Philequity Corner (January 9, 2012)
By Valentino Sy

Goodbye Rabbit, Hello Dragon!

The 2011 Year of the Rabbit proved to be a volatile year for stocks. Typical of the Rabbit, the Philippine market hopped back and forth (between 3,705 and 4,563) only to end the year with a slight 4.1 percent gain. But with only two weeks to go before the Chinese New Year, the signs appear auspicious for the 2012 Year of the Dragon.

While the markets remain anxious over Europe, the reports that came out during the past week were fairly positive. Manufacturing in US, Germany, UK, Australia, China and India improved in December while US jobless rate fell to a three-year low.

On the local front, Economic Planning Secretary Cayetano Paderanga expressed confidence the Philippine economy would expand 5% to 6% this year. He said that increased spending in public infrastructure would spur domestic demand and offset any adverse effects coming from the external environment.

A promising sign?

Philippine stocks rose 2.55 percent last week, sending the PSE Index to its 3rd best start since 2004. This week's performance is a great follow up to the Santa Claus rally which saw the PSE index record a monthly gain of 3.8 percent in December.

Last week's gain is also very promising as strong starts for the year are usually indicative of good returns for the whole year (see table below). Meanwhile, a negative start such as what happened in 2008 portends a bad year.

Year	% Change 1st wk of the year	% Change Annual
2004	6.00%	26.40%
2005	1.59%	15.00%
2006	1.80%	42.30%
2007	0.46%	9.40%
2008	-3.93%	-42.60%
2009	5.98%	59.10%
2010	0.80%	41.00%
2011	0.03%	4.11%
2012	2.55%	?

Source: Bloomberg, Philequity Research

Foreign buying steps up

One of the major reasons for the outperformance of the Philippine market is the strong inflow of foreign funds. Foreign buying has stepped up, especially after the Standard and Poor's upgrade on the outlook of Philippine credit last December 16, 2011. Heavy buying is clearly evident in blue chip issues such as PLDT, DMCI, SMIC, Ayala Corp. and Banco de Oro which received the largest flows the past three weeks (see table below).

Taking into context the strong performance of the Philippine and other ASEAN markets such as Indonesia, Malaysia and Thailand, it seems that global investors now prefer the relatively lesser debt exposed ASEAN economies over the highly leveraged developed economies as their primary investment destination (see *2011 Stock Market Scorecard*, Jan. 2, 2012).

Net foreign buying in select blue-chip issues

		Net foreign buying ($m)
Stock	Jan. 2 to 6, 2012	Since S&P Upgrade (Dec. 16, 2011)
PLDT	1,331.72	2,130.48
DMCI Holdings	438.87	956.06
SMIC	43.18	728.06
Ayala Corp.	407.81	600.54
Banco de Oro	357.51	537.74
Globe Telecom	66.26	363.23
Semirara	56.82	349.77
Secuirty Bank	170.15	348.49
Aboitiz Power	170.15	348.49
Metrobank	135.10	244.70
Bank of Phil. Islands	16.07	229.54
Lepanto "B"	136.99	225.30
SM Prime Holdings	84.28	212.53
Aboitiz Equity Ventures	64.12	200.06
Meralco	109.53	154.54

Source: PSE, Philequity Research

Buying on dips strategy

Though the Year of the Rabbit was a rough ride, the market dips were mainly caused by external macroeconomic headwinds whereas our country's fundamentals remain intact. This is the major reason why we were constantly reiterating a "buy on dips" strategy. In fact, it was our basic theme and strategy for the most part of 2011 when the world markets were extremely volatile - a strategy that ultimately proved correct.

"We advise investors to review their asset allocation, evaluate their risk-reward appetite and maintain an investment level that they are comfortable with … A ***buy-on-dips*** *strategy for the local market has proven to be successful…"* - (PSEi, All-time High, July 18, 2011)

"*We had been buying equities in the past weeks and would probably buy more if the stock market corrects… It is best to* ***buy on dips*** *and at support levels…"* – (A Rollercoaster Ride, October 17, 2011)

"In our past articles, we have maintained that the macroeconomic headwinds especially in Europe have been causing the correction in our market despite the country's strong fundamentals. We argued that our economy is much healthier and we do not face the structural issues encountered by the developed markets. Because we remained bullish despite the uncertainties, we have been advocating a ***buy on dips*** *strategy in the Philippine stock market."* – (The Smart Counquered the Sun, October 31, 2011)

New leg up underway

Given the strong move the past three weeks, the PSE index is now poised to test its all-time high of 4,563 registered last August 2, 2011. A breakout above that level should push the index towards the next target of 5,300. Unless a black swan event happens, we see the market ultimately heading to that level (see chart below).

Incidentally, our flagship Philequity Fund closed at Php 22.06 per share last week which is just 18 cents shy of its all-time high of Php 22.24 per share registered on August 1, 2011.

PSE Index (2008 – present)

Source: Technistock

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