Philequity Corner (September 26, 2011)
By Valentino Sy

The Twist

If we take a hike down memory lane back to the 1960s, everyone would remember what would become the first ever worldwide dance craze. The song and the dance were popularized by Chubby Checker who covered an obscure song first recorded in 1959. Thanks to Checker's performance in The Dick Clark Saturday Night show, "The Twist" was catapulted to the top of the Billboard charts in 1960. When the song resurfaced in 1962, it set a record by being the only song to reach number one in two different chart runs. While the dance drew fire from critics who felt it was too provocative, both song and dance enjoyed immense popularity worldwide. It is so popular that in 2008, "The Twist" was named the biggest chart hit of all time by the Billboard magazine. For those who are too young to remember, we encourage you to go to youtube.com and watch Chubby Checkers' "The Twist".

Let's Twist Again

Riding on the phenomenal success of the previous single, Checker released another song, titled "Let's Twist Again". It became one of the biggest hit singles in 1961 and received the 1962 Grammy Award for Best Rock & Roll Recording. Many other artists likewise rode this wave and, as a result of all these, rock and roll was able to gain acceptance into the mainstream. Since the twist, no other dance move has come close in terms of popularity. In fact, there is even a book titled "The Twist: The Story of the Dance that Changed the World" by Jim Dawson.

Operation Twist

Last week, Ben Bernanke and the Fed launched a program dubbed Operation Twist. This program of maturity extension had its roots in a similarly named initiative launched by then-President John F. Kennedy in the 1960s. During that time, the twist was the most popular dance, hence its name. This program will not involve any balance sheet expansion on the side of the Federal Reserve, which has grown its balance sheet by about $2.3 trillion since 2008. Instead, they will sell $400 billion worth of short term Treasury securities (<3 years) by the end of June 2012 and use the proceeds to buy longer term Treasuries (6-30 years). Assuming the entire $400 billion program is completed, the average maturity of the Fed's portfolio would be expected to rise from 75 months currently to about 100 months by the end of 2012. The goal of this program is to put downward pressure on long term interest rates, including rates on financial assets, such as mortgages, making it cheaper for both corporations and consumers to borrow money, thus providing more stimulus for the broad economy.

Twisting in Business

The twist's influence is so widespread that it has even become a byword. The moves of the Fed were named after it twice and fifty years down the road, people still sing and dance to the twist. The song is so catchy that it was even being played as a background song in CNBC the whole of last week. Normally reserved for CEOs, CFOs and stock market analysts, the popular stock market program named "Fast Money" even interviewed Chubby Checker live last Thursday.

Bernanke Finally Out of Bullets?

Previously, every time Bernanke used any of the policy tools available to the Fed, the market rallied. QE1 was viewed as a blessing from heaven while QE2 was yet another shot of adrenaline for the market. However, it seems that the third time isn't always a charm. As soon as Bernanke finished his statement, the market fell sharply. In the two days since Operation Twist was unveiled, the Dow Jones Industrial index is down 6%. Sentiment regarding the Fed's actions is very different this time around, primarily because of the glaring lack of confidence in its ability to stave off another recession. George Soros himself said that we might actually be in the midst of a double-dip recession. Moreover, when this policy was used in the 1960s, it was next to ineffective. For this second installment of Operation Twist, Bernanke himself said that "the effect is difficult to estimate precisely."

Chronic Political Dysfunction

If this lack of confidence wasn't bad enough, the Republicans are always there to make things worse. Last week, the congressional Republican leadership sent a letter to Bernanke, urging him to refrain from any more easing moves, saying that the American economy should be driven by consumer confidence and worker innovation, not central bank policy. In their own words, they stated that they "have serious concerns that further intervention by the Fed could exacerbate current market problems." Again, politics reared its ugly head. Just as was the case during the budget deficit and debt ceiling debates, Obama and the Democrats have been accused of politicking while the Republicans are throwing a wrench into every plan the government hatches to keep the economy from stalling. This political dysfunction was even one of the reasons cited by S&P when it downgraded the credit rating of the US.

PSEi no longer spared

Last week, stock markets worldwide were battered. First, the disappointment over Operation Twist led to a sell-off. This was further compounded by the lack of confidence in US politicians as well as the perceived inability of central banks around the world to address the economic slowdown. The European debt crisis continued to weigh on the markets. Even though European leaders have been continuously planning how to resolve the crisis, it has become apparent in everyone's minds that no one has a clear solution to the problem. Expectations that Greece will eventually default in spite of all their efforts have further spooked the markets. This reduced confidence in Europe's ability to dig itself out of this quagmire coupled with the threat of a global slowdown has sent markets across the world reeling. After being resilient for the whole year, the Philippine market finally succumbed to this wave of negative macroeconomic events. After Indonesia fell nearly 9% last Thursday, the Philippines followed suit, dropping a whopping 5% in one day. This caused the PSEi to end the week with a YTD performance of negative 7.5%.

Twist and Shout

During the 1960s, the Beatles released "Twist and Shout", which was another iconic song of that decade. Recently, right after the announcement of Operation Twist, investors who were expecting markets to react positively are now twisting in pain and shouting in agony over the mind-boggling losses on their portfolios. The Dow Jones Industrial index had its worst week since October 2008, falling a whopping 6.4%. The S&P 500 was down 6.6% last week, while the Euro Stoxx 50, the benchmark index for the Euro region, fell 6.2% in the same period. Last week was also a time when one could witness banking stocks falling 20%, downward moves unseen since the last financial crisis. Given these market conditions, somehow the timing of the proponents of afternoon trading in the stock exchange always comes at the worst time.

Twisting time is here

With Operation Twist now a part of common business parlance, the program is now being discussed lengthily in business and stock market-related shows. However, as stock prices go up and down, investments are becoming uglier with every twist and turn. Thus, to end this article, we find it appropriate to leave you with the lyrics of Chubby Checker's song "Let's Twist Again":

Come on let's twist again like we did last summer
Yea, let's twist again like we did last year
Do you remember when things were really hummin'
Yea, let's twist again, twistin' time is here

Yeah round ‛n around ‛n up ‛n down we go again
Oh baby make me know you love me so then
Come on let's twist again like we did last summer
Yea, let's twist again, twistin' time is here.

For further stock market research and to view our previous articles, please visit our online trading platform at www.wealthsec.com or call 634-5038. Our archived articles can also be viewed at www.philequity.net.