

PHILEQUITY CORNER (11/7/05)

By Ignacio B. Gimenez

DON'T FIGHT THE TAPE

Two weeks ago, we came out with an article "*Philippine Peso ... the strongest currency in Asia, (Oct. 24, 2005)*" recommending investors to start investing in Philippine assets (the peso, ROPs, equities). Our reason: the Philippines has turned around and is already on the path towards a sustainable fiscal and economic recovery. For us and for investors looking to profit in the markets, what's more important is the recognition of that turning point, the path towards recovery.

True enough, since we wrote our article, the peso has appreciated by 2 percent against the greenback, ROPs have gained 200 basis points, and stocks are up by 5.7 percent. In fact, in just two trading days last week, the peso and the stock market broke a lot of resistance levels. But despite these indications, a lot of people remain skeptical, ignoring the markets and still focusing on the negatives of the country.

Our view is apolitical. We look at price charts. We analyze macroeconomic data. We read the tape to gauge the markets (note: in stock parlance, the "tape" refers to market data as in "ticker tape" used in early Wall Street trading). We may not foresee the next act in the political circus nor are we ignoring the *Garci tape*, but what the stock market tape is currently saying is that we should be positive.

Of course, there is always the risk of higher oil prices and inflation, rising interest rates, a large populist wage hike and a flu pandemic. Nevertheless, evidence now points to a gradual buildup of confidence in the economy and a possible re-rating if economic reforms continue to be put in place.

In our previous two articles, we presented the fundamental reasons and the catalysts for the improvement in the investment horizon for the Philippines. Today, we are giving the market data and what the tape is telling us:

- 1) The primary trend is clearly upwards. The benchmark Philippine Composite Index (PHISIX) is only 6.2% off its March highs but 103% above its 2003 lows.
- 2) The market has been consolidating (trading "sideways") since March, with the PHISIX ranging between 1,810 and 2,050. The implementation of the EVAT triggered a rally in stock prices, sending the PHISIX to a two-month high of 2,031.
- 3) The characteristics of the recent run-up are encouraging.
 - a. The rally is broad-based but, at the same time, it is led by quality "blue chip" issues.
 - b. A number of these big caps - like SM Prime, BPI, Petron, Ayala Corp. and Ayala Land - have broken out of their consolidation patterns.
 - c. Some even reached new year-highs/all-time highs, such as PLDT and Jollibee, and ICTSI.
 - d. Volume improved by 52%. Transactions during the two trading days last week improved to an average of P1.25 billion vs. October's daily average of P821 million.

- e. Movements in the forex, stock and bond markets are in congruence - signifying positive inflow of foreign capital.
 - f. Net foreign buying during the last five trading days amounted to P1.1 billion.
- 4) The PHISIX is now geared to test the 2,050 resistance for the 3rd time (following failed attempts in June and August). There may be some pullback in stocks, including the peso, but these will be buying opportunities.
 - 5) If the PHISIX surpasses 2,050, the next resistance is the March high of 2,166, which we think will eventually be broken.

Below is a table of PHISIX stocks and the price performance over the past two weeks.

New PHISIX composition (to take effect on Dec. 1, 2005)

	Company	Price		% Chg
		as of Oct. 21	as of Nov. 3	
1	Holcim Philippines, Inc.	3.05	3.75	23.0%
2	Jollibee Foods Corporation	33.00	39.00	18.2%
3	Metro Pacific Corporation	0.30	0.34	13.3%
4	SM Prime Holdings, Inc.	7.30	8.20	12.3%
5	Bank of the Philippine Islands	50.00	56.00	12.0%
6	Petron Corporation	3.35	3.70	10.4%
7	DMCI Holdings, Inc.	2.90	3.20	10.3%
8	Philex Mining Corp. "B"	1.18	1.30	10.2%
9	Filinvest Land, Inc.	1.24	1.36	9.7%
10	SM Investments Corporation	220.00	241.00	9.5%
11	Philex Mining Corp. "A"	0.99	1.08	9.1%
12	Pilipino Telephone Corporation	2.90	3.15	8.6%
13	Megaworld Corporation	1.34	1.44	7.5%
14	First Phil. Holdings Corp.	41.00	44.00	7.3%
15	Ayala Corporation	290.00	310.00	6.9%
16	Metropolitan Bank and Trust Company	25.50	27.00	5.9%
17	Manila Electric Company "A"	13.25	14.00	5.7%
18	Phil. Long Distance Telephone Co.	1,655.00	1,740.00	5.1%
19	Manila Electric Company "B"	20.25	21.25	4.9%
20	Manila Water Co.	6.20	6.50	4.8%
21	Ayala Land, Inc.	8.50	8.90	4.7%
22	Belle Corporation	0.88	0.92	4.5%
23	Lepanto Consolidated Mining Co. "B"	0.23	0.24	4.3%
24	Int'l Container Terminal Services, Inc.	9.50	9.90	4.2%
25	Equitable PCI Bank, Inc.	47.50	49.50	4.2%
26	ABS-CBN Broadcasting Corporation	14.00	14.50	3.6%
27	Banco de Oro Universal Bank	31.00	32.00	3.2%
28	Aboitiz Equity Ventures, Inc.	4.95	5.10	3.0%
29	Globe Telecom, Inc.	705.00	725.00	2.8%
30	Digital Telecommunications Phils., Inc.	0.89	0.91	2.2%
31	Benpres Holdings Corporation	0.98	1.00	2.0%
32	San Miguel Corporation "A"	65.00	65.00	0.0%
33	San Miguel Corporation "B"	92.00	92.00	0.0%
34	Lepanto Consolidated Mining Co. "A"	0.21	0.21	0.0%

Source: Technistock

A lot of people were surprised by the market's swift move in such a short time. Many are still wary and skeptical despite the clear signals of where the market wants to go. For those still looking at the trees and not the forest, heed the old stock market phrase which says "don't fight the tape" ... or else you might miss the ride.

As we have said in the past, the market goes up when most everyone is skeptical. We, in Philequity, tend to be bullish when the majority is bearish. We will continue to do so until the skeptics and the average Joe have jumped into the bandwagon.

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