

Philequity Corner (July 30, 2007)
By Ignacio B. Gimenez

The Sky is Falling

The sky fell on most investors last week as global equities led by the US suffered its biggest weekly loss in nearly five years. The S&P 500 plunged nearly 5% week-on-week on concerns about the slowing US economy and tighter credit conditions. The benchmark Philippine Stock Exchange Index (PSEi) was not spared from the fallout as it lost 219.5 pts or 5.9 percent for the week to close at 3,518.76 last Friday.

These losses were replicated globally. Right after the more than 300-point drop in the US last Thursday, markets all over the world followed suit. Across the Pacific, various indices posted their biggest one-day drop in recent history ranging from 2-4%

The day after

	Jul 27 Close	% chge
Taiwan TAIEX Index	9,162.28	-4.22
KOSPI Index (Korea)	1,883.22	-4.09
PSEi Philippines	3,518.76	-3.85
BSE Sensex 30 (India)	15,234.57	-3.43
Jakarta Composite	2,298.41	-2.83
All Ordinaries (Australia)	6,127.30	-2.76
Hang Seng Index (Hong Kong)	22,570.41	-2.76
Strait Times Index (Singapore)	3,492.70	-2.43
Nikkei 225 (Japan)	17,283.81	-2.36
SET Index (Thailand)	863.58	-2.33
KL Composite (Malaysia)	1,355.38	-1.89
NZX All Index (New Zealand)	1,177.58	-1.78

Source: Bloomberg

We expect the market to drop further today and correct for the rest of the week in the aftermath of the 208-point drop in the Dow Jones last Friday.

No more easy money

During the past months, worries over the US sub-prime housing market have been building up. Investors have discovered that housing lenders doled out money to people who could not afford mortgages and who are now defaulting on loan payments. These concerns have spilled over the broad credit market, including the bond-like Collateralized Debt Obligations (CDOs) purchased by hedge funds, banks, insurance companies, pension funds and mutual funds worldwide.

Investors are now also hesitant to hand over cheap money to finance private-equity firms buying companies. Last week the investment banks who were selling financing for the buyout of an 80% stake in Chrysler by Cerberus Capital Management failed to interest bond investors in the deal. Note that leveraged buyouts have been a key support for the stock market over the past few years.

Market to consolidate

While we continue to be bullish on the US and global equities markets in the long run, we expect them to consolidate in the meantime. So far, the S&P 500 index has dropped 6.2% from its high of 1,555.9 on July 16, 2007.

S&P 500 Daily Chart (2006 to present)



Source: Technistock

But while it is hard to predict the timing of pullbacks, it is also as difficult to foretell their duration. In May 2006, the S&P 500 fell 8.2% but it took five months of consolidation before it made new highs. In February 2007, it declined as much as 6.7% and took two months of consolidation before it broke higher grounds. However, given that the current pullback is barely 1 ½ weeks old, we expect the market to correct further for the next weeks or even months to come.

	% drop	May '06 duration	% drop	Feb '07 duration	% drop	Jul '07 duration
S&P 500	-8.2%	5 months	-6.7%	2 months	-6.2%	?
DJIA	-8.5%	5 months	-6.7%	2 months	-5.4%	?
Nasdaq	-14.4%	5 months	-7.9%	2 months	-6.0%	?
Average	-10.4%	5 months	-7.1%	2 months	-5.9%	?
PSE Index	-21.8%	5 months	-13.2%	2 months	-7.9%	?

Also, if the US markets continue to fall, high-beta emerging markets such as the Philippines may fall harder. Note that in the two previous corrections, the declines in the PSE index were double that of the US markets.

Separating the men from the boys...and the desperate housewives

Just as we said during the two previous corrections, we view this current setback as a healthy correction. But we have to brace ourselves. This correction can be nasty and prolonged. This is the time to assess one's portfolio and review asset allocation strategies. It is the time for stock picking and choosing the issues with good fundamentals. This is not the time to trade on margin or be over-leveraged. It is certainly not the time to speculate on the next stock that could provide an easy profit. While we continue to be bullish on the economy and stock market, we also believe that the days of easy money and liquidity-driven speculations may be over. Therefore, investors now have to work hard and do their home work in choosing the stocks that they can keep for the long haul.

Philequity Corner turns a new leaf

It has been 31 months and about 130 articles since we started the *Philequity Corner* column in the *Philippine Star*. While I have penned the articles, the effort was not solely

mine. Every article was a collective effort and incorporated the inputs and ideas from the distinguished members of our board. We are also supported by a research team with more than 20 years of combined experience in equities analysis.

Going forward, we are pleased to inform our readers that *Philequity Corner* will offer greater variety. Each member of our board and research team will be taking turns in writing articles for this column based on their respective fields of expertise. Thus, one may see a different byline every week depending on the topic. We will also continue with our *Investment Basics* series every so often. This is part and parcel of our original goal to encourage our readers to read further on these topics thereby enabling them to eventually become savvy and informed investors.

For comments and inquiries, you can email us at gime10000@yahoo.com or research@philequity.net. You can also visit our website www.philequity.net for more information about Philequity mutual funds