Investing in Chinese Companies is a Big Risk for Americans

July 12, 2021 - So you have a little extra money and you want to invest it in the stock market. You're not an experienced investor but you know that you want to purchase a stock in a high-growth industry and which has a large market for whatever it is selling. So you do a little research and you decide on a company that has just gone public. Better yet, you think. It's a company based in China and focused on Chinese consumers; of which there are 1.4 billion of them. The possibilities are endless! And then the Chinese government steps in and screws everything up. That's pretty much what happened to investors in Chinese rideshare company DiDi last week.

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The Trump administration realized that there were some real issues with Chinese companies that are listed on US Stock Exchanges. Specifically, that Chinese securities regulators are not transparent and that they don't require the same type of reporting that American and Western European companies are required to provide. Because of this, a number of companies were delisted last year on American exchanges.

DiDi was different through. The company was a new listing and the numbers looked good. The stock IPOed (meaning the stock was released on the market in an Initial Public Offering) at the beginning of last week at $14 per share, and was up 1% at the end of the first day of trading. And there were rave reviews. CNBC's Jim Cramer was telling his audience to buy as many shares of the stock as they could get their hands on.

All of that fell apart four days later. That's when the Chinese Communist Party (CCP)got involved. They made the decision to halt new consumer downloads of the DiDi app; supposedly because of security concerns. And while the company is working with the government to get back to normal operation, the stock is now trading below its IPO price.

Neither the company or the CCP have specified their so-called "security concerns," but keep in mind that China is still a country with a third world government. There is a real possibility that that the issue has more to do with a falling out between DiDi executives and the CCP than it does with security issues.

China is a very interesting target for investors. It has a huge consumer base and a growing middle class. In a free market system, that's very attractive to anyone looking for investment growth. But China isn't a free market. It's a communist country with a totalitarian government. That means that any money invested there is going to carry some substantial risk along with it.

Frankly, any time you invest in the stock market there is a risk that you could lose your entire investment. But those risks are significantly amplified when investing in China, and Americans need to be aware of that. Buyer beware!
by Jim Malmberg
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