

How to think Chinese – Developing a long term view

Before we begin we need to clear a few biases. People confuse culture, politics, and economy. For example, there is confusion about the differences between socialism and communism; many people think they are the same. Also people equate communism with USSR style communism, which was less communist than your local community. The most communist organization in modern times is the Jewish [Kibbutz](#). To see more about communist ideas read about it [here](#). The USSR is best described as [state capitalist](#), similar to what China is today. That means it was a capitalist society but controlled by the state. It certainly was not 'classless' and it was not a democracy. Real communism as a political system includes a democratic approach whereby everyone has a vote and a say in what the group does. Family is a small communist organization (sometimes ruled by a tyrant dictator!).

Another misconception is the current model of the United States, which is not democratic and not purely capitalist. First, the US is a republic, not a democracy. In a real democracy individuals vote (such as in referendums) on laws or other rules passed. In the US system elected officials vote on rules on the behalf of voters which is a Republic. Second, the US is not pure capitalism because there are government regulations. Also large corporations control markets which is closer to an [oligopoly](#) or [plutocracy](#). Moreover, the US government is a big economic actor, actually employing more Americans than any single corporation. Capitalism as described as it's original thinkers requires a political system similar to anarchy, complete rule by the markets and free enterprise with virtually no regulation. Clearly this is not the system used in the United States. This confusion can be traced to the British where they were trying to sell their

mercantilism approach as a means of economic colonialism, as not to appear as an invading army when taking over a countries resources. So they promoted 'capitalism' as the new freedom, and giving the lesser classes the hope that if they work hard, they can make a life for themselves.

But cultural influences also need to be considered. For any system, it will look different in different cultures.

Americans have a free enterprise wild west mentality embedded in their culture so while the US is really a Republican Plutocracy, it resembles Anarchistic Capitalism because of the culture. Americans are risk takers, mostly. Americans comprise of people from all origins who risked everything to start a better life in a new alien world. Once there, policies such as the land grab of the west created by the government to expand US territory, exacerbated these traits.

Millions of businesses have been started and failed. The biggest myth about America is the statistics of success; it's true there have been cases of people rising from nothing to great power and wealth, but for every one Rockefeller you have thousands of losers who have bankrupt or died. The American Dream is really a dream, like commoners who discuss what they would do if they won the lottery. People do win the lottery but you have a higher chance of getting struck by lightning or dying in a car crash. But these hopes and dreams kept lower class Americans slaving away in factories and plowing fields in a subsistence existence not much different than people lived in Feudal Europe. But the hope kept them plowing.

Now that we've briefly discussed some important biases, let's try to think Chinese, culturally speaking.

China is a big place with thousands of sub-groups that speak different languages. It's more fragmented than any part of the world. We commonly believe there are 2 main languages, Cantonese and Mandarin, but there are thousands of sub-cultures and sub-dialects. Without a unified China, the place would be a collection of villages and probably constant war.

The greater state of China keeps them all under one rule. This is acknowledged by regional leaders such as the founder of Singapore.

The Chinese are not creative as such. They are an extremely conservative group, one thing shared among most of the sub-groups. They believe in traditional values, whatever they may be, and they are not innovative, culturally speaking.

They think in terms of 100 years or 1000 years. This is difficult for Westerners or Western educated people to understand. In some respects, Indians have succeeded by placating Western creativity while holding similar traditional values like the Chinese.

Farmers can understand this, especially those with fruit trees. It may take 5 or 10 years for a tree to grow to the maturity required to produce nice tasting fruit. Good wine, in addition to the growing process, is more valued when aged for decades. The entire process can mean a lifetime.

It should be also noted that any nation-state strives to increase the wealth and power of their nation by any means, whether by mandate or by lust for power, regardless of the system used to do so.

Investing implications

It's hard for Western Investors to take a Chinese view of the markets, that is to say, a long term global macro view.

Certain hedge funds and analysts do this, realizing that macro fundamentals will ultimately overwhelm any short term market dislocations. But it's harder for investors. Saying that investors had a 'buy and hold' mentality for 20 years during the 80's and 90's is unfair because during this period the market relatively went up. Would they have had the same view in a bear market?

This doesn't mean investors should sit on losing positions forever hoping they will return. Simply, that with the right analysis, it can't lose. Use any analogy; if you are selling water in the desert and people are dying of dehydration, it's just a question of time before business will explode. Smart marketers use arguments to invest in their company, such as those promoting their business models using similar analogies. Ultimately, reality always wins. You can't fight gravity and you can't turn Iron into Gold for a price that would justify the process.

The mathematical analysis especially on a macro level, if done correctly, cannot be completely wrong. Of course other factors may come into play, a common one recently are Fed speeches that have little information value but large impact on the market. But these reactions are usually short lived.

Other implications

The same long term thinking can apply to any aspect of our lives; health, business, relationships, or projects. The modern version of capitalism teaches us to think in the next 24 hours. If we can't make a buck this quarter, it doesn't exist. Taking a long term view requires patience, perseverance, and understanding. If you look at any person's career, only after years of experience do they gain mastery of their industry. Child development is another good example, it takes an entire decade for a small child to grow into a full adult. Why do we take a different view on investing, or in our business?

Long term thinking isn't about disregarding the present, it's about understanding macro (global) implications on a longer time frame in synergy. Those who have suffered through natural disasters like Hurricane's Katrina and Sandy are examples of how to look only in the short term. In great contrast, the Great Pyramids in Egypt were actually built to

withstand large earthquakes by using a brick locking system of non standard sizes (think Tetris). Other ancient structures have also survived thousands of years, and new theories indicate the Pyramids may be actually much older than we think. Whoever built such structures certainly had a long term view on construction.

How to do it

The first step is to develop a method of analysis, collect as much research and information as possible, and make a long term plan. This should include considerations for social and political changes, market changes, technology influences, having a backup and redundancy, and long term suitability.

For example when investors have been creating portfolios they are not considering institutional risk, such as the collapse of their institution. Now they are not considering the new 'bail-in' policy whereby deposits can be confiscated to shore up bank balance sheets.

If building a business, considerations should be made about potential future government regulations, market impacts based on demographic shift changes, and technological impact. A good example of technology impact is in the internet industry where the technology shifts every few years. Getting stuck in a legacy application will not give you the flexibility to adapt to new changes.

A good business example has been the growth of the water industry. Only 10 years ago, it would have been difficult to imagine that something as simple as water would be a big business. This has been seized by entrepreneurs offering both water to places where it's become difficult to find potable drinking water, and a growing demand for consumers for designer waters.

Just remember that if big companies are always on top of this, then Microsoft, Google, and Facebook wouldn't exist. IBM was

practically a market monopoly when Microsoft was founded, yet IBM didn't cash in on the growing PC business. Microsoft grew and became a niche IBM, missing the trend in the internet giving rise to Google. And Google did the same, missing the social media trend giving rise to Facebook. This exists in all industries but it most obvious in the tech sector.

One could argue that the key is not trend spotting but proper planning. It was obvious to many that a search engine would be needed with the rise of the internet. Google capitalized on it. It should be noted however that while Google is a common example because of it's notoriety, there were hundreds of other groups that capitalized on it, either being bought by Google or some other company.

Strategy

A good start is to read Sun Tzu – which has been recommended reading in business schools and especially for traders.

Download the book here: [The Art of War, by Sun Zu](#)

The interesting thing about Sun Tzu is that the strategy outlined in this ancient manuscript still applies to business and the markets today. In other words, good analysis and strategy is timeless. It can be applied to your portfolio, business, or anything. Sun Tzu isn't a particular strategy per se (unless you are doing battle in Ancient China) it's a set of rules, or a doctrine, on which you can base your analysis system. The problem with developing a strategy is the influence of biases and opinions. "Thinking" that something will happen doesn't a good strategy make. Sun Tzu provides an framework for developing "Chinese Thinking" or a long term view based on. Sun Tzu isn't the only analysis framework. A more modern approach has been developed by [Carl von Clausewitz](#) which to this day is taught at West Point.

Why all the military examples? Simply, military analysis is by design no different than trading, or business. As the

Japanese say “Business is War.” With the military, and with trading, a flawed strategy that causes losses in money or life can be devastating. The military is used when a diplomatic solution (political) is not possible, so any military is focused on strategy, tactics, operations, completing the mission. Politics on the other hand, is a completely different animal, it’s more similar to dating than to war-fighting.

Of course investing is not the only application of such an approach, although it may be more useful for investors and traders than in other applications. Long term project development can use the same thinking to build strong foundations for their projects, and defend against outside threats, for a lasting success.

Further Research

https://en.wikipedia.org/wiki/Carl_von_Clausewitz

https://en.wikipedia.org/wiki/Sun_Tzu

<https://en.wikipedia.org/wiki/Macroeconomics>