

## Philequity Corner

By Valentino Sy (December 8, 2008)

### Knock out

Following last Monday's 9 percent decline in the Dow Jones Industrial Average (DJIA), it seemed like stocks would be knocked out completely. In fact, Friday's data on unemployment was really terrible and worse than expectations. And yet, when the market was about to completely tank, the DJIA swung 6.8 percent from its intraday low of 8,084.25 to close at 8,635.42.

What's encouraging about the market's strong recovery was that it came during a week overloaded with bleak news. Aside from the November jobs report which saw more than half-a-million in job losses, the market generally was able to shrug off the fact that the US is officially in recession, that the ISM manufacturing index hit a 26-year low, that November auto sales were down 30 to 40 percent, and that retailers reported a very weak same store sales last month.

### Significant day

The long-awaited data on US non-farm payrolls came out really bad. The US economy lost 533,000 jobs, the biggest in 34 years and the 6<sup>th</sup> largest on record. But after opening weak and with the DJIA shedding as much as 291 pts at point, the market turned around by midday. By end of the day, the major indices posted pretty impressive gains going into the weekend, which gives a ray of hope to investors. The markets may have turned.

### Dow Jones Industrial Average (Sep. 8 to Dec. 5, 2008)



Source: [Stockcharts.com](http://Stockcharts.com)

### Lessons from boxing

Just like in the boxing world every investor should have a strategy and a well thought-out plan. Below are some important qualities that an investor can learn from boxing:

- 1) **Preparation** – Like a boxer, every investor must do his work on a regular basis. Read the news and market reports frequently. Know the general direction of the market. Research and be updated with the current market conditions and valuations of individual stocks.
- 2) **Discipline** – This is another important quality for investors as much as it is for boxers. Just as boxing decisions are made by sticking to well thought-out fight plans, investment decisions are made from organized investment objectives and disciplined application of investment rules.
- 3) **Endurance** – Like a boxer, who trains to fight toe-to-toe all throughout the twelve rounds, an investor should have the endurance to wait out the bad times – to endure the short-term pain for long-term gains. An investor should also have a long-term view. Because in the long-run, it is “time in the market” and not “timing the market” that rewards the investors.
- 4) **Strategy** – Just like a boxer, an investor should have an exit strategy if things don’t go his way. He must have the flexibility to respond to changing market conditions. Cutting losses and letting profits run is an example of an exit strategy.
- 5) **Gameplan** - Roach crafted a perfect gameplan for Pacquiao. Likewise, an investor should follow his strategy to the letter and not trade haphazardly.
- 6) **Execution** – Finally, success in investing, just like in boxing, depends on execution. If the gameplan is perfectly executed, just like what Pacquiao did, an investor will succeed and achieve his investment goals.

### **Scaling in**

No thoughtful investor calls an “outright bottom” in stocks and plunges in without any regard for risk. Just like Pacquiao, he had to bob and weave, move in and out, to land good punches and not get hit. In the same manner, we, as investors, should constantly re-evaluate and re-align our exposure to risk in proportion to the return that we can expect from that risk. In other words, we should increase our risk exposure if the reward-to-risk is favourable and decrease exposure if the reward-to-risk is unfavourable.

Given that stocks are both undervalued and oversold (as discussed in Philequity’s previous articles), it is appropriate for investors to gradually increase their allocation in stocks. And by “scaling-in” or buying gradually, one can address the risk of another significant and unexpected downward move in stocks.

### **Against all odds**

Betting odds in Las Vegas heavily favoured De la Hoya who was -185 favourite to win against Manny Pacquiao. But despite the odds and boxing experts’ prediction that De la Hoya will win because he is too big and too strong, Pacquiao won by TKO. Just like in the market, despite all the bad news and negativity, long-term investors who are willing to stick out with their plan will turn out to be the winner.

### **Get ready to rumble**

The market has dropped so fast and so low that a rebound may be due. It has failed to make a new low, and in fact, closed strongly last week despite extremely bearish news. So be prepared for a market turn. Let's get ready to rumble!!!

Congratulations to Manny Pacquiao and coach Freddie Roach for a well executed plan.