

SHANGHAI



November 10, 2008

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On September 7, 2008, SKC reported:

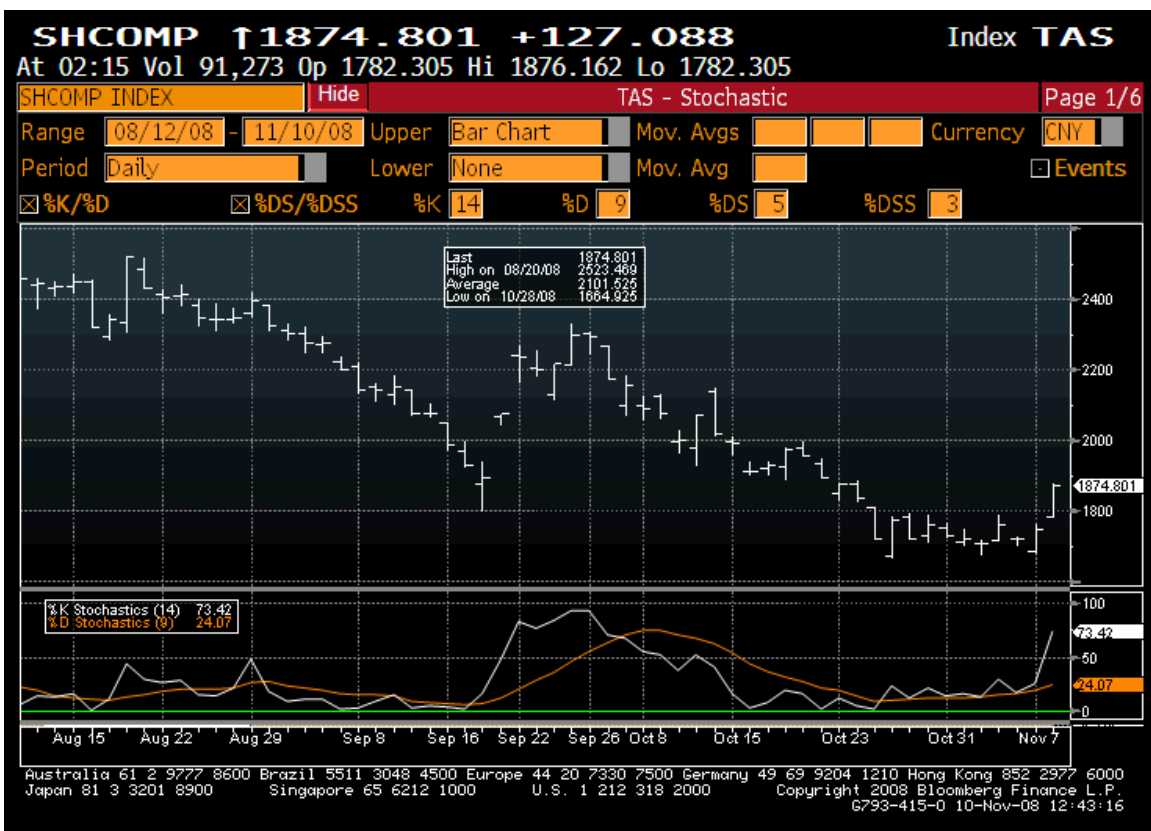
"This implies a monster rally into 2009, and starting not far from here, in terms of points."

From the October 4, 2008 SKC letter:

"Last month's September 7, 2008 letter also contemplated a huge rally in Shanghai, with short term potential for another 10% decline to under 2000."

"The latter has occurred and China's risk is now clearly to the upside. Take note. Will I be as lucky in China as I was in Japan in the nineties?"

The low recorded on Oct 28 was 1664, below the 1800 level I had contemplated for a flush-out bottom. The following 2-year chart provides some perspective, however, as to just how miniscule a difference that in fact is.



A review of the technical indicators suggests that China may in fact "base around" a little, as funds *need* to show that they didn't own China this year. With China's stimulus package however, and considering the strong outperformance recently against collapsing international indices, it is most wise to consider the SKC excerpts on page 1.

Twelve months ago, China was at the centre of my preferred hedge plays. With outperformance as the buzzword for any fund manager, take note of this oft-stated view of these recent few months:

Strategy:

Trend changes in inter-market relationships are underway that will have determined 2009's performance and, rather invisibly to most managers since they are not single markets that are being looked at but, rather, the relationships between them.

Like other hedge plays referenced since September, those outperformance investments pertaining to China are also most timely, now!

Sid Klein

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