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Interview with Ron Firmin about the China Boom

Richard: Hi everyone, its Richard Roll of the Baby Boomers Retirement Club, the BBRC and my guest today is Ron Firmin. He is a Financial Planning Consultant and he is also an international entrepreneur who is extremely familiar with the things that are going on in China and its economy and he's the author of a recent book called *The China Boom*. Welcome, Ron.

Ron: Thank you, Richard, happy to be with you.

Richard: Ron, today we're going to talk about China from the perspective of Baby Boomers and we're going to talk specifically about what Baby Boomers need to know about China from an investment standpoint from the impact that China is going to have on their lives, their financial well being, when I say their I mean our, of course.

Ron: Yes.

Richard: Our investment perspectives and essentially how the juggernaut of China is going to change the complexion of the world economy over the next 20 or 30 years. So let's start – maybe you could just give us an insight into how you got started in the whole China thing. You know, we've all had an opportunity to get an insight into China just recently with the very, very, dramatic and fascinating Olympics in Beijing, so I think it's on everybody's mind. But you were there, obviously, some time ago, how did you get started with China?

Ron: Richard, my fascination with China goes back over 35 years ago so it's a long time fascination it's not something recent. I will tell you that because of the tremendous



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interest in the Olympics and many of the people that I deal with and educators and others that I do speaking at some of these universities and, especially, in the south and to a lot of companies with regard to China and I've been urged to get my book out there so I'm actually serializing it on my Web site under www.thechinaboom.com and the reason I tell you that is it does provide tremendous insight into the country. There is a free initial segment that anyone can could to thechinaboom.com and read. And then if they wish to subscribe they're 11 additional segments at \$2.25 cents each, one a week a total of \$25 and they will get the entire book plus many, many original photographs and even some videos. So it's going to be an interesting perspective for many people. But I ask the question, do you wake up in the middle of the night wondering if China's going to take over the world? Do you wonder what you can do to participate in China's tremendous and continuing growth? And what are the implications of the exploding Chinese economy on you and your family? In effect, how can you be a part of the China boom? The reason I put it that way, Richard, is because whether we like it or not we all in are influenced by what's happening in China. it is the world's fastest growing economy, it is certainly the largest, potentially, it's not the largest economy today it ranks behind the United States and a couple of other countries in Europe, but it is rapidly, rapidly catching up and the future is anyone can tell that watch the Olympics, is a bright one for China economically and they're quite determined to be a growing economic powerhouse. So it's going to impact us and it already is tremendously.

Richard: Well, let me say this. I think that they demonstrated their proficiency quite clearly both directly in the athletic events and in all of the production and all of the organization that was involved and I think if there's anything that sent the message to Americans, China is on the way up, it was all of that combined.

Ron: Well that's true and while many of us, especially the baby boomer generation, we remember events of historic note that were terrifying for us and catastrophic for the



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Chinese, for example, Tenement Square in 1989, the Cultural Revolution prior to that. And what occurred the reformed movement that began with Ding Cha Ping, the reform and opening movement that started with him and certainly accelerated, and the Olympics is just the culmination of years of opening. And what you see happening in China today is a growing middle class and that growing middle class is as large as the entire US population and its phenomenal what's happening. That still leaves about another 900 million or more who are desperately trying to achieve some financial improvement in their lives, so it's a huge, huge, economy in a potentially much bigger than it is today.

Richard: It's a huge economy and also has some pitfalls in relation to investment and investing prospects. Can you talk about that the investment process because a lot of enterprises are Chinese controlled...?

Ron: That's true.

Richard: ...and so there is not as much visibility into the financial performance of some of those things. Things are structured as joint ventures and do not provide the visibility that we might otherwise have. The Chinese Stock Market has been extremely volatile and has had some significant pullbacks that have caused people a fair amount of money. It was highly touted...

Ron: Yes.

Richard: ...we were supposedly able to invest with people who knew what they were doing and yet the market has lost quite a bit of its value. What do you have to say about what are the pitfalls and risk in investing in China?



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Ron: Well, you've alluded to several of them and that is true. Probably one of the very biggest thing that is on the mind of a lot of companies that do business in China and investors is IPR, Intellectual Property Rights and the Chinese can and will copy anything they can copy and I'll give you an example of that. General Electric wanted to sell locomotive engines to the Chinese ministry of railroads and so they sent an engine over for testing. The Chinese dismantled the engine totally, completely copied it, and remanufactured it in China. Thank you very much, GE. So that's a part of what can happen. However, since the year 2001 have progressively had to move more into the mainstream of the international community because now they're heavily invested in the United States and in other countries and now they want a reciprocating protection like we would like when we go to their country. So they've become a part of the World Trade Organization, they subscribe to all the programs of the World Trade Organization and increasing the administration and the legal protections that are needed for intellectual property rights are becoming more widespread in China and so things are improving slowly but gradually. We're talking about moving things, you know, in a 5000, 4000 to 5000 year old culture, they don't move like they do in the United States.

Richard: How do you account for the volatility that's taken place if given that China is growing so quickly the opportunity is the consumption of resources, the growth of companies to satisfy the demand of this middle class, how can you account for the decline in the equity value that's occurred?

Ron: Well, part of it is they're learning how to run companies, they're learning how to manage companies and they're making mistakes along the way. They're compressing our 200 years of economic growth and prosperity into a period 1/10th of the duration of time. So the experiences are both on the positive and the negative sides are being magnified, so yes there's going to continue to be some down sides to investing there but the upsides are pretty large as well.



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Richard: So is there a way to avoid, are you recommending any particular approach to separating the weak from the chafe?

Ron: You know I'm not, Richard, because most of my – although I'm making note of the question because clearly that's an important question – most of my work is work that is with manufacturers both in the United States and China, trying to ensure the quality of the goods that come out of those manufacturing plants in China. China is the factory floor of the world. And as that becomes more pervasive, you know, there's going to be a broader level of confidence in investing in Chinese companies. Part of it is some biting off more than they can chew, you might say. We do ISO9001 2002 Certification and AS Certification for the automotive industry and work with a wide variety of industries and we provide sorting services, as well, that do a high level third party assurance of the products that are being manufactured. And we've seen improvements in the areas and with the companies that we're working with and there's a real eager determination to meet the higher standards that are required around the world. And as that happens things are going to improve and investments will become more secure is my belief.

Richard: Your point about how they're trying to compress the capitalist modality in to a few years that took us 200 years to go from a agrarian economy to a...

Ron: Yes.

Richard: ...post manufacturing economy is very well taken. You can only imagine all of the best practices of everything from the HR department to how do you hire and motivate employees and compensate them and how do you monitor and manage, and yet at the same time, allow people to have some ability to have an initiative. You look at all of those things and what was a command and control society that's still, in many respects, is



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a command and control society and you can see that you might have some, you know, other than a cookie cutter process and even in a cookie cutter process it might be challenging; and quality control is a perfect example.

Ron: Yes.

Richard: You use the cookie cutter but if you're not doing the taste testing and, you know, making sure that the cookies aren't crumbled you get unit production but you don't get quality sometimes. So...

Ron: Think of this Richard a 125 years ago during the Industrial Revolution in the United States and Europe the United States became the Number 1 economic power in the world and has continued to be, but do you know prior to that for the 4000 years prior to that which economy was the dominate economy in the world?

Richard: Well, I guess you're going to say China.

Ron: Well, I am. I am going to say China and the reason is, is because it was an agrarian economy, and agrarian economies are built around labor and the country that has the greatest human capital is the winner. So, and you know as I do, that most of their great innovations came out prior to the western powers coming in during the 1700, 1800s and a lot of the difficulties that occurred then with them trying to parcel China up and divide it up among them so a lot of history there, of course. But I don't say this prophetically or as an apologist for China, but if it depends on human capital without a doubt they'll be the largest economy again.

Richard: And, you know, that's something that I think all baby boomers should be taking to heart he mission of learning more and getting more insight into what's going on in



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China, not just on a surface level but understanding the dynamics that are at work because we're going to see those things play out both politically in trade, in tariffs, in competition fundamentally and in economic impact over the next 30 years for the balance of our productive lives, so it behooves us. Once again, Ron, would you tell us how to find the first excerpt of your book *The China Boom*?

Ron: Yes, simply go to www.thechinaboom.com and there we'll give you a little overview and allow you to read the first excerpt, and then if you like you can elect to go ahead and subscribe. Like I said, it's \$2.25 a week a total of \$25 and the entire book along with pictures and videos will be sent to you one segment at a time. And let me tell you where that came from, Richard, this is sort of a trial in a way but it's working out pretty well. I was involved in a research test with 10,000 readers and it was founded that people like to read in smaller doses 15 to 20 minutes and they just don't have time to always grab a – now most of us are going to grab a book and love it and people will be able to buy this book in early 2009, it will be a bound book that they can get from, you know, any bookstore, but people like it this way. And I'm finding that my subscribers are enjoying getting the book in this fashion, it's like a serial that they get and they can't wait for the next installment.

Richard: Well, I think it's very appealing first of all the China story is a very fascinating story so to get it in installments is very, I think, attractive and enticing. Second of all, as you say, we're pressed for time so having that sort of subject be able to be dolled out over time into our minds I think is a very appealing way to go. Thechinaboom.com Ron Firmin, Ron I want to also talk about another subject that you and I have been batting around with, which is essentially from the standpoint of baby boomers investing is filled with pitfalls we have seen that with both people who've tried – and I'll speak from my own experience trying to diversify internationally and intercurrents and intersectors and so forth – one of the most predictive factors for investment performance of a particular



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companies stock and I think that this has been acknowledged by sophisticated investment analysis for some time is...

Ron: Yes.

Richard: ...operating cash flow per share of a company. It's not easy to find out because it's not reported it is not a standardized generally accepted accounting principle notion or metric. And so there were different methods of doing it and information for which to do it is sometimes difficult to come by for the public, but talk about, if you will, as a financial planning consultant to helping people get a handle on how to take their own financial affairs into their own hands responsibly and intelligently. Where does this notion, this metric come into play for the average investor. How can they put it to use and what other thoughts do you have on that subject?

Ron: A little background would be helpful, Richard, briefly. I have worked with major banks throughout the country for over 30 years and I actually was an executive with one of the largest banks in the country which bought my company several years ago. And when you speak to bankers or you talk to stock brokers or you listen to MSNBC or Bloomberg and they're talking about the financial strength of companies the one methodology of analysis that they all refer to is EPS, Earnings per Share. Now, Earnings per Share is a valuable piece of information but if we solely rest our judgment on Earnings per Share we could be in trouble. The history of this century proves that. Can I name a few companies?

Richard: Absolutely.

Ron: Enron, WorldCom, Adelphia, Quest, Global Crossing, shall I go on? We're remember that Arthur Andersen when under because of the creative accounting practices



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revolving around Earnings per Share because what is Earnings per Share? Well, frankly to put it in just, you know, simple terms, it's whatever the manager or CEO or accountant says it is and it doesn't really tell you what the truth strength of the company is. Enron was a perfect example of that. They were touting huge earnings per shares while their cash positions were in the tank. Now, if you'd had a methodology that could analyze the strength of a company and you knew two or three or four quarters in advance of their true cash position it wouldn't matter to you if the stock was continuing to rise in value you'd say, you know what, I'm going to pull out of that stock and invest in a different company with strong operational cash flow because there's trouble ahead for this company. Now, the average investor has no way of accessing that information, huge investors like Warren Buffet with a 150 analysts they can get at it, but I don't know too many baby boomers who have access to that kind of help. However, there are some things that are turning around that I think are good news for the average investor.

Richard: Yeah, and you gave us some examples. Good news is something we're always interested in.

Ron: Well, you know, of course because I am from the south I'm from Nashville, Tennessee, my tendency is to default to humor, so my answer to the question is for a price I can tell you anything but in reality, Richard, teasing aside I really am on a mission to reach out to my fellow baby boomers and help them to get a picture of some of the things that I've been able to learn over the last number of years. And respect to Operational Cash Flow Per Share the good news is that there has been some really phenomenal software that's been developed and proven over a number of years and it is coming to market very soon for the average investor and it will be served in a way that the average investor can afford. A very low fixed price for the education which provides model portfolios of companies built around Operational Cash Flow per Share or cash strong companies exactly the same way Warren Buffet and other famous investors do it.



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Then if a person wishes to do so that software will move them seamlessly over to an online broker dealer that they can deal with to actually purchase their portfolios. So the company I'm talking about will only be selling financial education, model portfolios, but it's a proven methodology that really works. I personally have had the model portfolio and my returns on my investment has beat the mutual funds, they've beat the S&P 500, and even when the market was down this year and severely in the red from 11% to 19% my portfolios were in the black as much as 2% to 6%. That's a pretty big spread isn't it?

Richard: It is a big spread. You mentioned that there – well, the financial strength for these companies is a function of two things. One they're strong cash reserves to weather storms and make investments as needed. The second is the cash performance of their business units...

Ron: Yes.

Richard: ...as succinct from accrued profits which can easily evaporate in adjustments reserves, all the kind of things that occur when you shut down an operation and so forth that don't come up until hard times hit. So I have a question for you, Ron. In your book you mentioned some ways that investors can get Operating Cash Flow per Share kind of data that are currently in existence. Can you talk about any of those?

Ron: Well, there's various methodologies or companies, rather I should say, that are out there provided some help to investors most of the time it requires that an investor spend a fair amount of money – I don't mean a tremendous amount but in the low thousands of dollars – and a lot of their time. One of those you'll be familiar with is called Invest Tools. They have about a quarter of a million graduations and, you know, they've had some success. Operational Cash Flow is not the primary thing that they're doing but it does teach beginning and experienced investors how to evaluate more and to make



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smarter decisions about how to invest., so that's one. TD Ameritrade has become famous with some of the things that they're doing that have been extremely helpful and there's a number of other companies. I personally subscribe to the Motley Fool; I think many investors do Dave and Tom Gardner provide tremendous information there.

Richard: They do a great job. They do a great job and I think that this...

Ron: Right.

Richard: ...distinction about Operational Cash Flow per Share and simply planting that idea in people's heads so that they can focus on that is one of the key things to look at. Whatever the methodology is that they're going to use, I think that's one of the greatest things that's come out of this conversation.

Ron: Here's the good news I have an excellent report on Operational Cash Flow Per Share that can be reached by going to my Web site www.thebustedboomer.com or just simply ronfirmin.com and you can request that report. There's also one called *Things your Financial Planner Will Not Tell You*, you need to get that.

Richard: Those sound great. Those sound terrific a lot of good things on those two sites, thebustedboomer.com and ronfirmin.com. And Ron I want to thank you for being with us today.

Ron: Thank you so much, Richard. And congratulations to all your listeners and here's to their success.

Richard: Thank you and here, here.



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Ron: Thank you.

Richard: Bye, now.