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In This Issue

China's Assault on Capitalism

Recent Actions by the CCP Leadership Now Pose an Uncontrollable Threat to U.S. Investors

By Bob Byrne

It's been a rough year for anyone investing in China. You've had to deal with semiconductor chip shortages, trade wars, and a nasty little pandemic.

Now it's about to get worse.

More than $2 trillion worth of Chinese stocks trading in the U.S. are at risk of vanishing into thin air… And there's nothing you can do about it.

This massive destruction of wealth isn't the result of poorly performing businesses; it's the result of a Communist government flexing its political muscle and reminding would-be Chinese capitalists a painful lesson.

That lesson is simple. If a company or individual's interests don't align with the Communist Party and Chinese President Xi Jinping's interests, the state will shut you down.

Let me explain what I mean.

Pulling the Rug Out from Under Private Enterprise

In early November 2020, one of China's most prominent financial technology companies, Ant Group, was preparing to take Wall Street by storm. The company was preparing to raise around $34 billion in its stock market debut. That would have valued the company at more than $310 billion.

At more than $300 billion, Ant's valuation would surpass Goldman Sachs, Berkshire Hathaway, and Square.

The greatest benefactor of Ant's IPO would have been Alibaba (BABA) since it owns roughly 33% of the company. And since Jack Ma, the founder of Alibaba, still owns around 4.8% of *it, he too would have walked away a more prosperous man than he already is.*

But in the eleventh hour, the Chinese government pulled the plug on the IPO, and Ant's $300 billion dollar dreams vanished.

Here's where things went wrong.

Neither the Chinese Communist government nor its leader, President Xi, care if you are fabulously wealthy or a world-class entrepreneur if you don't also fall in line with their political and social views.

The Communist leaders are more concerned about making sure private companies know their place in the pecking order than earning bragging rights for bringing a massive IPO to U.S. investors.

Further complicating matters for the Ant Group was that Jack Ma — along with other investors in the massive FinTech company — was viewed as a challenge to President Xi's authority and a threat to the stability he and the Communist Party were trying to maintain.

It didn't help matters that leading up to Ant's IPO, Jack Ma told an audience at a Shanghai conference that rules enforced by the Communist government were ill-suited for fostering healthy innovation.

Simply put, Jack Ma forgot the first rule of navigating a Communist regime: Never question, criticize, or critique the power. Because if there's one thing President Xi won't stand for, it's a rabble-rouser.

The best thing that came out of Ant's failed IPO is that the Chinese government put its foot down before U.S. investors got stuck holding billions in the worthless paper!

The Communists Drop a Bomb on Investors

For all the complaining American investors are apt to do, the one thing we haven't had to worry about is our government seizing entire industries.

On July 23, 2021, the Chinese government informed the world that it was banning for-profit tutoring in core school subjects to ease financial pressures on families that have contributed to low birth rates. All for-profit tutoring companies would be forced to pivot to a not-for-profit business model.

This decision sent tens of billions of dollars in China's private tutoring industry up in smoke. And among those burned were U.S. investors.

Shares of Tal Education Group (TAL) traded for around $90 in February 2021. On July 23 they closed at $6, and continue to drift lower.

Shares of New Oriental Edu and Tech Corp (EDU) were trading near $20 in February. They closed under $3 on July 23 and have lost another 50% since.

The most shocking part about this industry trainwreck is that TAL and EDU were massive companies with world-class revenue growth.

In February 2021, TAL's market cap was around $54 billion. Today that figure sits around $3 billion.

The story is similar for EDU. Its market cap has collapsed from $31 billion to less than $3.5 billion.

Now, the decision to destroy the for-profit tutoring sector wasn't made on the fly. Chinese leaders dropped hints months earlier.

In early March 2021, news began to trickle out that many Chinese provincial ministries of education were introducing detailed regulations around the use of after-school tutoring institutions to the central government.

That same month, President Xi suggested that the expense of after-school tutoring was overly burdensome on Chinese families, and he wanted to curb the excesses.

The bottom line is that while investors want to invest in the second-largest economy on the planet, many forget that China remains a communist nation with a government that can unilaterally erase companies, people, and industries with the snap of a finger.

China's $2 Trillion Mistake

According to CNBC reporter Yun Li, there are 248 Chinese companies listed on major U.S exchanges with a combined market capitalization of around $2.1 trillion. And thanks to President Xi's decision to squash the Ant Group's IPO and ban an entire industry of companies, investors must acknowledge that the risk of investing in Chinese companies is no longer knowable.

If it's impossible to weigh the risk of investing in a Chinese company, most money and mutual fund managers will avoid investing in the country altogether.

Simply put, President Xi has placed political omnipotence over market reforms and economic growth. And for many investors, that makes China an uninvestable option.

Investing in the Dark

At this point, you're probably wondering why anyone would invest in China. After all, if we can't trust its leaders, how can we trust that our investments will be safe?

Here's what you need to understand.

Investors flock to growth. And China's GDP has grown from around $1.2 trillion in 2000 to more than $14.30 trillion today. For comparison, Japan's GDP has grown from $4.88 trillion in 2000 to less than $5.1 trillion today.

Investors know the game well.

Suppose a country's GDP is expanding at a rapid rate. In all likelihood that means its citizens' quality of life is rising, its companies are growing by leaps and bounds, and anyone fortunate enough to get involved on the investment side of things can make a fortune.

And for years, President Xi appeared to champion the liberalization of Chinese economic policies.

But, based on his actions against the Ant Group, the for-profit education sector, and his plan to hike taxes and tighten regulations around Chinese technology companies, it appears he's backed away from that stance.

Investors have two choices.

The first and most conservative is to avoid investing in all things China. Unfortunately, this approach guarantees that you miss out on the future growth of the second-fastest growing economy in the world (the fastest growing is India).

The second choice, and the approach I would take, is to reduce your net investment in the country and choose your investment industry carefully.

While President Xi has said he's going to increase regulations and taxes on technology companies and closely monitor the collection of personal data on Chinese citizens, he hasn't indicated a desire to take over or shut down these types of companies. So, the companies I would focus on are technology, internet, and e-commerce related.

The industries I would *avoid are those that exist for the betterment of Chinese society, such as after-school tutoring. Additionally, I would avoid anything healthcare-related as that seems like an obvious industry to force into the not-for-profit realm.*

In hindsight, it's become evident that investors became too comfortable with China and forgot that it's a country ruled by Communists with absolute control. We forgot that China isn't the U.S, Europe, or Canada.

While I won't say China is uninvestable, there's no question a different set of rules apply. The simplest of those rules are: Only invest what you can afford to lose.

Investing in China's "Red Chips"

The Safe Play with Outstanding Upside

By Tim Collins

Not all investments in China are dire.

However, investors definitely can't throw their money at just any name and feel confident or comfortable in their investment. Staying with the blue chips, or "red chips" as some may call them, are your best bet for success.

There are a few names in China that are too big to fail and too popular to completely regulate. They can still be impacted by the government — but they should remain strong over the long-term and shake off any short-term regulatory impact.

Two names top the list: **Alibaba (BABA)** and **JD.com (JD)**. Today, we're going to focus on e-commerce company and infrastructure service provider JD.

Last week, JD reported stellar earnings. Second quarter earnings per share came in at $0.45, well ahead of the $0.365 estimates. That's an earnings beat of 23.4%! Revenue of $139.3 billion also surpassed expectations of $137 billion. Although not a huge revenue beat, it shows the company executed the quarter with strong margins.

All of this comes in the face of the regulatory crackdowns implemented by the Chinese government. Even in the face of these challenges, JD reported a record 32 million users in the second quarter.

Famed growth and innovation investor Cathie Wood must have had some idea or intuition that great numbers were coming out of JD as Ark Investment Group purchased 164,889 shares of JD. And as we know from previous observation, Ark is rarely a one-and-done buyer.

The company's strong margins bode well for the third quarter as does its robust user growth. And remember, JD offers both first-party direct sales as well as a third-party marketplace model. Their unique edge versus the competition is their in-house warehousing and supply chain capabilities. JD controls the inventory and the delivery logistics practically from start to finish.

In short, JD.com isn't just another e-commerce site. The company only holds a 2% market share of a $40 trillion total addressable market (TAM). However, as it expands its omni-channel presence and improves its gross margins, I expect growth to continue on both its top and bottom lines.

Leveraging Its Logistics Business

Speaking of logistics, that part of the company used to be trapped inside the bigger e-commerce story without a clear view for investors. In June, that changed when JD Logistics made its debut on the Hong Kong exchange. This follows the spinout of JD Health back in December.

Unlike other e-commerce companies, JD began building its own logistics business back in 2007. Competitors were outsourcing and most continue to do so. The logistics build-out JD started more than a decade ago now allows same-day and next day delivery to thousands of cities and towns via its 32 highly automated warehouses and 1200 total warehouses throughout China.

Recently, the news broke that JD.com is in advanced talks to acquire a controlling stake in China Logistics Property Holding, a storage facilities manager. JD already holds a 9.4% stake in the company, so this is a logical move.

Remember, despite spinning out JD Logistics and JD Health, JD.com, the original parent company, retains ownership stakes in both. Now that the logistics and health subsidiaries are freely trading, it should allow their full value to be realized in the open markets.

Plus, as standalone companies, their stock prices and value should move somewhat independently of JD.com. That means an added layer of diversity and risk management.

The Technicals All Look Good Too

The stock reacted well the last full week of August. While some may be reluctant to express love for a name that bounced 20% in a single week, we need to remember the stock had lost roughly 40% of its value since February.

The move this week created a breakout from a descending wedge pattern. That's a pattern where the angle of the (upper) resistance line is falling at a sharper angle than the (lower) support line. When a stock price breaks above the resistance level, it is considered to be bullish.

Additionally, price has moved above both the 10-week simple moving average (SMA) and 21-week SMA. If we examine the dotted lines on the chart, which show both of those moving averages, we can see how influential they have been on the price action. They clearly both have acted as support and resistance, with price moving largely once it breaks free from a moving average.

The full stochastics indicator also crossed up giving us a bullish signal last week. In the past, these crossovers have been met with buying for several weeks after the trigger. If JD shares can break above $80, we believe they will quickly rise another $10 before ultimately pushing back up to $100 in early 2022.

That is why we are adding JD.com to the Wasatch Investment Network portfolio.

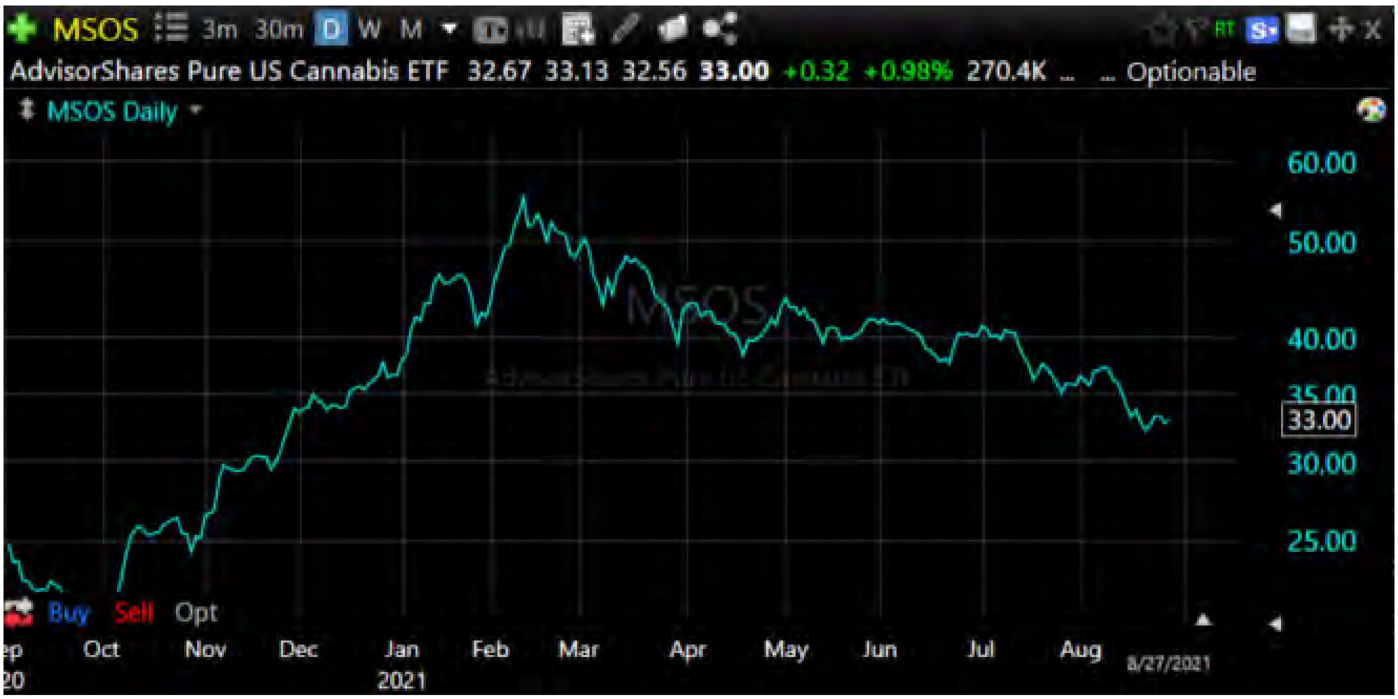
Action to take:

Buy shares of JD.com (JD) up to $80 per share

Industry Update: Juva's Medical Division Makes a Groundbreaking Discovery

- By Bob Byrne

After a great start to the year, 2021 hasn't been particularly kind to cannabis investors. One look at the AdvisorShares Pure US Cannabis ETF (MSOS) chart, and it's evident that cannabis stocks are out of favor.



Regardless of the company, industry, or where they are in the lifecycle of a bull or bear market, investors are all the same. When they, as a group, see potential in an investment, their emotions take over, and frustrations flare when the price does anything but go up.

That's where we are with cannabis.

We've heard about the health benefits. Proponents believe cannabis can relieve chronic pain, improve lung capacity, help the obese lose weight, regulate seizures, and help with ADHD. And this isn't an exhaustive list of the drug's purported benefits.

But what we *don't hear enough about, is what will allow the industry to move out of the shadows and into the mainstream.*

We've heard virtually nothing about SAFE banking and the STATES Act. And whatever happened to, "If the Democrats control Congress and the White House, marijuana will be removed from the list of controlled substances and legalized across the country?"

The truth is, cannabis investors need something positive to sink their teeth into.

That's where **Juva Life (JUVAF)** comes in.

Juva's stock price has been hit hard since topping out in mid-January like others in the industry. The chart of Juva looks eerily similar to the one of MSOS above.

When I first met Juva's Chief Executive Officer, Doug Chloupek, in late August 2020, I was blown away by his ambitious goals.

Like most cannabis entrepreneurs, Doug wants to achieve the lowest product cost by utilizing a vertically integrated business model. This is part one of his two-part mission for Juva.

The second part of Doug's mission is to develop *precision cannabis products that deliver the right formulation to the right individual at the right time. And as part of this, Juva plans to develop intellectual property (IP) and secure patent protection on its custom medical formulations.*

Now, I'll tell you the same thing I told Doug when he first told me about his plans for Juva.

Juva's vertically integrated business model is fine, and it'll help pay the bills. But there's nothing sexy about vertical integration.

What sets Juva apart from the pack and makes it a compelling investment is its medical research division.

There's a gaping black hole in the real science, real medicine, and real efficacy of cannabis. If Doug and his team successfully collect the necessary data from their Institutional Review Board (IRB) approved patient research investigations, they can fill that void. And in doing so, Juva will make itself extraordinarily appealing as an acquisition target for a major pharmaceutical company.

The Incredible Story No One is Talking About

On August 18, 2021, Juva announced initial preclinical discovery results from the phenotypic screening and target profiling of its proprietary cannabis chemical library.

In simpler terms, Juva found a molecule worth developing.

Juva-019 is a non-cannabinoid purified small molecule isolated from cannabis that displays remarkable anti-inflammatory properties.

No one is covering this story in the mainstream financial news, but it's hugely meaningful.

For years we've assumed that cannabinoids are responsible for the benefits experienced by cannabis users.

But preliminary research provided by Juva's medical research team shows that the anti-inflammatory benefits cannabis users have raved about for decades may result from a non-cannabinoid small molecule isolated from within the cannabis plant.

Contrary to popular opinion, Juva believes that other, previously unidentified chemical components may contribute to or explain the observed therapeutic benefits of cannabis. And under Doug's leadership, Juva is pushing forward with its goal of documenting and studying the benefits of these molecules.

Think about this for a minute.

What if Juva can isolate a single small molecule, synthesize it, and put it up against acetaminophen or ibuprofen as a treatment for pain or inflammation? How much would that be worth?

Suffice to say I am putting the cart about a mile ahead of the horse. But my point is this.

Juva is trying to change the face of cannabis research massively. There will be victories and setbacks. Worse yet, the achievements may go unnoticed by investors for weeks or months at a time.

But at the end of the day, if Doug and his team successfully create precision cannabis products, investors are likely to be rewarded with a hugely profitable payout.

Getting Ready for a Less Friendly Federal Reserve

The Fed Announced Things Are About to Change — Here's What's Coming

By Bob Byrne

We all knew the good times couldn't last forever. The Federal Reserve confirmed as much during their Jackson Hole Economic Symposium on August 27 when Fed Chairman Jay Powell reaffirmed the bank's plan to begin reversing its easy-money policies later this year.

The Fed isn't planning on hiking interest rates anytime soon, but they are trying to prepare investors for a less accommodative Fed. And this means reduced asset purchases in the form of treasuries and mortgage-backed securities.

Reduced accommodation may sound complicated, but it's just Fedspeak for, "The free money is about to start disappearing."

Here's what's going to happen.

The Federal Reserve currently buys $80 billion of Treasury securities and $40 billion of mortgage-backed securities (MBS) each month. These purchases flood the system with billions of dollars that banks can lend out to other borrowers.

While the Fed won't likely announce their plan to reduce asset purchases until after the September Federal Open Market Committee meeting, we're likely to see the Fed reduce their purchases by around $10 billion in Treasuries and $5 billion in MBS each month. If the Fed pursues this path, after eight months, they'll no longer be flooding the system with billions of dollars.

And After the Free Money Disappears?

Now, the big question on Wall Street's mind is when will interest rates start moving higher?

While the market didn't freak out over the possibility that Fed-sponsored asset purchases are about to vanish, rising rates is an entirely different beast.

Here's a simplistic view of easy money and the stock market…

Bull markets are fueled by excess cash in the economy. More easy access to cash, more buying in the stock market. When cash is removed from the system, bull markets weaken and often turn into bear markets.

I'm not saying the current bull market is about to come crashing to the ground. But I don't want there to be any confusion.

If the Fed stops buying assets later this year and begins raising rates in late 2022, the pieces will be in place for the current bull market to stall out and potentially transition to a cyclical bear market shortly after.

And the severity of any bear market will depend on the pace of rate hikes, economic growth, and whether inflation is under control.

I'll continue to watch the Fed for you. And when I see the Fed change course in a way that will impact your investments, you can bet I'll make sure you know it!