Philequity Corner (January 11, 2010)
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Our Crystal Ball

This is the time of year when fund managers and private bankers hold investors briefings to show their scorecards for the year that has passed. This is also the time when market experts attempt to make forecasts and predictions for the economy and the stock market. But before we lay down our own predictions for 2010, we believe that it is important for readers to know where we are coming from.

In order to understand our mindset and the basis of our future calls, we have to review what we have said in 2008 and 2009. It is imperative that our readers realize that the last two years are interrelated. Without the monumental collapse in 2008, there would have been no spectacular rebound in 2009.

Specifically, we will review what we said about the Fed, the economy, the stock market, the peso, the local M&A plays and other topics. We will then conclude with our economic and stock market outlook for 2010.

Our past predictions in chronological order

As early as July 2008, we have emphasized the importance of looking for signals that the bear market is ending (see *Bear Watching*, July 21, 2008). By doing research and closely monitoring the market, we were able to have a good number of accurate calls.

Below, in bold letters & quotation marks, was what we said. In parenthesis was the title of our article and the date when it was published in **The Philippine Star**.

1. ***"For sure books will be published for this tumultuous and historic moment (The Rescue, Sept 22, 2008)."*** Since then, more than a dozen or so books have been written, among them: Too Big Too Fail, The Greatest Trade Ever, House of Cards, A Colossal Failure, Last Man Standing, End the Fed, Bailout Nation, and others.

2. ***"The US can learn from the Asian financial crisis of 1997…While we don't know how long the current crisis will last, we know that, in time, the economy and the markets will recover (Nowhere to Hide, Oct 13, 2008)."*** People were distraught and so pessimistic that they thought there was going to be another Great Depression and that the market will never recover again. But we said that just like in the Asian crisis, this too shall pass. Indeed, the market has since recovered.

3. ***"Those with cash and courage and with a long-term time horizon will be rewarded by this once-in-a-generation opportunity (Cash and Courage, Oct. 20, 2008)."*** We recommended that investors follow Warren Buffett who told the New York Times that week that he was buying US stocks for his personal account.

4. ***"Despite all the gloom and doom, there are signals that indicate a turn in the market is near.(Bubbles Bursting, Oct. 27, 2008)."*** While the US and other developed markets bottomed-out in March 2009, we were right on the dot with regard to Asian stock markets. In fact, the PSE index hit its ultimate low of 1,684.75 on October 28, 2008 – just a day after we published the above-mentioned article.

5. ***"At times like these, government interventions tend to work favourably... If we have to put a bet, we believe the risk-reward ratio favours betting on the side of the government and going long the markets (Opportunity of a Generation, Nov. 3, 2008)."*** Governments around the world has since gotten their act together, and in a concerted effort, addressed the problem with coordinated rate cuts, massive liquidity infusion, and economic stimuli packages.

6. ***"We were fortunate that Bernanke was at the helm of the Fed all throughout the crisis. He was a keen student of liquidity traps during the Great Depression and Japan's decade long banking and economic slump (Here Comes Feddy Claus, December 22, 2008)."*** Bernanke who once threatened to send monetary helicopters if that was necessary to avoid deflation and another Great Depression kept his word. By end-2008, quantitative easing formally began.

7. ***"We believe that 2009 will be a year of opportunity for those investors willing to stay in the game… This is the time to rummage through the rubble (2009: A Year of Opportunity, Jan. 12, 2009)."*** As shown in last week's article (*The Worst and The Best*, January 4, 2010), developed markets would register gains averaging 25 percent in 2009, while Asian markets would surge 68 percent. If measured starting from their lows, the developed and Asian markets would return 59.9 percent and 77.7 percent, respectively.

8. ***"If the inflation scare comes back in a few years, it is not far-fetched to see oil trading above $100 per barrel again (Crude Oil: Forming a bottom, March 2, 2009)."*** In this article, we disagreed with most foreign houses calling for $25 per oil (Merrill Lynch) and $30 oil (Morgan Stanley and Goldman Sachs). Now, just nine months later, oil is back above $80 per barrel.

9. ***"MVP has always liked monopolies or oligopolies. Meralco certainly fits into his criteria (A White Knight Emerges in Meralco, March 9, 2008)."*** Most brokerage houses had recommended a sell on Meralco when it reached Php90 per share. We realized early on that there was a battle for control and given the limited free float, the rich valuations were justified.

10. ***"The S&P 500 Index may have reached an ominous low of 666 on March 6, 2009 (666, Mar. 23, 2009)."*** The US markets indeed reached the ultimate bottom on March 6, 2009. The S&P 500 Index would then gain 67 percent by Dec. 31, 2009. The PSEi

11. ***"When the world market recovers, Bernanke or Obama will be strong candidates for Man of The Year (US Markets: Out of ICU, Apr. 20, 2009)."*** In fact, we were among the first to make this prediction back in April. True enough, Bernanke was declared Time Magazine's Man of The Year. Obama, meanwhile, was awarded the Nobel Peace Prize.

12. ***"What we are witnessing now is not a bear market rally but the rise of a budding bull market (Indigestion, May 18, 2009)."*** While most brokerage houses were cautious early on and are saying the market will correct, we recommended buying the market and sitting tight. We said that nobody really knows when a correction may happen. What is important is that we have seen the ultimate low on March 6, 2009 and that the general direction is now upwards. The market has since gone up with only mild and shallow pullbacks.

13. ***"Despite lingering doubts that the worst of the global crisis are behind us, more signs show that the global economy is stabilizing and markets are bottoming out (Building Blocks May 25, 2009)."*** In this article, we mentioned that trends in the credit system (as indicated by LIBOR, TED Spread, junk bond yields, CDS, etc.), rising commodity prices and the leadership of emerging markets and cyclical sectors (such as technology, financials, basic materials and consumer discretionary) supports our premise that the market has turned and global risk-taking has recovered.

14. ***"Despite all the previous downgrades of foreign banks on the peso, we agree with the BSP's more credible and conservative target of 46 to 49 (Peso to regain strength, June 1, 2009)."*** Most foreign banks were negative on the peso during the first half of the year, sticking with their earlier 53 to 56 exchange target. They cited a potentially higher budget deficit and a flat growth in OFW remittances as the major hindrances to the peso. They were correct with regard to the budget deficit but were wrong with regard to OFW remittances (which grew 4 percent) and eventually, in the direction of the peso. The peso ended the year 2009 at 46.20.

15. "***The block of shares that were crossed at Php 300 per share was a clear signal that the game was over (The Rise and Fall of Meralco, Aug. 3, 2008)."*** After several articles discussing the Meralco battle (A White Knight Emerges in Meralco, Checkmate, Turf Wars, Beneficiaries of Turf Wars), we finally said that MVP would win the battle for control and we explained why the price of Meralco has gone down.

16. ***"Another corporate battle may be brewing… Philex appears to be the next Meralco (Return Bout, Aug. 17, 2009)."*** Similar to Meralco which saw its share price zoom from 60 to 300 in six months, Philex's share price would later surge from 8 to 20 in three months. First Pacific's affiliate, Two Rivers Pacific Holdings Corp., would acquire the 9.24 percent block of Bobby Ongpin/Walter Brown Group at Php 21 per share.

17. ***"This is one bull market everybody loves to hate … because most investors were not able to participate (Back with a Vengeance, Oct. 19, 2009)."*** While the market zoomed upwards, most investors were reluctant to join and were frozen on the sidelines. They were focusing too much on the pains of the prior crash and not enough on the recovery. We at Philequity, however, maintained our premise that we've seen the lows in March 2009 and that every substantial correction is an opportunity to buy.

All these articles mentioned above are archived. If you want to read the entirety of our forecasts in these articles, you can go and check the archives at www.philequity.net/philequiCorner.php or www.wealthsec.com.

Next week (January 18, 2010), we will discuss what our crystal ball has in store for us in 2010.