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Forget Stocks—Chinese Turn Bullish on Booze and Caterpillar Fungus

Investors Chase Returns in Strange Places; A Wild Ride in 'Roaring Yellow River'

By **DINNY MCMAHON**



Caterpillar fungus used to boost sexual virility is just one of the latest alternative assets for Chinese investors. The WSJ's Deborah Kan talks to Dinny McMahon.

BEIJING—For generations, Chinese men looking for a dose of vigor have sworn by a traditional remedy: fungus harvested from dead caterpillars, known in some quarters these days as Himalayan Viagra.

Now Chinese investors are using the rare fungus to try to boost something else—their investment returns. The fungus has doubled in price over the past two years and the top grade now fetches more than \$11,500 a pound, according to Fuzhou-based brokerage firm Industrial Securities.



Beijing Googut Auction House

Baijiu liquor of uncertain vintage sold for \$8,300 at a December auction.

With Chinese stocks falling, real-estate markets flat and bank deposits offering measly returns, Chinese investors have been looking for help in strange places. Besides traditional medicinal products, they are plowing money into art-based stock markets, homegrown liquors, mahogany furniture and jade, among other decidedly non-Western asset classes.

"On a micro level, speculation has appeared," says Long Xingchao, president of the information center of the China Association of Traditional Chinese Medicine. The association says prices of traditional medicines, including red ginseng and false starwort, have surged since 2010, partly because of speculators. Mr. Long insists, however, that a price bubble isn't forming. "There's nothing to pop," he says.

Newfangled exchanges are sprouting across China to take advantage of the excitement. [Nanjing Pharmaceutical Co.](#) set up an exchange last year for trading traditional medicines such as deer antler. In November it extended hours so investors could trade when they get home from work. "Expanding the hours gives investors more time to make a profit," the exchange said on its website.

Exchanges have popped up that allow investors to buy and sell shares of individual works of art. In the city of Tianjin last summer, an unnamed seller floated about 30 million shares of a painting called "Eternal Lotus Wind," at an initial price of 1.61 yuan apiece—about 25 cents. Within two days, investors had bid the shares up 52%, valuing the painting at about \$11.5 million. Then the shares began sliding; they now trade at 36% below the initial offering price.

Cui Ruzhuo, who painted "Eternal Lotus Wind" but didn't profit from the offering, says the art market still has legs. "We still haven't arrived at the high point," he says.

Investors are taking to drink, as well. Maotai—the most popular variant of a homegrown liquor called baijiu, and once a favorite of Chairman Mao—now sells for more than \$300 a bottle, double the price a year ago.

"In the past, baijiu was only for consumption," says Liu Xiaowei, chairman of auction house Beijing Googut Auction Co., which held a baijiu auction last month. "But now it's also a collectors' item and for investment."

At the December auction, a businessman from Jiangsu province dropped \$8,300 on two dozen bottles of liquor of uncertain vintage—their water-stained cardboard packaging suggested they were old—almost four times the starting price on the auction docket. "If I held these for a while, I could definitely make some money," said the buyer, who didn't provide his full name.

China's banks are getting in on the action. [Industrial & Commercial Bank of China Ltd.](#), China's biggest state-owned lender by assets, set up a fund for customers to invest in high-end pu'er tea, marketing it as a low-risk investment. [China Merchants Bank Co.](#) is planning to allow some customers to trade diamonds through its website.

Auction house Googut helped three banks set up bank-run investment funds for customers to invest in baijiu and other liquors. Mr. Liu, Googut's chairman, said the funds are eyeing an annual return of about 20%.

The problem for Chinese investors is that returns have evaporated from more traditional markets. Real estate was once China's favorite investment, but government efforts to contain price increases and keep housing affordable have led to price stagnation and even declines in some cities. China's major stock exchange in Shanghai is down almost 20% since the beginning of 2011. Bank deposit rates are lower than the pace of inflation, meaning savers effectively pay banks for the privilege of handling their money.

"There really are very few investment channels," says Ren Jun, a 30-year-old media entrepreneur with investments in contemporary art, antiques, gold and silver. "That's why I'm kind of forcing myself to be brave in trying new options."

China's central government is less than intoxicated by the investment party. It said in November it would tighten oversight of Chinese asset exchanges, warning of "serious speculation and price manipulation" among some and adding that some "managers have run off with clients' funds."

Some of the biggest boom-and-busts have taken place at art exchanges.

"Roaring Yellow River," a traditional landscape painting by the late artist Bai Gengyan, was the first work listed last year by the Tianjin Cultural Artwork Exchange. Within two months of the offering, shares were trading at nearly \$3 each, up from about 15 cents, valuing the painting at about \$18 million. The previous auction high for the artist's work was a bit more than \$600,000.

About two months after the offering, the Tianjin city government suspended trading in "Roaring Yellow River" and another painting, and the exchange imposed limits on daily and monthly price changes. Shares of "Roaring Yellow River" now trade at about 20 cents, down more than 90% from their peak.

Shanghai financial-software designer Jimmy Wang sunk about \$790,000 into shares of a pink diamond and a jade pendant traded on the same exchange, putting up his house as collateral to finance the investment. He says he has lost as much as 2.7 million yuan. "So basically I've lost my house to the bank and I am struggling to pay the interest," he says.

Such hard-luck stories haven't slowed the hunt for the next great investment.

Wang Jingbo, chief executive of wealth-management company [Noah Holdings](#) Ltd. in Shanghai, said late last year she was considering recommending to clients a fund that invests in high-end watches. Googut's Mr. Liu believes the next market to watch is white jade.

Mr. Ren, the media entrepreneur, says he is looking at diamonds. "While silver and gold may see fluctuations depending on international markets," he contends, "the price of diamonds never drops."

—Yang Jie, Olivia Geng, Yoli Zhang and Lingling Wei contributed to this article.

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