Apple** to make it FAANG.

There's little doubt that anyone who put money into a basket of FAANG stocks since the acronym was popularized has done very well indeed. In the four years from February 2013 to early 2017, Facebook had gains of 391%, Amazon 218%, Netflix 471% and Google 119%, according to a Bezinga.com article published in March 2017.

I own all the FANGs myself (in part because my millennial daughter demanded them!) and can only wish I hadn't been so conservative in the amount I "bet" on each but hindsight is 20/20.

But there may be an opportunity to invest in what some are calling the Chinese FANGs, known as BAT, for Baidu, Alibaba and TenCent. Since the general Chinese market has been in bear mode for most of 2018, it seems to me an opportune time to consider diversifying away from the original FANGs and into some BAT stocks.

Indeed, the influential weekly British newspaper, *The Economist*, recently had an interesting article comparing the BATs to the FANGs. The magazine described a titanic battle between these American and Chinese tech giants, which it said have a combined stock market capitalization of more than US$4 trillion.

It noted that this global battle of the tech giants has largely escaped attention because the mainplayers have “avoided each other in their home markets, and rising trade tensions make it ever lesslikely that a clash will happen there.” With the exception of Amazon and Apple, the FAANGs arealready all but banned in China. Meanwhile, America is putting up barriers to Chinese firms: early inJuly Trump declared China Mobile a potential threat to national security, while Alibaba affiliate AntFinancial was blocked from buying an American payments firm earlier in 2018.

If it’s true the battle is taking place mostly outside the home markets of China and the US, then investors may decide that if they like the FAANGs, they might also like the BATs. And given that US markets and the FAANGs are near their all-time highs while China is in correction mode, they may even decide to ring up partial profits on the FAANGs to fund initial stakes in the BATs. This is an experiment I’m willing to try with my own money, although of course to a limited extent.

Now it’s true that you could also play the BATs indirectly through either Emerging Markets ETFs or China ETFs. I have long been invested in the **Vanguard Emerging Markets Stock Index Fund** (NYSE:VWO), which was 34% in China as of the end of April 2018. The three BAT stocks account for three of the top five holdings in the ETF: Tencent Holdings Ltd. is the top holding at 4.8% of the fund, followed by Alibaba Group Holding Ltd. ADR, which is 2.5% of the fund, and in fifth spot is Baidu Inc. ADR, which makes up 0.9% of the ETF.

From that you can see that North American investors can get concentrated exposure to the BATs through American Depositary Receipts or ADRs. Personally, I bought into **Alibaba** (NYSE:BABA) shortly after its IPO in 2014. Recently, around the time I began to research this article, I or my spouse took initial positions in both **Baidu** (NASDAQ:BIDU) and **TenCent** (OTC:TCEHY). Because it trades over-the-counter your discount brokerage (RBC in my case) may advise you to uses limit orders on TenCent.

Think of Baidu as the Chinese equivalent of Google, TenCent as the Chinese Facebook (social networking and games), and Alibaba as a sort of Chinese hybrid of all three of Amazon, Facebook and Google. Baidu has about 82% of China’s online search market and is focused on the Chinese market. Google has just 10% in China but 90% of global searches, versus Baidu’s 1% global share.

Incidentally, since Jim Cramer claims credit for coining FANG, it’s interesting that the only BAT he regularly recommends is Alibaba; in fact it’s about his only Chinese recommendation, period.

One thing is for sure: there isn’t anything in the Canadian market that comes close to the FANGs or BATs, although once upon a time **Blackberry** or even Nortel Networks might have been close. In practice, Canadians need to buy the FANGs with US dollars on US stock exchanges and the BATs via ADRs also trading on US exchanges.

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Author
jchevreau