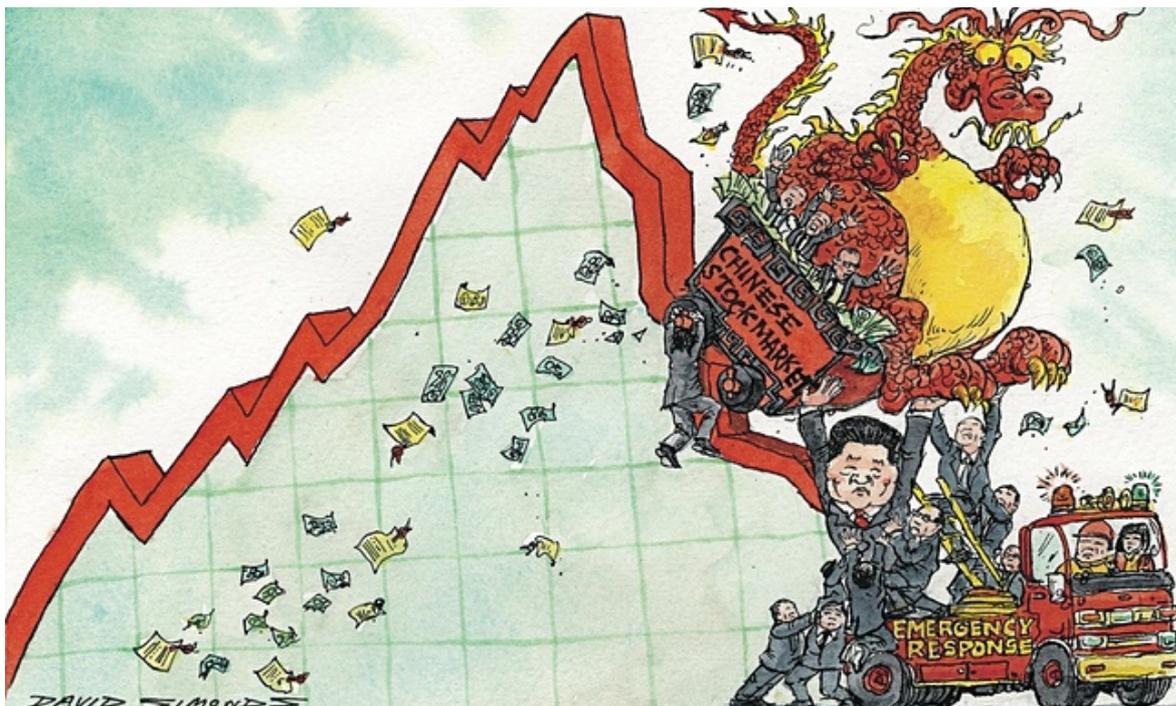




# NIVEDA | BULLETIN

## "Never Let a Crisis Go to Waste"



The news of slowdown in the Chinese economy and uncertainty in this emerging market this month caused a global panic in the financial markets with many investors shorting their financial instruments in China.

(Image Source: The Guardian)

Vishaal Shah, who leads the Corporate Advisory division specialising in Private Equity and Venture Capital at Niveda, provides his view on the reaction to the recent China crisis and investing behaviour in the current global market.

Volatility is a consequence of uncertainty, of doubt and of fear. This is what we are experiencing in Asia and more recently globally. Over the past 3 years, Mr Market has shrugged off every danger, every concern and every logical conclusion to continue rallying, with license and unlimited fuel from Mr Draghi, Ms Yellen and anyone

else with the authority to print money. Even when Ms Yellen announced the intention to raise interest rates and normalise the environment there was barely a reaction. Gold, a traditional safe heaven was freely discarded in face of all danger. Rationale investors, who under normal circumstances would have considered the market irrational, jumped in, fearful of missing the biggest rally of their careers at precisely the wrong moment.

In the past two weeks, the ebullient and care-free mood of the capitalist world has been replaced by one of fear and panic.

While China's erratic policy changes was a catalyst, it was by no means a reason to run for the hills. Yet panic ensued and over \$7 Tn of equity (source: Bloomberg) has been wiped out in a matter of days.

### So, What's Next?

Well nothing really. Investing to me and my Niveda team is about finding value, and then finding the right price to buy that value. In the past week, the price has changed dramatic but the value remains the same. What this means for us is that we can buy good value much more cheaply and we will certainly be looking to add to this. As our focus has been since inception is to invest in good industries which are primed for growth, but more importantly invest in a company that is a specialist, that has a unique product, and is protected by strong barriers to entry.

The second half of the investment equation is to invest in companies that are not fuelled by debt, but instead have strong balance sheets, very good cash flow management and profitable products that can grow in challenging conditions. This to us, has been a proven success model for investing. While many investment managers are worried about the losses and putting stop losses, given that we have no intention of selling we have incurred no losses to date on our portfolio.

### But What About the Collapse of China?

What about it? We do not believe that the world's second largest economy, the country with a third of the world population has or will disappear overnight. Its people still need to eat, drink, wear clothes, build houses, uses transport and logistics system, and in summary exist. This all

translates to demand, and with our portfolio of companies, we are not worried of running out of customers.

In addition, it is important to remember that two thirds of the world population lives outside China and needs the same basic necessities to live.

### So, is it Business as Usual?

Yes indeed. Only now, the opportunity set just got a lot more interesting. With commodity prices continuing to remain low, commodity exporters and importers are able to get on with the real world, and the re-balancing of the different economies is creating a raft of new exciting opportunities.

Australian dollar is suddenly quite cheap that tourists are finding it affordable to fly to down-under while the people who were for so long locked out of the mining industry for lack of muscle, are realising that their hospitality and trade skills are not as useless as they thought it was.

In India the falling oil prices has given the government a chance to spend some money on fixing infrastructure and building a new manufacturing industry. India also recently opened its first new bank since independence in Kolkota, surely a good sign.

Even in China, the economy has been rebalancing from the traditional cheap manufacturing hub, to more sophisticated intelligent industries.

So the world is not coming to an end, not yet anyway. For the true capitalist, as Winston Churchill famously said, "never let a good crisis go to waste", and this is as good a crisis as any.

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