

How to become a value speculator in the Chinese stock market

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- 1 Overview
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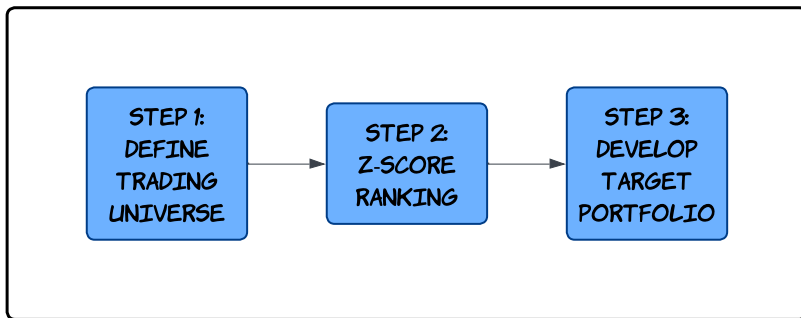
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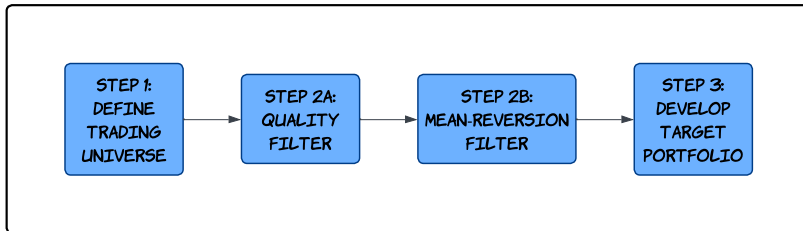
What constitutes a systematic stock selection strategy

- There are more than 5000 stocks in the Chinese stock market with different quality and features, our objective is to meticulously select a defined quantity of stocks to assemble our investment portfolio.
- In one sentence, we utilize factors and construct the z-score of stocks as a grading scheme of stocks and select the top 10 stocks according to the score.
- To rebalance the portfolio, we compare this new list against our current holdings. Stocks present in our portfolio but absent from the day's list are liquidated, while those newly included in today's recommendations but not currently held are acquired.

What constitutes a systematic stock selection strategy



What constitutes a systematic stock selection strategy



Quality filter

- Various factors including profitability, cash flow, growth, capital allocation, red flags
- Combined in a careful way
- Filter out 90%-95% of the universe
- Identify a subspace of stocks with some specific good features

Mean-reversion Filter

- Purpose is to buy low and sell high
- Assign to each stock a rank which would decrease if the stock price goes up
- For a 10-stock portfolio, we always hold the number 1-10, if a stock rank reaches 11, (typically with a steep rise in the stock price) then we sell them

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Utilizing insider trading(1)

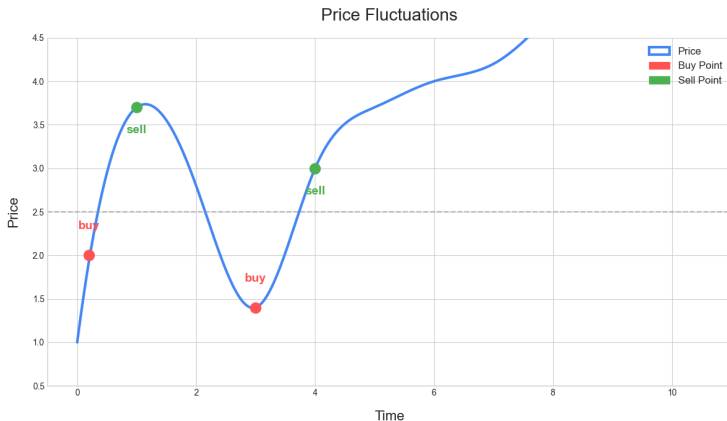
- Typically, it is not uncommon that you witness some soaring stock price before you hear the surprise/ good news of the company.
- Some investors have insider information and buy those stocks way before the news is released
- A smart enough value speculator can even enter this position 2-3 months before the news is released. For this single trade, you reap a 10% - 20% return and exit. Are you a prophet?

Utilizing insider trading(2)

- In the quality filter, we already identify some good quality stocks with the potential to outperform continuously.
- The mean-reversion filter would make sure that currently this potential has not been fulfilled
- Similar to entering 10 lotteries, you do not know which one would be the cash printer, but you know that one or two of them would be your cash printer.

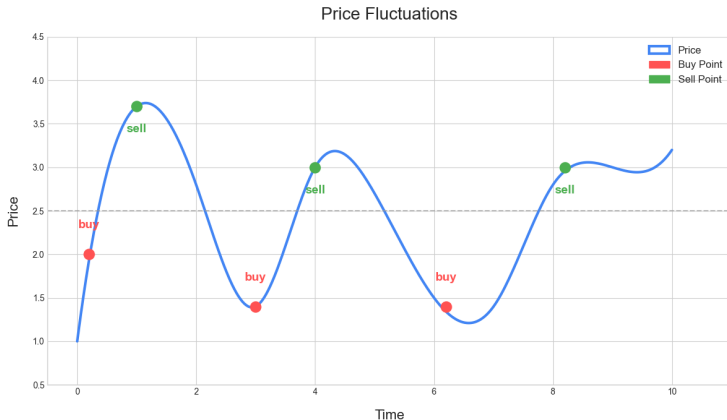
Patterns of Price Fluctuation

Here we do not follow the trend, after we obtain enough profit we will stop



Patterns of Price Fluctuation

An ideal pattern: when the stock price is volatile enough, we can frequently buy low and sell high



Patterns of Price Fluctuation

The quality filter makes this pattern less likely to happen

