

## Philequity Corner (July 19, 2010)

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### Local Strength

Last week, we compared the US market indices with our own PSE Index. We noted the apparent divergence between the two markets despite the latter's usual follow-the-US behaviour. Year-to-date, the decoupling argument is holding up.

Developed Markets		Index Level	YTD Change
US	DJIA	10,097.90	-3.2%
US	Nasdaq	2,179.05	-4.0%
US	S&P500	1,064.88	-4.5%
Germany	DAX	6,040.27	1.4%
London	FTSE 100	5,158.85	-4.7%
France	CAC 40	3,500.16	-11.1%
Spain	IBEX 35	9,991.70	-16.3%
Asian Markets			
Korea	KOSPI	1,738.45	3.3%
India	BSE Sensex	17,955.82	2.8%
Taiwan	TAIEX	7,664.57	-6.4%
HongKong	Hang Seng	20,250.16	-7.4%
Australia	S&P/ASX 200	4,422.70	-9.2%
Japan	Nikkei 225	9,408.36	-10.8%
China	SSE Comp	9,806.64	-28.4%
ASEAN Markets			
Indonesia	JCI	2,992.45	18.1%
Philippines	PSEi	3,442.68	12.8%
Thailand	SET	827.89	12.7%
Malaysia	KLCI	1,336.65	5.0%
Singapore	STI	2,957.72	2.1%

Source: Bloomberg

From the table above, you may notice that the ASEAN region is outperforming the rest of the world. In fact, the PSEi's 12.8% performance is understated. Most mutual funds are outperforming the PSE Index. Philequity Fund's return is 19.3% as of last Friday.

### Reasons for PSEi Outperformance

The confluence of factors, both on the domestic and external fronts, is driving the PSE Index to greater heights.

- 1. P-Noy hope.** Aquino gives Filipinos a renewed sense of optimism through his clean governance platform. He is starting his administration filled with hope. P-Noy's first trust rating survey conducted by the Social Weather Station (SWS) last June 25-28 showed an overwhelming confidence of 88%. His

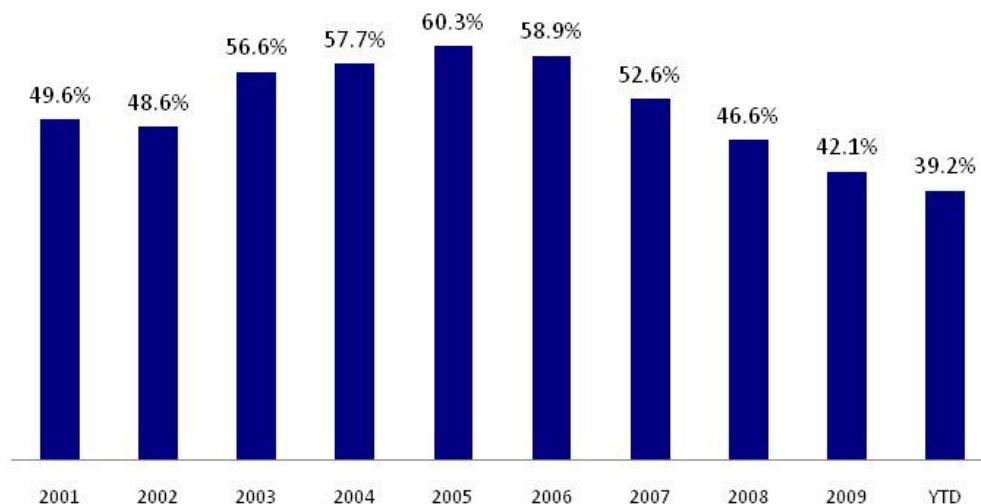
cabinet team is now in place and appears very credible. (See *The Noynoy Upgrade*, 17 May 2010 issue of **The Philippine Star**).

2. **Deliberate slowing of China.** Fears of a property bubble and concern for an overheating economy prompted China to tighten monetary policy. This caused its stock market to slide precipitously since the start of the year (see table above). Neighbouring countries like Hong Kong and Taiwan likewise felt the pinch of China's move. Nevertheless, the benefits of the short-term pain far outweigh the long-term negative ramifications of an economic bubble as China seems to be heading for a soft landing rather than a hard one.
3. **Developed nations slow down.** The US, Europe and Japan are at a snail's pace recovery. The US economic recovery remains a work-in-progress while that of EU is still hounded by their debt problems in the PIIGS (Portugal, Italy, Ireland, Greece, and Spain) region. Last Friday, US banks reported a decline in loan demand, confirming a weak economy and heightening fears of a double dip recession.
4. **Better technical picture.** Last week, we highlighted the pessimism in major US indices as painted by their technical charts. The S&P 500, for instance, showed the "Head and Shoulders" chart formation and flashed a "Death Cross" indicator. The PSEi, on the other hand, broke to higher levels after consolidating for several weeks around the 3,300 level.
5. **Volume traders in the US.** About 70% to 80% of volume trades in the US come from Quant funds and Hedge funds, which do high-frequency trades. (See *Head & shoulders, Death cross...*, 12 July 2010 issue of **The Philippine Star**). These make up for a more volatile market. The Flash Crash on May 6, 2010, where the DJIA made a record-breaking drop of 1,000 points in a matter of minutes, is an example of liquidity strains caused by high volume trades. The high volatility caused by hedge funds, quant funds and computerized trading has scared away retail investors.
6. **Greater participation from local investors.** Although the lingering effects of the global crisis have limited the participation of foreign investors, local investors are making up for the former's dismal contribution. Local investors like mutual funds and trust funds are increasing investments in the stock market.

### **Role Reversal**

The lower participation of foreign investors means an increasing share of the local investors' volume. The 10-year chart below shows the role reversal of foreign versus local investors. Foreign turnover peaked in 2005 at 60.3%. Since then, foreign participation steadily declined. Since the start of the year, local participation significantly improved and now comprises 61% of the turnover. While foreign flows are material to the capital appreciation of the stock market, a higher proportion of local investors means more stability and less volatility to external shocks. It also acts as a buffer against the volatile trading of hedge funds who exit swiftly at the slightest signal of market weakness.

## Foreign Buying as Percentage of Total Value Turnover



Source: Philippine Stock Exchange (PSE)

### Thanks to the PSE

We congratulate the Philippine Stock Exchange (PSE) for a job well done. Their relentless efforts have caused the local bourse to be active and be one of the best performing stock markets in the world. From conducting road shows to the provinces and providing seminars on various key sectors to championing vital legislations, the PSE is at the helm of developing and advancing the stock market.

We also congratulate the brokers, investment funds, trust funds, mutual funds, government financial institutions, the banking community and the listed companies in their role at developing the capital markets.

At Philequity, we also continually strive to do our share in promoting the local capital market. Apart from consistently outperforming the PSE Index, our mutual funds cater to all investors, regardless of investment size. For as low as Php5,000, retail investors can open an account with us and partake of the appreciation of the stock market. This is our small contribution to the development of the capital market.

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