Phil Equity Corner
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Bulls, Bears, and Sitting Ducks

By ARSamson

The stock market has always served as a barometer for economic sentiment and the overall state of the economy. When there is news that affects the economy such as the Greek debt default or the rising price of crude oil, the impact on economic sentiment is quickly checked on the stock market indices. True, there have been cases where it is argued to be unreflective of real economic activity as it involves only a small minority of players. There is a bigger world out there that seems to be unaffected by the gyrations of Dow. This disconnect is seen in the States and expressed as the difference between Wall Street and Main Street. The former is inhabited by the financial denizens and the latter including all the rest.

Closer to home, our erstwhile economic adviser (we are not sure if he is still playing this role) of the president has shockingly pointed out, amid the legacy buzz on the stellar economic numbers of the outgoing administration, that there is a gap between nice GDP numbers and their impact on the poverty levels. Here, perhaps we can express such a dichotomy between the movements of the stock market and what is really happening out there among the informal settlers as a divide between Phisix (Stock Market and its composite price) and the Fish-ix (Wet Market, where the galunggong index prevails).

Politics and the economy are Siamese Twins that move together, although sometimes facing in different directions. It is not only the political interpretation of economic statistics where such an intersection between politics and economics occurs. The exercise of changing governments is upon us.

Do elections affect the stock market? Is there such a thing as a "polls impression"? What happens when you put bulls, bears, and ducks together in a zoo?

You may have guessed that the third animal in our title are the candidates for public office. The duck seems to best represent them as we refer to the outgoing administration (except this one) as a lame duck. Sitting ducks do not refer to incumbency but exposure to the many attacks, often from each other, that this particular bird is subjected to, as in a shooting gallery.

Our able research staff has looked at past elections and concluded that in general, election years are favorable to the stock market. Here are some conclusions that our research team has noted in their charts:

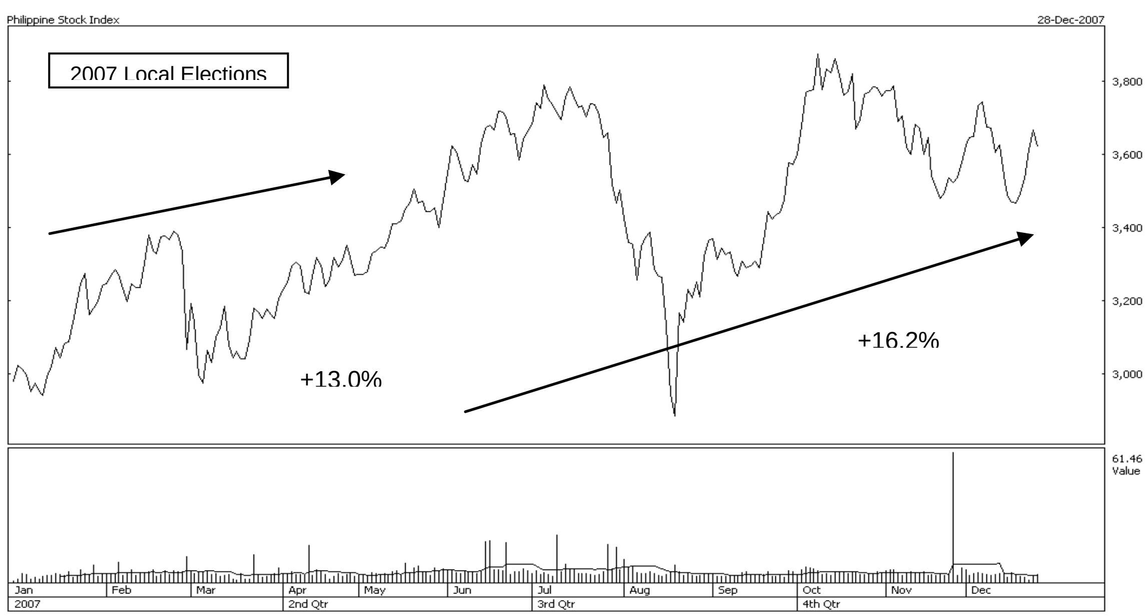
1) Since 1987, election years recorded an average rise of +14.8% for the PSEi. Of course, the years before that have been untracked since these did not feature any election exercises, except the snap election of 1986 which is not a trend-setting exercise.

2) Only two out of the seven election periods (which occur every three years) ended the year with negative growth in the PSEi, and these two negative years were both local elections. It can be surmised that the polls for governors and mayors do not have much of an impact on the market, whether positive or negative.

3) Six of these seven election years on the pre-election months of January to May were on positive territory, averaging a +12.7% growth.

4) **All** presidential election periods ended the year on a positive number. After the Cory presidency, these are elections of the following: Ramos (+7.1%); Estrada (+5.3%); Arroyo (+22.6%). Note the almost euphoric relief in the last presidential election in 2004 when Gloria was translated as "glory". Not many can remember how much hope and confidence the then re-elected (or newly elected) president elicited from her current critics. Like first love, the jaded adult hardly remembers what all the fuss was about.

PSEi Performance during the 2007 Presidential Elections



package bestows. Additional spending of candidates and their financiers in a national election can be formidable. This runs the whole range of colored tee shirts, ribbons, air time for ads, talent fees from celebrity endorsers, pack lunches, air charters, ad productions, sound systems, and face lifts. Even with the limit on campaign spending, there are costs borne by both candidates and their supporters including all of the above. We are not yet counting here the incentives and cash gifts for certain players to withdraw, join a ticket, or pledge allegiance.

Aside from this election stimulus, there are other factors that should give a positive bump to the market in this election and maybe through the second half of the year.

Dissatisfaction with the present dispensation, expressed in record levels of unfavorable ratings, is likely to usher in hope for change. Any change will do. There is nothing like the prospect of ending unhappiness to perk up the urge to embrace even an uncertain future.

The two front-runners in the presidential surveys account for 70% or so of the voter preference. This narrows the field to a manageable two-horse race with a high probability that it will be one of the two frontrunners who will be declared as the next president. It seems these two are acceptable to the business community, even with varying degrees of enthusiasm. Still, the likely winner enjoys a level of acceptability.

A positive market sentiment is premised on a successful election followed by a smooth and scheduled transfer of power.

The pessimists who cannot simply be dismissed (or silenced) invoke a possible failure of succession with a variety of things going wrong in a perfect storm. As any analyst of the market knows, risk assessment has to be applied. Such an approach deals with probabilities of certain events happening. Any pessimistic evaluation is premised on the desire and ability of the mischief makers to implement our worst-case scenario of not having any succession at all. This will then have to be combined with the inability and helplessness of all the forces opposed to such a scenario.

Should we wait in the sidelines and see how the political exercise plays out? Or should we rely on history to buy and hold with expectations of an upswing in the market as had happened in the last three presidential elections?

We are hopeful that in the case of the stock market in a presidential election year, history will repeat itself…although not necessarily in all aspects.

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