Philequity Corner (October 19, 2009)
By Valentino Sy

Back with a vengeance

A year ago, we wrote an article *Nowhere to Hide* (see October 13, 2008 issue of **The Philippine Star**) wherein we mentioned that there was no escaping from the onslaught of the financial tsunami. We said that global equity markets were in free fall, commodity markets have tanked, credit markets were virtually frozen and credit spreads have surged through the roof.

Now, fast forward to the present, asset markets are back with a vengeance. The reflationary efforts of central banks and governments, pumping trillions of dollars into the system, have succeeded in averting a global deflation. Gold is at fresh record highs above $1,050 per oz. Oil is nearing $80 per barrel. The Dow Jones Industrial Average (DJIA) has breached 10,000 for the first time since the October crash of 2008.

"Opportunity of a lifetime" view validated

Since the March lows, the DJIA is already up 52.7 percent, while the S&P 500 index is up 59.2 percent. The Nasdaq's performance is even better, rising 70 percent.

Other major markets have also registered similar recoveries, gaining an average of 51.3 percent since March 6. Meanwhile, Asian markets are up an average of 72.1 percent over the same period.

	Current Price	Price end-2008	% Chg YTD	Price 3/6/2009	% Chg since 3/6/09
US Markets					
Nasdaq	2,156.80	1,577.03	36.8%	1,268.64	70.0%
S&P 500	1,087.68	903.25	20.4%	683.38	59.2%
DJIA	9,995.91	8,776.39	13.9%	6,547.05	52.7%
			23.7%		**60.6%**
Other Major Markets					
Germany (DAX)	5,743.39	4,810.20	19.4%	3,666.41	56.6%
Australia (All Ordinaries)	4,836.40	3,722.30	29.9%	3,111.70	55.4%
France (CAC)	3,827.60	3,217.97	18.9%	2,519.29	51.9%
Canada (TSE)	11,504.76	8,987.70	28.0%	7,591.47	51.5%
UK (FTSE)	5,190.24	4,434.17	17.1%	3,530.73	47.0%
Japan (Nikkei)	10,257.56	8,859.56	15.8%	7,054.98	45.4%
			21.5%		**51.3%**
Asian Markets					
India (Sensex)	17,326.01	9,647.31	79.6%	8,160.40	112.3%
Indonesia (JCI)	2,515.81	1,355.41	85.6%	1,286.69	95.5%
Hong Kong (Hang Seng)	21,929.90	14,387.48	52.4%	11,344.58	93.3%
Singapore (STI)	2,708.12	1,761.56	53.7%	1,456.95	85.9%
Thailand (SET)	717.12	449.96	59.4%	411.27	74.4%
Taiwan (Taiwex)	7,715.10	4,591.22	68.0%	4,628.24	66.7%
Korea (Kospi)	1,640.36	1,124.47	45.9%	1,055.03	55.5%
Philippines (PSEi)	2,922.82	1,872.85	56.1%	1,890.62	54.6%
Malaysia (KLCI)	1,256.77	876.75	43.3%	855.25	46.9%
China (Shanghai Comp)	2,976.63	1,820.81	63.5%	2,193.01	35.7%
			60.8%		**72.1%**

Source: Bloomberg

The performance of global markets upholds what we said before that this new bull market will be an opportunity of a lifetime (see Opportunity of a Generation in the November 3, 2008 issue of **The Philippine Star**). In fact, many stocks have gone up 400 percent to 500 percent during this period.

The harder the fall, the bigger the bounce

One of the reasons why markets have rebounded strongly this year is because they came from the worst crash since 1929. The DJIA plummeted as much as 54 percent prior to hitting bottom in March, while the S&P 500 index plunged as much as 58 percent.

Because of the extent of the decline, the recent recovery has been strong and swift. In fact, the US stock market has never experienced a faster recovery except for the phenomenal 94 percent in the DJIA from July 8 to September 7, 1932, almost doubling in two months.

The reluctant bull

This is one bull market that everybody loves to hate. Why? It is because most investors were not able to participate. They were focusing too much on the pains of the recent crash and not enough on the recovery. While the market continues to zoom upwards, most investors were reluctant to join and were frozen on the sidelines in cash or fixed income.

In fact, according to Investment Company Institute (ICI), bond funds have been the main beneficiaries of the redeployment of sidelined cash since March, with $221 billion coming their way vs. only $43 billion for equity funds – a ratio of 18-to-1. This attitude is typical during the start of a bull market as investors climb a wall of worry.

A different bull market

This bull market is also different. Despite pervasive cautiousness among investors, there was no "sell in May and go away", no summer doldrums, no scary September, nor horrible October. In fact, the markets are up 60 percent without pause for seven months.

The reason for this is that a lot of investors were left watching from the sidelines, waiting for a correction to happen. These same investors are buying into the market and supporting prices whenever there were pullbacks.

Rewarding the brave and the studious

As early as July of last year, we had urged investors to closely watch and carefully study the movements of the bear market. We said that the opportunities are huge for those who do their homework and act appropriately when the opportunity of a new bull market presents itself (see *Bear Watching* in the July 21, 2008 issue of **The Philippine Star**).

A few months later, when everyone was gripped with fear and panic in October, we said that those have cash and do their homework will be able to cherry-pick the bargains. Those without cash will have to sit on the sidelines and watch this once-in-a lifetime opportunity go by (see *Cash and Courage* in the October 20, 2008 issue of **The Philippine Star**).

In January this year, we said that 2009 will be a year of opportunity for those investors willing to stay in the game. We argued that the market has dropped so hard that opportunities abound because stocks have declined 70 percent to 80 percent (see *2009: A Year of Opportunity* in the Jan. 12, 2009 issue of **The Philippine Star**).

In March, we said that the S&P 500 index had made have reached an ominous low of 666 on March 6 (see *666* in the March 23, 2009 issue of **The Philippine Star**). In later articles, we mentioned that 666, in all likelihood, is a generational low and it opens up an opportunity of a lifetime.

Those who followed our advice have been greatly rewarded. The PSE index is up 56 percent since the start of the year. Our own Philequity Fund is up 59 percent.

Corrections are an integral part of a bull market

It is very likely the market is due for a correction. The damage caused by typhoons Ondoy and Pepeng are now being quantified. Typhoon Lupit ("vicious", "ferocious", or "brutal" in English) may hit the Philippines and cause further destruction to an already fragile economy. This may trigger the much-needed correction in the market.

At the same time, PLDT's announcement that they are going to acquire ABC 5 may not be favorable for PLDT's stock price in the short-term. Since PLDT is our market leader and it accounts for about a quarter of the PSE index, this will further put negative pressure on the index.

Typhoons and stock market corrections

Nobody really knows when typhoons will come, where it will go, how much rainfall it may bring and how big the damage will be. Similarly, there is also no telling when corrections will come, how deep they will be and how long they will take.

That is why we have always advocated diversification of assets and proper asset allocation.

Holding the right amount of equities lets you participate in their high returns in case the damage from the calamities or the correction in the market are not that bad.

At the same time, having the proper cash and fixed income allocation will protect you in case the damage from the calamities are worse than expected or the market pulls back substantially.

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