

**Philequity Corner** (September 28, 2009)

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### **Epic Flood, the Effect on Stocks**

Torrential rains caused by Typhoon Ondoy wreaked havoc on properties and claimed lives across the region. Reports of record rainfall and water release from several dams submerged Metro Manila to unprecedented levels. Metro Manila was declared to be in a State of Calamity.

Definitely, everybody will have a story to share about last Saturday's doomsday-like downpour. Submerged houses, called-off weddings, cancelled flights, and being stranded as flood rose to neck-deep levels will be the highlights of everyone's stories.

### **Finally, the Most Anticipated Correction?**

For months, market experts have been predicting a stock market correction. They claimed the market is trading above valuations and some stocks are at overbought levels. Time and again, the experts were proven wrong as the market remained resilient.

Typhoon Ondoy may just trigger this long-awaited slide. Damage to infrastructure and cell sites, lost revenues on power outages, and flooded real estate projects may dampen outlook on the respective stocks. Reports on damages to agricultural properties may impact farm incomes and cause food prices to abruptly spike. While the official figure on the damages has not been released as of this writing, billions of losses may take a toll on government finances and further exacerbate the already high budget deficit.

### **Expect the Unexpected; the Unthinkable can Happen**

Last September 13, our article was entitled *The Day the World Stood Still*. We stated several lessons people can learn from the 2008 Financial Crisis and the Lehman Brothers collapse. One of the lessons we enumerated was that there are times that a totally unthinkable event can happen. True enough, this sudden flash flood occurred and everyone was caught offguard. This shows that investors should always be prepared, have sufficient cash, and be ready to buy when markets tank. This likewise shows the wisdom of diversification.

### ***Pahabol ng Ghost Month***

The Chinese ghost month, said to be an unlucky month, is believed to bring unfortunate events, calamities, mishaps, and illnesses. In the Chinese calendar, it ended last September 18. We thought we could pass this month unscathed. However, a week passed and this epic flood happened.

### **What is it with BER months?**

Something catastrophic happens in the BER months, but the eerie ones happen in Septembers. The 9/11 attacks in the US, the Martial Law declaration, and the Lehman Brothers bankruptcy occurred in September, and now we just had Ondoy.

Other bad events during BER months include the Black Monday stock market crash of October 1987 while the bloodiest *coup d'etat* in Philippine history was staged in December 1989.

### **A Time to Unite**

Situations like this epic flood call out on us to re-live the spirit of *Bayanihan*. Everyone should take part and do his share to help the unfortunate people that suffered from this devastation. This is the time to lend a helping hand, a time to unite, a time to rebuild, and a time to reconstruct.

### **Resiliency of the Filipino, Resiliency of the Stock Market**

The Philippines, through all its experiences in natural disasters, has always recovered. The eruption of Mt. Pinatubo, the earthquakes that collapsed the Hyatt Hotel in Baguio in 1990 and that brought down the Ruby Tower in 1968, and the numerous typhoons that have damaged infrastructures and properties, all proved the resiliency of Filipinos.

For the next few weeks and perhaps months, economists will come out with estimates on the extent of damage to the economy. Investment banks and rating agencies may issue downgrades because of the devastation caused by the flood. It is during times of these downgrades and extreme pessimism that investors should get back into the market. Historically, Octobers and Novembers are normally the good months to enter the stock market.

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