# Beyond the Index: Finding Opportunities in Difficult Markets

***Why weak market performance does not necessarily imply a shortage of investment opportunities.***

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When equity markets experience prolonged weakness, a familiar narrative often emerges: there are few places to hide, and even fewer opportunities worth pursuing. Falling indices, deteriorating sentiment, and widespread losses reinforce the perception that attractive investments have largely disappeared.

But does a declining market necessarily imply an absence of investment opportunities?

A closer examination of China's A-share market over the past 16 years suggests a more nuanced picture.

**Looking Beyond the Headline Numbers**

Between 2010 and 2025, China's A-share market experienced several difficult years, including periods of substantial index declines and broad-based weakness. Yet even in the worst of these years, hundreds of individual stocks managed to deliver positive returns.

Consider 2018, one of the most challenging years for Chinese equities. The CSI 300 Index declined 25.3%, while the CSI 500 Index fell 33.3%. Of the 3,568 stocks covered in our dataset, only 296, or approximately 8.3%, recorded positive returns.

At first glance, this confirms just how difficult the market environment was. More than nine out of ten stocks declined.

Yet there is another way to interpret the same figures: even in a year of exceptionally broad market weakness, nearly 300 individual stocks managed to appreciate.

The picture remains interesting when we narrow the universe to the 800 stocks represented by the CSI 300 and CSI 500 groups. These represent, broadly speaking, China's largest and most established

| Year | Adv. Stocks in CSI 300 | Decl. Stocks in CSI 300 | Adv. Stocks in CSI 500 | Decl. Stocks in CSI 500 | All other Adv. Stocks Outside of CSI 800 | All other Decl. Stocks Outside of CSI 800 | Total Number of Listed Stocks | CSI 300 Index Return (%) | CSI 500 Index Return (%) | Pct. Adv. Stocks in CSI 800 (%) | Pct. Adv. Stocks in Entire A-shares (%) | Total Mkt Cap (RMB tn) | Average Daily Turnover (RMB bn) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2025 | 182 | 118 | 355 | 145 | 3,697 | 1,002 | 5,499 | 17.7 | 30.4 | 67.1 | 77.0 | 108.9 | 1,731.2 |
| 2024 | 216 | 84 | 288 | 212 | 1,716 | 2,916 | 5,432 | 14.7 | 5.5 | 63.0 | 40.9 | 86.0 | 1,065.1 |
| 2023 | 126 | 174 | 204 | 296 | 2,556 | 2,024 | 5,380 | -11.4 | -7.4 | 41.3 | 53.6 | 77.8 | 879.9 |
| 2022 | 54 | 246 | 90 | 410 | 1,057 | 3,252 | 5,109 | -21.6 | -20.3 | 18.0 | 23.5 | 79.0 | 928.5 |
| 2021 | 147 | 153 | 297 | 203 | 2,363 | 1,535 | 4,698 | -5.2 | 15.6 | 55.5 | 59.7 | 91.9 | 1,061.9 |
| 2020 | 193 | 107 | 295 | 205 | 1,675 | 1,679 | 4,154 | 27.2 | 20.9 | 61.0 | 52.1 | 79.7 | 851.1 |
| 2019 | 252 | 48 | 397 | 103 | 2,166 | 800 | 3,766 | 36.1 | 26.4 | 81.1 | 74.7 | 59.3 | 522.2 |
| 2018 | 29 | 271 | 43 | 457 | 224 | 2,544 | 3,568 | -25.3 | -33.3 | 9.0 | 8.3 | 43.5 | 371.6 |
| 2017 | 176 | 123 | 166 | 334 | 760 | 1,906 | 3,465 | 21.8 | -0.2 | 42.8 | 31.8 | 56.7 | 462.3 |
| 2016 | 62 | 238 | 99 | 401 | 763 | 1,470 | 3,033 | -11.3 | -17.8 | 20.1 | 30.5 | 50.8 | 523.6 |
| 2015 | 200 | 100 | 427 | 73 | 1,925 | 85 | 2,810 | 5.6 | 43.1 | 78.4 | 90.8 | 53.1 | 1,047.5 |
| 2014 | 251 | 49 | 444 | 56 | 1,624 | 168 | 2,592 | 51.7 | 39.0 | 86.9 | 89.5 | 37.3 | 303.6 |
| 2013 | 145 | 155 | 312 | 188 | 1,241 | 429 | 2,470 | -7.6 | 16.9 | 57.1 | 68.7 | 23.9 | 196.9 |
| 2012 | 148 | 152 | 205 | 295 | 745 | 911 | 2,456 | 7.6 | 0.3 | 44.1 | 44.7 | 23.0 | 129.5 |
| 2011 | 19 | 281 | 35 | 465 | 141 | 1,360 | 2,301 | -25.0 | -33.8 | 6.8 | 8.5 | 21.5 | 172.8 |
| 2010 | 106 | 194 | 257 | 243 | 725 | 494 | 2,019 | -12.5 | 10.1 | 45.4 | 53.9 | 26.5 | 225.5 |

Notes: Compiled by Banyan Partners. Advancing (Adv.) and declining (Decl.) stocks refer to stocks with positive and negative calendar-year returns, respectively. For conservatism, stocks with exactly zero calendar-year returns, if any, are classified as declining stocks. Percentages are calculated relative to the total number of stocks in each universe. The CSI 800 is an established index that comprises the constituents of the CSI 300 and CSI 500 indices. Historical performance is not indicative of future results.

listed companies. In 2018, 72 of these stocks, or 9% of the combined universe, delivered positive returns, despite both indices suffering declines exceeding 25%.

The experience was not unique to 2018.

In 2011, when the CSI 300 declined 25.0% and the CSI 500 fell 33.8%, 195 stocks across the broader A-share universe, totaling 2301, appreciated, including 54 within the combined 800-stock group.

In 2022, when both the CSI 300 and CSI 500 declined more than 20%, 1,201 stocks across the market delivered positive returns. Within the 800-stock group alone, 144 stocks, or 18%, managed to appreciate.

These observations highlight an important distinction: the performance of a market index and the investment outcomes of individual companies are not the same thing.

**The Market Is Not the Opportunity Set**

Market indices are useful barometers of overall market performance. But an index is, by construction, an aggregation of individual securities. Beneath the headline return lies a broad range of company-level outcomes.

Some businesses continue to grow despite challenging economic conditions. Others benefit from industry-specific developments or improving competitive positions. Still others may benefit from shifting investor sentiment or speculative interest unrelated to underlying fundamentals. Their share prices may follow trajectories quite different from those of the broader market.

Consider a portfolio comprising 20 to 40 individual positions. Such a portfolio represents only a small fraction of the investable universe. Its success does not require the entire market, or even a majority of stocks, to perform well.

Even in 2018, when more than 90% of stocks in the combined CSI 300 and CSI 500 universe declined, the 72 stocks that appreciated represented more than twice the number of holdings in a typical 30-stock portfolio.

Of course, this does not mean those 72 stocks were necessarily suitable investments, or that they could readily have been identified beforehand. But it illustrates why broad market weakness need not imply a complete absence of opportunities.

The opportunity set has also expanded considerably over time. Between 2010 and 2025, the number of listed A-share stocks increased from approximately 2,000 to 5,500, while aggregate market capitalization grew from RMB 26.5 trillion to RMB 108.9 trillion. Average daily trading turnover increased from RMB 225.5 billion to RMB 1.7 trillion. Although a larger and more liquid market does not necessarily translate into more attractively valued businesses, it provides investors with a broader universe of companies to research and evaluate.

**Our Responsibility as Value Investors**

International investors and market observers frequently characterize Chinese equities as a difficult market, pointing to disappointing long-term index performance as evidence that attractive investment

opportunities are scarce.

While such frustration is understandable, the historical data suggests that this conclusion may be too sweeping. Even in the most challenging years, meaningful numbers of individual stocks have delivered positive returns.

As value investors, we believe it is our responsibility to look beyond broad market performance, identify fundamentally sound businesses at attractive valuations, and seek to generate returns through disciplined stock selection.

Poor index performance is a challenge we must navigate, not an excuse for failing to uncover opportunities.

This conviction does not mean that every stock that appreciates represents a sound investment.

A rising share price may reflect improving business fundamentals, but it may also result from speculation, excessive optimism, or temporary market conditions. Conversely, an attractively valued business may experience a declining share price during a particular calendar year, even as its long-term investment proposition remains intact.

Our objective is therefore not simply to identify stocks that will rise in any given year. Rather, it is to identify businesses whose intrinsic values meaningfully exceed their prevailing market prices, supported by durable fundamentals, careful analysis, and an adequate margin of safety.

Annual stock-return statistics do not tell us how many genuine value opportunities existed, nor do they demonstrate that those opportunities could have been identified consistently in advance. What they do demonstrate is the diversity of outcomes beneath market-level performance.

For investors prepared to evaluate businesses individually, rather than drawing conclusions solely from index movements, that distinction is fundamental.

**A Different Perspective on Difficult Markets**

Difficult markets undoubtedly present challenges. Greater uncertainty, weakening sentiment, and broad price declines can test even the most disciplined investors.

Yet market weakness can also create circumstances in which share prices become increasingly disconnected from underlying business values. The same pessimism that depresses broad market indices may, at times, create attractive entry points into fundamentally sound businesses.

For long-term investors, the appropriate response is not necessarily to become more optimistic or pessimistic about the market as a whole. It is to remain attentive to the relationship between price and intrinsic value at the individual company level.

The historical experience of China's A-share market offers a useful reminder: even in periods characterized by widespread losses, individual investment outcomes can differ substantially from those of the broader market.

Ultimately, the opportunity set available to a selective investor is not defined solely by the direction of the index. It is defined by the availability of individual businesses that can be acquired at attractive prices relative to their underlying value.

For a disciplined value investor, market weakness is not simply a source of risk. It can also be a source of opportunity, provided one remains focused on the value of individual businesses rather than the direction of the market.

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