

Philequity Corner (October 8, 2007)
By Valentino Sy

The Bulls are Back !!!

The game definitely is not over yet for global equities. Just when things looked bleak and people are predicting a bear market, the market bounced back courtesy of the Fed. In the US, the Dow Jones Industrial Average (DJIA) and the Nasdaq and S&P 500 indices have made new highs. Similarly, Asian markets like China, Hong Kong, India and Korea have also broken higher ground. In the case of the Philippines, the Philippine Stock Exchange Index (PSEi) is just a breath away from its all-time high of 3,814.

The Faithful are Rewarded

In a previous article (see “*Patience is a Virtue*” on the September 17, 2007 issue of *The Philippine Star*), we said that the odds of a recovery in equities is great when the Fed starts to cut rates. We also showed that during the last five easing cycles, the DJIA rallied 11.2 percent in six months from the time of the first rate cut.

Not only did the markets perform as expected but the upturn was even quicker than usual. From the time when the Fed first cut its discount rate on August 17 (or just less than two months), the DJIA has recovered 12.4 percent. Meanwhile, the broader S&P 500 index has regained 12.9 percent. The Nasdaq - riding on the strong performance of the Technology sector – has surged 16.5 percent.

Performance of Selected Stock Indices

	Current Price	August Low	% Recovery	% Year-to-date
US				
Nasdaq	2,780.32	2,386.69	16.5%	15.1%
DJIA	14,066.01	12,517.90	12.4%	12.9%
S&P 500	1,557.59	1,379.60	12.9%	9.8%
Average			13.9%	12.6%
Asia				
China (Shanghai B)	367.35	299.06	22.8%	182.3%
Hong Kong (Hang Seng)	27,831.52	19,386.70	43.6%	39.4%
Korea (KOSPI)	1,996.03	1,626.87	22.7%	39.2%
Indonesia (JCI)	2,500.58	1,863.36	34.2%	38.5%
India BSI	17,773.36	13,779.88	29.0%	28.9%
Singapore (STI)	3,822.62	2,962.01	29.1%	28.0%
Philippines (PSEi)	3,775.91	2,874.99	31.3%	26.6%
Thailand (SET)	852.33	764.40	11.5%	25.4%
Malaysia (KLSE)	1,372.39	1,141.56	20.2%	25.2%
Taiwan (TWSE)	9,617.26	7,987.61	20.4%	22.9%
Japan (Nikkei 225)	17,065.04	15,262.00	11.8%	-0.9%
Average			25.1%	41.4%
Average ex-China			25.4%	27.3%

Source: Bloomberg, Philequity Research

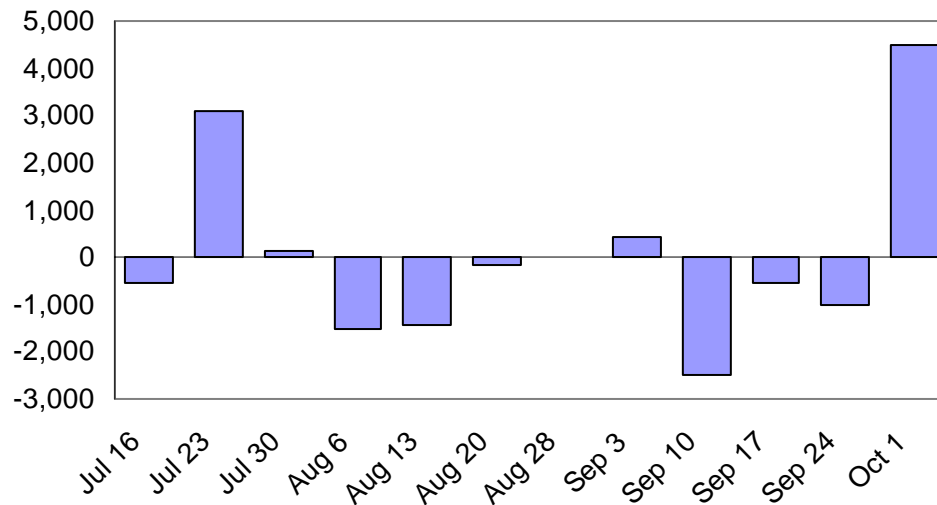
Asian markets performed even better owing to higher growth prospects and their appreciating currencies. On the average, Asian markets have rallied 25.1 percent from their August lows.

In the case of the Philippines, the PSEi has recovered 31.3 percent from its low in August. Currently at 3,775.91, the PSEi is about to break its all-time high of 3,814.22.

Foreign Funds are Back

Foreign funds are coming back after staying out of the market for two months. Net portfolio inflow amounted to P4.5 billion during the first week of October alone compared to net outflows of P3.1 billion and P3.6 billion in August and September, respectively.

Weekly net foreign buying (Pm)



Source: PSE, Philequity Research

Staying the Course

Oftentimes, investors focus on the transitory and the short-term noise reflected in the financial markets. In Philequity, however, we tend to look at the long-term picture and focus on the macroeconomic and corporate fundamentals.

While we see the ripples, it is unwise to sell out positions because it is oftentimes difficult to buy back. We have always recommended that investors stay the course and ride the bullish tide. And despite the correction, we have not changed our PSEi targets of 4,000 by end-2007 and 4,500 by end-2008 which we issued in June (see “PSE Index will reach 4,500” on the June 18, 2007 issue of *The Philippine Star*).

An Alternative: Index Investing

If you believe the market is going higher and you would like to participate in the rising market, you should also consider investing in an index fund. We have our own index fund, the Philequity PSE Index Fund, which has so far returned 25.3 percent. This fund mimics the performance of the PSEi and thus benefits from the strong performance of

market-leader PLDT, which makes up for 27 percent of the index. In contrast, regular funds cannot hold more than 10 percent of their assets in a single stock.

Meanwhile, our flagship Philequity Fund, whose assets under management now amounts to P2.7bn, has so far gained 24.2 percent this year. In dollar terms, the Philequity Fund is up 35.0 percent year-to-date, while the PSE Index Fund is up 36.2 percent. Thus, both funds are also good hedges against the falling dollar.

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