

**Philequity Corner (Jan. 5, 2009)**  
**By Valentino Sy**

**2008: Worst Year Ever**

The year 2008 will go down as one of the worst years in the history of capital markets. This was the year that was described as:

UNPRECEDENTED, HISTORIC, ONE FOR THE BOOKS!

BRUTAL, MASSIVE, VICIOUS, CATASTROPHIC!

DREADFUL, TERRIFYING, SHOCKING, HORRIFIC!

A year of EXTREME VOLATILITY, RECORD MARKET gyrations, UNPARALLELED CENTRAL BANK INTERVENTION!

A year characterized by a VICIOUS CIRCLE OF LOSSES, CAPITAL REDUCTION, CREDIT CONTRACTION, DELEVERAGING, FORCED LIQUIDATION AND MASSIVE SELL-OFF ACROSS ALL ASSETS!

A year with THE WORST BEAR MARKET, THE BIGGEST FINANCIAL BUBBLE, and THE MOST VIRULENT & PROLONGED RECESSION!

2008, in other words, was a truly HORRIBLE year.

**The aftermath**

The aftermath of this “annus horribilis” saw US stocks plunging the most since the Great Depression as financial shares collapsed, energy and materials sectors tumbled, and the US economy suffered a yearlong recession.

The benchmark Dow Jones Industrial Average (DJIA) plunged 32.7 percent to 8,776.39, the most since 1931. Meanwhile, the broader S&P 500 Index slumped 38.5 percent to 903.25, for the steepest drop since 1937.

Volatility, as measured by the VIX index, hit a record of 89.53 in November, the highest in its 19-year history. This so-called “investor’s fear index” has never hit above 50 prior to October.

Other developed markets fared worse as the crisis and recession hit Europe and Japan. On average, developed markets (as listed in the table below) have lost 42.4 percent in 2008.

Developed Markets			Performance				
Country	Index	Price as of 31-Dec-08	Since High	Date	Since Low	Date	YoY
UK	FTSE 100	4,434.17	-34.3%	15-Oct-07	21.0%	27-Oct-08	-31.3%
US	DJIA	8,776.39	-38.2%	11-Oct-07	17.8%	21-Nov-08	-32.7%
Canada	TSE 300	8,987.70	-40.7%	06-Jun-08	17.5%	21-Nov-08	-35.0%
Germany	DAX	4,810.20	-41.0%	13-Jul-07	19.8%	24-Oct-08	-40.2%
US	S&P 500	903.25	-42.7%	11-Oct-07	21.9%	21-Nov-08	-38.5%
US	Nasdaq Composite	1,577.03	-44.9%	31-Oct-07	21.7%	21-Nov-08	-40.5%
Australia	S&P/ASX 200	3,722.30	-45.7%	01-Nov-07	15.7%	21-Nov-08	-41.3%
France	CAC 40	3,217.97	-47.8%	04-Jun-07	13.4%	21-Nov-08	-42.7%
Japan	Nikkei 225	8,859.56	-51.6%	05-Jul-07	26.7%	28-Oct-08	-42.1%
Italy	S&P/MIB	19,460.00	-55.8%	15-May-07	9.3%	05-Dec-08	-49.5%
<b>Average</b>			<b>-48.1%</b>		<b>18.1%</b>		<b>-42.4%</b>

As far as the Asian markets are concerned, the indices are down 48.8 percent on average in 2008. China's CSI 300 (the best performer in 2007) fared the worst this year, plummeting 65.9 percent to 1,817.72. Meanwhile, our own PSE Index lost 48.3 percent to 1,872.85, performing slightly better than the average in 2008.

Asian Markets			Performance				
Country	Index	Price as of 31-Dec-08	Since High	Date	Since Low	Date	YoY
Malaysia	KLCI	876.75	-42.5%	15-Jan-08	9.4%	28-Oct-08	-39.3%
Korea	KOSPI	1,124.47	-46.1%	01-Nov-07	26.0%	27-Oct-08	-40.7%
Thailand	SET	449.96	-51.0%	30-Oct-07	18.4%	26-Nov-08	-47.6%
Philippines	PSEi	1,872.85	-51.9%	08-Oct-07	11.2%	28-Oct-08	-48.3%
Indonesia	JCI	1,355.41	-52.2%	14-Jan-08	24.4%	28-Oct-08	-50.5%
Taiwan	TAIEX	4,591.22	-53.3%	29-Oct-07	16.1%	21-Nov-08	-45.3%
Singapore	STI	1,761.56	-54.0%	11-Oct-07	19.5%	28-Oct-08	-49.2%
India	BSE SENSEX 30	9,647.31	-54.3%	09-Jan-08	25.3%	27-Oct-08	-52.4%
Hong Kong	Hang Seng	14,387.48	-55.0%	30-Oct-07	34.8%	27-Oct-08	-48.3%
China	CSI 300	1,817.72	-69.1%	17-Oct-07	13.1%	04-Nov-08	-65.9%
<b>Average</b>			<b>-52.9%</b>		<b>19.8%</b>		<b>-48.8%</b>

### **Rallying off the October/November lows**

Improvements were only felt during the latter part of the year after the global deleveraging of assets moderately receded and volatility subsided. The DJIA has gained 17.8 percent since the November 21 low, the S&P 500 Index 21.9 percent, and the Nasdaq Composite Index 21.7 percent. Developed markets, on average, have recovered by 18.1 percent.

Asian markets regained their footing earlier than the US and other developed markets did. On average, Asian markets have rebounded 19.8 percent off their lows. Meanwhile, the Philippine market which closed from Dec. 24 to Jan. 4 for a long holiday break, managed to rally by only 11.2 percent.

### **No holiday cheers for the Philippines**

Global equities finished the year strongly in 2008. The US markets managed to rally by 6 percent during the last four trading days, while emerging markets went up by an average of 8 percent over the same period.

Unfortunately, due to the long holidays here, Philippine stocks missed the party. In fact, we have called on the PSE to consider opening the exchange because we felt that 11 days is too long. We also felt that the last few days of the year are important (due to seasonality and the January effect) and the Philippine market can't be closed while the rest of the markets are open.

### **Off to a good start**

The last few days of 2008 enabled the capital markets to close with the type of upside flourish (albeit thin volume) that was sorely lacking during the most of the year.

But even more encouraging was the market performance at the start of the new year. Gains ranged from 2.94 percent from the DJIA to 3.5 percent for the Nasdaq Composite Index on Jan. 2, 2009. US Treasuries moved in the opposite direction (with yields increasing) which indicates that investors are slowly taking back some risk. Meanwhile, commodities tried to recapture some of its former glory as the CRB index jumped 4.4 percent and oil finished the day with 3.9 percent gains.

### **2009: A stock picker's market**

While it is still too early to say whether the declines have been completed and the rally (from the October/November lows) is sustainable, investors should be mindful that the markets are already in a bottoming process. One should be cognizant of the fact that while financial news continues to be bad, the stock market lows are holding and bases are forming.

Over the next few months, investors will have to look at the rubble & pick the right chips. As such, this will be a particularly good environment for value-conscious investors, even if the general movement in stocks may be contained within a very wide trading range.

Wishing you a better and a more prosperous New Year!