Philequity Corner (April 6, 2009)
By Valentino Sy

Best Four Weeks in 75 Years

The S&P 500 Index has now been up for four consecutive weeks, recording a gain of 23.28 percent. The last time the market was up more than 20 percent in four straight weeks was in 1933. At the end of the fourth week in April 28, 1933, the S&P 500 was up 33.85 percent. After that, there was never any instance where the market was up more than 20 percent over a 4-week period until today.

Coincidentally, it marked the end of the 1930s Great Depression and that was the time the market made an ultimate low. Similar to that period, the markets today have dropped more than 50 percent since reaching a peak in October 2007.

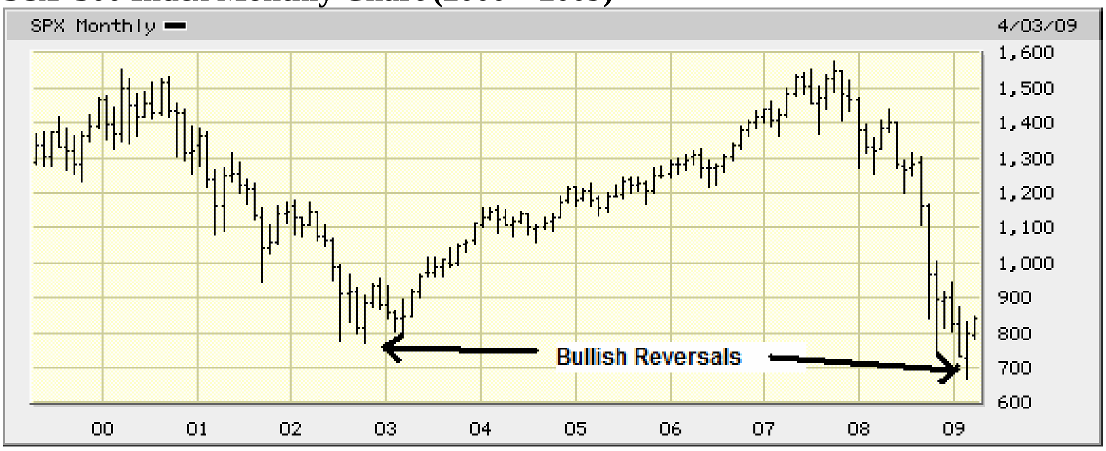
A bullish reversal month in March

Incidentally, the S&P 500 Index rose 8.5 percent in March to record the best monthly gain since October 2002. This is also the first time since the bear market began in October 2007 that a bullish reversal month occurred.

Most market analysts are looking at retesting the low. In fact, Nouriel Roubini (a.k.a. "Dr. Doom") and Nassim Taleb (of "Black Swan" fame) are looking for the S&P 500 Index to hit 500.

In technical analysis, bullish reversal months represent a point of exhaustion in a downtrend whereby prices have declined low enough to entice buyers to step in. Rarely will a market make a new closing low the month after a bullish reversal month. Note that when the market bottomed in October 2002, a similar bullish reversal pattern appeared. This suggests that the current rally still holds greater potential upside.

S&P 500 Index Monthly Chart (2000 – 2009)



Source: www.bigcharts.com

Where you lead, I will follow

The move in the US markets triggered a bounce in all markets. As we have always stated in this corner, "*all eyes will be on the US.*" Since they are the source of all these financial mess, an upturn in the US markets will be the key precondition for the recovery in global equities.

The table below shows the performance of other equities markets in March:

Index	Performance in March % Chg
MSCI World Index	5.60%
MSCI Emerging Markets Index	12.40%
US Dow Jones Industrial Average	7.70%
US S&P 500 Index	8.50%
US Nasdaq Composite Index	10.90%
German DAX Index	6.30%
France CAC Index	3.90%
UK FTSE 100 Index	2.50%
Swiss SPI General Index	5.30%
Hang Seng Index	6%
Shanghai Comp Index	13.90%
Bombay Sensex Index	9.20%
Singapore STRAITS Times Index	6.60%
Nikkei 225 Index	7.10%
Philippine PSEi Index	6.15%

Source: MSCI, Bloomberg

Investor sentiment hit an inflection point

As mentioned in Philequity Corner two weeks ago (see *"666"* in the March 23, 2009 issue of **The Philippine Star**), "*extreme negative recordings in sentiment often point to an important bottom of some sort.*"

As stocks bottomed last month, the *AAII Bulls Minus Bears Index* by the American Association of Individual Investors reached a record low of -51 in the survey published March 5, as 70 percent of respondents were bearish versus 19 percent bullish. This index is derived from a weekly poll of its 150,000 members' expectations of the market's direction over the next six months (bearish, neutral or bullish), and serves as an objective barometer of the mood of retail investors.

Its accuracy as a contrarian indicator in recent evens brings to mind the famous Warren Buffett saying: "*Be fearful when others are greedy and BE GREEDY WHEN OTHERS ARE FEARFUL.*" Interestingly, rating agencies Fitch and Standard and Poor's downgraded Warren Buffett's Berskshire Hathaway from its triple-A rating a few days after the market bottomed on March 6.

Sell the best rally since 1933?

The negative mood in the markets can also be seen in most investment houses' reports which remain unconvinced of the market's recent move. Despite the strong price action (in fact, the best since 1933) which typically characterizes an important bottom, investment firms like Goldman Sachs, Credit Suisse, Morgan Stanley, JP Morgan, UBS, Pimco, Deutsche Bank, Merrill Lynch and most other houses have a cautious view, preferring to be defensive until the economy gets better. Most of these houses are advising their clients to sell the rally or stay on the sidelines.

Time heals all wounds

Despite the analysis and pronouncements of experts, nobody knows for sure where the market bottom is. What we know for sure is that the Federal Reserve, the Treasury, and the governments of the major countries are doing everything in their power to avert a prolonged recession, to revive the economy, and to bring the market back to a healthy recovery. We also know that the market is in a bottoming process characterized by very sharp rallies and deep corrections.

The world stock markets had the worst 2-year performance since the Great Depression. Many had lost a fortune and suffered massive losses. However, time heals all wounds. Rather than cower in fear, we see this as an opportunity of a generation.

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