

## **Philequity Corner (January 23, 2012)**

**By Valentino Sy**

### **Enter the Dragon**

Global stock markets are off to a great start in 2012. The Santa Claus rally of December 2011 allowed global equities to end 2011 on a positive note (*Santa Claus – In the Nick of Time*, December 26, 2011), setting the stage for a strong start for the Year of the Dragon. As such, our PSE Index is one of the best performing stock indices in the world (*Stock Investing: It's more fun in the Philippines*, January 16, 2012). The PSE Index established a new all-time high of 4,747.90 last Friday, January 20, 2012 and is up 8.6% year-to-date. We surmise that the strong performance of stocks in the first 3 weeks of the year can be partially attributed to the Dragon effect, as investors become more bullish in anticipation of a profitable and lucky Dragon Year.

### **Astrology, Geomancy, Numerology, Fortune-Telling and Feng Shui**

We at Philequity use fundamental, technical and macroeconomic analysis in studying the market and in formulating our investment strategy. We look at historical events and cycles and examine how the present might unfold based on history as a precedent. However, many investors are a superstitious lot. Some have lucky numbers, locations, days, shirts or even underwear which they use when investing. There are also investors who depend on non-conventional disciplines and consult fortune-tellers, astrologers and Feng Shui experts to support their market analysis. Others use geomancy and numerology to aid them in their investments. Some believe in the moon theory and look at lunar cycles and patterns to guide their investment decisions. They believe that full moons bring about extreme movements in stocks, and that full moons often cause a surge in stock prices. We discussed this lengthily in one of our previous articles (*Supermoon*, March 21, 2011). As the Chinese New Year starts, it is helpful to study the character traits of the Dragon, explore the forecasts of Feng Shui experts for the Year of the Water Dragon and examine how equities performed in the past Dragon Years.

### **The Chinese Dragon**

The Dragon is the only mythical creature among the 12 animals in the Chinese Zodiac. While the Dragon is portrayed as an evil, menacing monster in Western folklore, it is much revered in the East. For the Chinese, the Dragon symbolizes authority and power. The Dragon is supposed to bring good luck and prosperity. This is why the emperors of China commonly used the Dragon as the symbol of their imperial power. Even Bruce Lee, a popular actor of his time, was often referred to as the Dragon. This representation was an allusion to his strength and proficiency in martial arts.

### **Dragon Babies**

It is not surprising then that the Chinese prefer to have their babies born in the Year of the Dragon. Studies show that there is a marked increase in birth rates during Dragon Years. In fact, government

officials are expecting a Dragon baby boom in 2012 not only in China, but also in Japan, South Korea, Vietnam, Macau and Hong Kong. It is widely believed that people born in the Year of the Dragon are gifted with extraordinary amounts of luck and are destined to be successful and wealthy.

### **A Year of Prosperity and Change**

We summarize below the predictions of various Feng Shui experts for the Year of the Water Dragon:

1. Since the Dragon is a major symbol of good luck and prosperity, Feng Shui experts foresee the emergence of several wealth opportunities this year. Fortunes can be made in the Year of the Dragon.
2. Water symbolizes wealth, thereby boosting the auspicious traits that the Dragon already carries. As such, some of them see 2012 as a favorable year for finance-related businesses and forecast the continued rise of equities. They also see 2012 as a good year for wood and water-related businesses.
3. Most of them see 2012 as a year of change. They anticipate that there would be several momentous changes in the political and economic fronts, such as changes in the political leadership and alliances involving prominent countries.
4. Since the Water Element is also associated with flowing ideas and creativity, Feng Shui experts foresee significant scientific breakthroughs, the development of new technologies and other important new discoveries this year.
5. However, since it is the Year of the Water Dragon, most of them warned about the impact of climate change and possible natural disasters, such as floods and typhoons.
6. Since the Dragon is the only mythical creature in the Chinese Zodiac, one can expect grand things to happen this year. Feng Shui experts foresee that 2012 may be a year of extreme ups and downs. As such, one should always exercise a certain degree of caution, as everything is magnified in the Year of the Dragon.

### **Stock Performance in Dragon Years**

To have a better feel of how equities might perform in the Year of the Water Dragon, we look at the performance of the S&P 500 Index in the last 7 Dragon Years, as summarized by the table below:

<b>S&amp;P 500 Index during Dragon Years</b>			
<b>Year</b>	<b>Beginning</b>	<b>Ending</b>	<b>Return</b>
1928	17.66	24.35	37.9%
1940	12.46	10.58	-15.1%
1952	23.77	26.57	11.8%
1964	75.02	84.75	13.0%
1976	90.19	107.46	19.1%
1988	247.08	277.72	12.4%
2000	1,469.25	1,320.28	-10.1%
2012	1,257.60	?	?

*Source: Bloomberg, Wealth Securities*

The S&P 500 Index delivered positive returns which were all greater than 10% in 5 out of the 7 last Dragon Years. The only exceptions were 1940, when US was still recovering from the Great Depression, and 2000, when US experienced a painful bear market because of the bursting of the tech bubble. Using the table above, there is a 71% probability that we will have a double-digit return for the 2012 Year of the Dragon.

### **The Auspicious Dragon**

While 2011 was a rollercoaster ride for stock investors, the first few weeks of 2012 have so far been good for global equities. We mentioned in a previous article that a positive start for stocks usually foreshadows a good performance for the rest of the year (*Goodbye Rabbit, Hello Dragon!*, January 9, 2012). Considering the continuous strong performance of our stock market as the Dragon approaches, we remain confident that the PSE Index can achieve the 5,300 target that we forecasted in our January 9, 2012 article.

For the first time in the Philippines, the start of the Chinese New Year will be observed as a public holiday. We are thankful that President Noynoy made this declaration. Today, we join the Filipino-Chinese community, as well as our non-Chinese countrymen, in celebrating this holiday and welcoming the auspicious Water Dragon. Kung Hei Fat Choi!

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