

**Philequity Corner (November 16, 2009)**  
**By Valentino Sy**

**ALL IN!**

Just when stocks were poised to kiss the canvass this November, Warren Buffett comes in to buy Burlington Santa Fe Corp. in what he calls an “*all-in wager on the economic future of the United States.*” The Sage of Omaha is investing \$26 billion in cash and stock of his firm Berkshire Hathaway to buy the railroad in his biggest takeover.

Prior to the Burlington deal last November 3, the S&P 500 index gave back as much as 6.5 percent the prior two weeks. Analysts and market experts, especially technicians, had called for a correction saying that stock prices have gotten ahead of real improvements in the economy. Buffett’s bullish bet on the future of the US economy saved the bell for the market as it changed the market sentiment from bearish to bullish.

**Accommodative policies upheld**

Building on Buffett’s all-in bet, global markets got the second wind after Ben Bernanke reaffirmed the US Fed’s commitment to its accommodative policy. In their most recent Fed meeting last November 4, the board made no changes to its interest rate policy. The language in the accompanying statement provided no hints that they are retreating from their ultra-stimulative stance.

In a similar manner, the Group of 20 (G20) nations which met last November 10 in Scotland pledged to keep pumping their economies with easy money. In its final statement, the G20 said that the economic recovery is uneven and remains dependent on policy support. Easy money policies will be maintained until recovery is assured.

**Along comes Big Boy**

In the Philippine context, when everybody thought that the market was going to correct in a big way, out of the blue comes a phantom left hook from Henry Sy, Jr. (a.k.a. “Big Boy”). Big Boy offered to buy the Lopez family’s remaining 13.4 percent stake in Meralco for 300 pesos.

Big Boy’s surprise bid lifted the share prices of Meralco, Benpres, First Gen and First Philippine Holdings, which in turn sparked a recovery in the general market. Nobody saw that phantom left hook coming. If we had known of the bold move of Big Boy, we would have bought the market heavily.

**Winston – the wildcard**

Just when MVP was about to be declared winner by unanimous decision in Meralco, along comes GSIS president Winston Garcia with a right uppercut that totally changes the complexion of the fight. Winston is threatening to take legal action on Meralco.

He claimed that the recent agreement between the Lopez family and MVP regarding the call option on Meralco was intended to skirt a tender offer. He sued the Lopezes and

Meralco directors before. He threatened to sue them again, together with the board of First Phil. Holdings, PLDT and MPIC. Winston was the wildcard in the fight for Meralco in the past. Like a horror movie, Winston comes back to haunt MVP, the Lopezes and Meralco again and again.

### **Philex, the other bloody fight**

Aside from buying Meralco shares lately, GSIS is also reported to have been buying into Philex Mining Corp. GSIS, together with the Ongpin Group, is trying to build up a strategic stake in anticipation of another battle royale. Several groups, including MVP's arch-rival Ramon Ang, are said to be interested in the company (see *Turf Wars* and *Return Bout* in the July 13 and August 17 issues of **The Philippine Star**).

Just like what he did in the battle for control of Meralco, Winston with the "FIREPOWER" of GSIS, has pushed the price of Philex from Php 9.0 per share to Php 19.75 per share in a span of three weeks. This increased the market cap of Philex from Php 43.9 billion to Php 96.4 billion.

The wild and unorthodox moves of Winston have changed the complexion of the Philippine stock market from bearish to bullish.

### **The short-term is harder to predict**

Time and again, we have emphasized that short-term movements in the stock market are harder to predict. One event like Buffett's purchase of Burlington, Big Boy's bid for Meralco, or Winston's wild and wanton purchases of Philex can change the picture totally. How do you predict the mind and actions of one person?

We were fortunate that when the market was about to drop in the US, we had the 1-2-3 punch from Buffett, Bernanke and the G20. In the same manner, when the Philippine market was about to correct, we had the left hook and right uppercut from Big Boy and Winston to save the day.

### **Raising our targets**

Corrections are an integral part of a bull market. After having several short and shallow corrections in the past several months, our previous price targets have already been breached. Despite the dizzying ascent of the stock market, we are raising our target for the S&P 500 index from 1,100 to 1,250. In the case of the PSE index, notwithstanding the 62 percent gain year-to-date, we are upgrading our target from 3,050 to 3,300.

The market may pull back again but several factors continue to be positive for stocks going forward.

1) We have experienced the biggest decline in the stock market last year. Therefore the sharp move up this year is actually a natural move.

- 2) The fiscal and monetary policies of governments worldwide remain ultra-stimulative. Such an environment is very positive for stocks, at least until policymakers shift into a tightening stance.
- 3) The US dollar continues to decline, gold is at record highs, industrial metals are surging and other commodities are doing well this year. This is helping the world stock markets to move higher.
- 4) We are entering the most favorable period for stocks which is December to January when we usually experience the Santa Claus rally and the January effect.
- 5) Foreign funds are underinvested in the Philippine stock market. It has been the local funds, the retail investors and the mergers and acquisitions (M&A) fever that have carried local stocks for most of the year. A move by foreign funds to buy Philippine stocks will be the catalyst that will propel our stock market higher.
- 6) Lastly, the stock market normally moves ahead of the result of the Presidential race if a credible candidate is seen leading prior to elections. This was experienced in the past when former president Fidel Ramos and President GMA ran their respective races. A change is going to be viewed as positive for the economy and the stock market.

#### **History unfolds – Pacquiao & the stock market**

History is unfolding before our very eyes. Pacquiao is the first boxer to win seven world titles in seven weight classes. We are fortunate to witness, in our generation, one of the greatest fighters of all time. We are also lucky to be witnessing, in our lifetime, the worst bear market and the best bull market in history (refer to our article, *Opportunity of a Generation*, in the November 3, 2008 issue of **The Philippine Star**).

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