Philequity Corner (March 26, 2007)
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Markets Recover

Just like the sharp decline in global equity markets in May 2006, the recent market plunge did not reflect a change in long-term fundamentals. Absent was the irrational exuberance in equity price valuation that was experienced in April 2000. Nor was there a loss of confidence in emerging market economies saddled with huge current account deficits experienced during the Asian crisis in 1997. In fact, equity valuations today are reasonably in line with long-term fundamentals and the emerging market economies have significant current account surpluses and are in strong financial standing.

Similarly, the subsequent recovery was abrupt as equities markets had its biggest rally since 2003. The US markets have staged a 4.7 percent comeback from its March lows following a 5.7 percent decline from Feb. 26 (the day prior to the sell-off). Meanwhile Asian markets have recovered 7.7 percent from its March lows following a 9.7 percent pullback.

Performance of Equites Markets

	Price Feb. 26	March Low	% *Sell-off*	Price Mar. 23	% *Recovery*	*%Chg YTD*
US						
Nasdaq	2,504.52	2,331.57	*-6.9%*	2,448.93	*5.0%*	*1.4%*
S&P 500	1,445.48	1,364.14	*-5.6%*	1,436.11	*5.3%*	*1.3%*
DJIA	12,632.30	12,039.12	*-4.7%*	12,481.01	*3.7%*	*0.1%*
Average			***-5.7%***		***4.7%***	***0.9%***
Asia						
China (Shanghai B)	188.91	157.43	*-16.7%*	177.90	*13.0%*	*36.7%*
Malaysia (KLSE)	1,272.87	1,090.39	*-14.3%*	1,235.65	*13.3%*	*12.7%*
Singapore (STI)	3,307.92	2,931.63	*-11.4%*	3,205.82	*9.4%*	*7.4%*
Philippines (PSEi)	3,380.00	2,965.80	*-12.3%*	3,170.05	*6.9%*	*6.3%*
Japan (Nikkei 225)	18,215.00	16,533.00	*-9.2%*	17,480.61	*5.7%*	*1.5%*
Korea (KOSPI)	1,473.03	1,375.84	*-6.6%*	1,447.38	*5.2%*	*0.9%*
Taiwan (TWSE)	7,900.20	7,306.07	*-7.5%*	7,859.32	*7.6%*	*0.5%*
Indonesia (JCI)	1,783.95	1,663.39	*-6.8%*	1,805.96	*8.6%*	*0.0%*
Thailand (SET)	688.70	665.04	*-3.4%*	677.79	*1.9%*	*-0.3%*
Hong Kong (Hang Seng)	20,597.90	18,659.20	*-9.4%*	19,692.64	*5.5%*	*-1.4%*
India (BSI)	13,649.50	12,390.50	*-9.2%*	13,285.93	*7.2%*	*-3.6%*
Average			**-9.7%**		**7.7%**	**5.5%**

Source: Technistock

Year-to-date, the US markets are up by just 0.9 percent while Asian markets are up by 5.5 percent. Note, however, that Asia's outperformance are mainly due to China, Malaysia, Singapore and Philippines, which continue to be the top picks in Asia by major investment houses and foreign banks.

Short-term is hard to predict

Clearly, short-term movements in the equities market are harder to predict than foreseeing the long-term direction. The timing and the extent of the recent decline and the speed of the subsequent recovery have surprised many an investor and also proved many market-timers wrong. Just as the trigger for a market correction (such as Greenspan's US recession comment or China's 9% one-day market plunge) can come out of the blue, the spark that will set off a recovery can also come out of the blue. In last week's case, just a tweak in the Fed statement replacing a long-standing reference to the "extend and timing of any additional firming," with a more neutral mention of "future policy adjustment" was enough to trigger the biggest weekly rally since 2003. This highlights and proves once again the futility of trying to time the market and predict their short-term movements.

Staying put for the long-term

Surprising though it may seem, it is less hazardous to predict the longer-term movements of the market. In the Philippines' case, while the consolidation phase may not be over, we continue to be long-term bullish for the following reasons:

1) On the macro front, low interest rates, low inflation, a stable peso and a healthy buildup of gross international reserves puts the country in a better shape to withstand external shocks. Meanwhile the fruits of the fiscal reforms are now expected to translate to growth in the domestic economy thru infrastructure spending, tourism development, and an upturn in the credit cycle.

3) On the corporate front, valuations are fair but far from excessive. The market P/E is 14.6x 2007 and earnings growth is 18 percent. Most companies have healthy cash flows and are in good financial standing. Therefore they will be able to provide rising dividend yields and the possibility of share buy-backs which should further enhance share values.

Patience is a virtue

Whenever the stock market experiences a sharp decline in value, investors wonder "Is this just a correction or is it the start of a bear market?" In fact, we have received a lot of emails and inquiries from our shareholders asking "Should I sell?" Often this is a mistake. All investing carries some risk and volatility is inherent in the markets. Therefore, investors should let the fund managers do their job of whether to reallocate the portfolio or to stay put. *Because in the long-run, it is the "time in the market" and not "market timing" that rewards investors.*

Patience indeed is a virtue especially to those investors who have stayed with Philequity throughout the years even through volatile times.

The risk-return table below shows the extent of volatility versus the returns for both Philequity Fund and the PSE Index. The standard deviation of daily NAV is used to measure the volatility. A lower standard deviation means the lower the variability or the risk.

Risk-Return Table

	VOLATILITY (%)		RETURNS (%)	
	Philequity	PSEi	Philequity	PSEi
1995	0.90%	1.23%	20.80%	-6.90%
1996	1.01%	1.00%	58.50%	22.20%
1997	1.07%	1.83%	-5.30%	-41.00%
1998	0.99%	2.61%	30.00%	5.30%
1999	0.97%	1.47%	35.90%	8.90%
2000	0.49%	1.67%	6.90%	-30.30%
2001	0.44%	1.76%	2.90%	-21.80%
2002	0.69%	1.13%	-5.20%	-12.80%
2003	0.74%	1.15%	35.60%	41.60%
2004	0.93%	1.11%	28.40%	26.40%
2005	1.04%	1.14%	15.30%	15.00%
2006	0.98%	1.27%	52.30%	42.30%
2007Ytd	1.80%	1.99%	9.84%	6.29%
Since 1995	**0.90%**	**1.52%**	**1130.00%**	**14.00%**

Source: Philequity Research

Throughout the years, Philequity Fund has consistently posted *lower risk* and yet has *outperformed* the PSE Index. Therefore, providing investors with a *better risk-return trade-off* compared to just investing in the PSE Index.

The power of cash dividend yield

Relating today's article to last week's article on cash dividend yield, the market recovery has brought about additional returns for those who picked up stocks which offered cash dividend.

For instance, PLDT's cash dividend of P50 had its ex-date last March 15 when the share price was at P2,260. If one acquired the shares on the said date, he would have achieved a 10.4% capital appreciation as of last Friday and another 2.2% cash dividend yield. In all, the 12.6% return is about four times the yield from the one-year T-bill. Note that the P50 cash dividend is barely half of the expected cash dividend to be paid out by PLDT this year.

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