Philequity Corner (July 7, 2008)
By Valentino Sy

Bear market extends its grip

Investors the world over received a startling reminder that "what goes up, must come down." It is an extremely distressing experience for those of us who have either forgotten or have never known the experience of a bear market. Last week, the US technically fell into bear market territory which by definition happens when the market averages fall by at least 20 percent.

The hurt has been widespread as the combination of the following factors took their toll on stocks, namely: 1) the sub-prime fallout & the credit crunch; 2) the slowdown in the global economy; 3) the continued and high prices of energy; 4) the subsequent inflation due to energy and food prices; and 5) the impending increase in interest rates to combat inflation.

In fact, the US market indices have fallen by an average of 20.6 percent from their highs last year, while other major markets have declined by an average of 25.3 percent from their peaks.

US Markets	**Current Value**	**% chg YTD**	**% decline from High**
Nasdaq	2,245.38	-15.3%	-21.5%
DJIA	11,288.54	-14.9%	-20.5%
S&P 500	1,262.90	-14.0%	-19.9%
Average		**-14.7%**	**-20.6%**
Other Major Markets			
France (CAC)	4,266.00	-24.0%	-30.8%
Japan (Nikkei)	13,237.89	-14.9%	-27.6%
Germany (DAX)	6,272.21	-22.3%	-23.1%
U.K. (FTSE)	5,412.80	-16.2%	-19.8%
Average		**-19.3%**	**-25.3%**

Erstwhile darlings, the Asian emerging markets, have plunged by an average of 33.2 percent.

Asian Markets	**Current Value**	**% chg YTD**	**% decline from High**
Vietnam (Ho Chi Minh Idx)	439.68	-52.3%	-62.7%
China (CSI 300)	2,741.85	-48.6%	-53.5%
Philippines (PSEi)	2,369.21	-34.6%	-39.2%
India (Sensex)	13,454.00	-33.7%	-36.6%
Hong Kong (Hang Seng)	21,423.82	-23.0%	-33.0%
Malaysia (KLCI)	1,134.14	-21.5%	-25.6%
Korea (KOSPI)	1,557.94	-17.9%	-25.3%
Singapore (STI)	2,892.54	-16.5%	-24.5%
Thailand (SET)	743.03	-13.4%	-19.6%
Indonesia (JCI)	2,314.75	-15.7%	-18.5%
Taiwan (TAIEX)	7,228.41	-15.0%	-26.7%
Average		**-26.6%**	**-33.2%**

The table doesn't tell the whole story, though – individual companies can fall by a much greater percent. In the Philippines, for example, while the PSE Index have fallen by 39.2 percent from its record high, some property companies have dropped by more than 70 percent. Some blue chip companies, meanwhile, are down 50 percent from their highs last year.

What to do in a bear market

It is difficult to say how long the rout in stock markets will last, particularly with oil and food prices at all-time highs and triggering inflationary pressures. Definitely, stocks are a bargain now if you are looking at a two-year to three-year horizon. However, in the short-term there may be further downside.

Below are seven things that will help protect your portfolio against the worst a bear market has to offer:

1. **Focus on your investment plan –** Go over your expected return for your portfolio, the amount of risk/loss you are willing to tolerate, and your planned investment horizon. Use these criteria to judge your portfolio's performance based on reason and discipline, not on emotion.

   If you have short-term goals, make sure you are taking appropriate risks. Invest money that you will need in the next one or two years in the money market and short-term bonds. This is most true if you're already in retirement.

   If you have taken too much risk for short-term objectives (especially if you're trading in margins), be more prudent and pull back now. Be ready for further downside because there's no telling when the market will bottom.

   However, if you have been conservative all these years and have little or no equity position at all, now is the time to put some money in stocks.

2. **Review your portfolio's long-term performance** – The market's performance during the past six months may be enough to discourage some investors. But you should look beyond what happened in the short-run and judge your portfolio based on its long-term performance.

   Note that despite the 34.6 percent decline in the PSEi year-to-date, it has still returned 9.3 percent every year during the past three years and 13.3 percent every year during the past five years. In the case of Philequity Fund, the returns are an average of 15 percent for the past three years and 16.5 percent for the past five years. In the long-run the stock market still offers the best chance for accumulating a comfortable nest egg for retirement.

3. **Reassess your asset allocation strategy –** The recent decline in stock prices may have affected your asset mix. Check where you are right now with your target allocation mix (i.e. % in cash, % in bonds, % in stocks). If you are significantly over or under your strategic policy allocation, then rebalance your portfolio right away. Major shifts in asset prices call for a tactical response. Adjust your portfolio immediately rather than do it later in a disorganized manner or not do it at all.

4. **Evaluate the holdings in your portfolio –** If you still have a speculative high-flier or a hot-stock tip you heard at the gym, consider selling. Those companies with no cash, no dividends and tons of hype are the last to recover.

   Consider stocks with regular dividend policies and share-repurchase plans. Given the current stock prices, there are already a number of companies offering attractive yields.

Meanwhile, share buybacks indicate which issues are undervalued from their respective companies' point of view.

5. **Put the market's fall in context –** Perspective is essential right now. Did you notice that the worst performers in Asia this year (Vietnam, China, Philippines and India) were the best performers in the previous years? It has been a long while since we've had a major downturn that you may have forgotten what it feels like. This period reminds us why diversification and asset allocation can help manage risk.

   In addition, as in every market downturn, there will be a lot of opportunities. This is an excellent time to go hunting for undervalued companies.

6. **Implement a cost-averaging strategy –** Cost averaging is a powerful tool for long-term investors that takes emotion out of investing and lets the market work for you. Now may be a good time to implement this strategy because it eliminates the need to predict an entry point and cuts the risk of investing a lump sum at market highs.

   Cost-averaging means that you buy on a staggered basis, usually at fixed intervals (such as weekly or monthly) regardless of share price, and regardless of whether the market is rising or declining.

7. **Protect your assets by raising cash –** Cash is king during bear markets. It is always good to raise cash to protect your assets, minimize losses and take advantage of the unique opportunities for profit once the market starts to recover. But whatever you do, don't stop investing in stocks altogether, as many investors did after the 1997 Asian financial crisis. They consequently missed out on the great returns in 1998 & 1999 and from 2003 to 2007.

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