Philequity Corner (Feb. 19, 2007)
By Ignacio B. Gimenez

Bull Run Continues

"It's a bull market … After spending many years in Wall Street and after making and losing millions of dollars I want to tell you this: It never was my thinking that made the big money for me. It was always my sitting. Got that? My sitting tight!" – Reminiscences of a Stock Operator by Edwin Lefevre.

The quote above, from one of the most highly regarded financial books ever written, sums up the most simple and effective way to make money in any bull market – to buy an up-trending market, sit tight and then make a lot of money.

This approach is similar to what we've discussed in a past article entitled "*Newton's Law as Applied to the Stock Market*." We mentioned that once certain catalysts put economies or markets in a trend, this will hold on until an opposing & equal force upsets or changes the trend. And more often, these trends last for years as in the case of BRIC countries (Brazil, Russia, India and China) and even ASEAN countries like Singapore and Indonesia, all of whose markets are making new all-time highs.

The trend is our friend

In June 2003, when the PHISIX was at 1,073 (barely eight percent off its all-time lows), Philequity came out with a newsletter titled "*The Market has bottomed!,"* urging our investors to put more money in the emerging bull market in Philippine stocks. We even held an investors briefing in Makati in August of that same year. Since then the market has appreciated by 210.5%. In US dollar terms, the market's gain was 243.7%.

In August 2004, when the PHISIX was at 1,582, we declared we were maximum bullish when we wrote our newsletter titled "*Grab the Bull by the Horns,*" immediately after President Arroyo announced that the country is in a fiscal crisis. Since then the market has appreciated by 110.7%. In US dollar terms, the market's gain was 146.0%.

In November 2005, we wrote an article for Philequity Corner titled "*It's Time to Make Money*," after the successful implementation of the EVAT law. We said that we see a clear path towards fiscal revitalization & sustained economic upturn and we advised investors to buy Philippine assets. Since then the market has appreciated by 70.1%. In US dollar terms, the market's gain was 94.2%.

Following this simple strategy of staying with the trend has kept our Philequity Fund very profitable throughout the years. From the start of 2003 to the present, Philequity Fund has returned 248.6% to its shareholders, outperforming the PSEi which returned 227.3%.

Onwards to 4,000

In November of last year, we amended our end-2006 target for the PSEi to 3,000 from 2,600 since our original target was already reached by October. This time, however, with the tremendous strength of equities markets globally, we are compelled once more to amend our **end-2007 PSEi target to 3,700 (from 3,400) and to 4,000 by 2008**.

From the table below, one can see that bullish conditions exist not only in Philippine equities but in most equities markets worldwide. The MSCI World Index, for example, is already up 3.58%

year-to-date (in US dollar terms). Emerging markets, in general, has gained 2.7%, while emerging Asian markets have risen 1.8% since the start of the year. The Philippines, however, stands out as the MSCI Philippine Index is ranked 3rd in Asia (behind Malaysia and Pakistan) with 14.5% gain year-to-date (in US dollar terms).

Equities Markets (as of Feb. 16, 2007)	**%Chg YTD in local currency**	**%Chg YTD in US dollar terms**
MSCI World Index	3.80%	3.58%
MSCI Emerging Markets (EM)	2.90%	2.70%
MSCI Latin America	5.10%	5.60%
MSCI EM Asia	2.10%	1.80%
MSCI Philippines	12.40%	14.50%

Source: MSCI-Barra

Also note that while the PSEi is trading near all-time highs, prices in US dollar terms are still half of what it was in the pre-1997 era. Thus, from the point of view of foreign investors, Philippine equities is still way too cheap from where it was ten years ago. In US dollar terms, the PSEi still has a long way to go.

PSE Index (in US dollar terms)

Source: Technistock

Given the spectacular rise in the market so far this year, we expect corrections and profit-taking along the way just as the market gave back some of its gains last Friday. However, we view these pullbacks as opportunities to buy as the long-term uptrend remains firmly intact.

What could distract the trend?

We have highlighted in past articles what we think are factors that pose as risks to our projections. These include:

1. The possibility that the opposition would muster enough seats in Congress to initiate impeachment proceedings against President Arroyo. Note that it is not the change of leadership

per se that we are worried about but the scenario of a possible change in policies that comes with it. The assumption to power of leaders with populist tendencies could be obtrusive to reforms and even reverse the reform momentum that has been set.

2. A more pronounced slowdown or an overheating of the US economy. Investors have become accustomed to the Goldilocks economy in the US and are now comfortable with the "not-too-hot, not-too-cold" scenario in terms of macroeconomic fundamentals. Any surprises in either direction could prompt changes in their investment plans. This has repercussions in the global markets which still take cue from the US market.

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