

Staying the Course

World stock markets are racing off to the biggest start in 18 years. The Nasdaq surged to an 11-year high last week while the PSE index hit new all-time highs. With markets this strong and prices reaching new highs, a lot of our readers and investors have been asking us what they should do now especially since the risks emanating from Europe are still quite high.

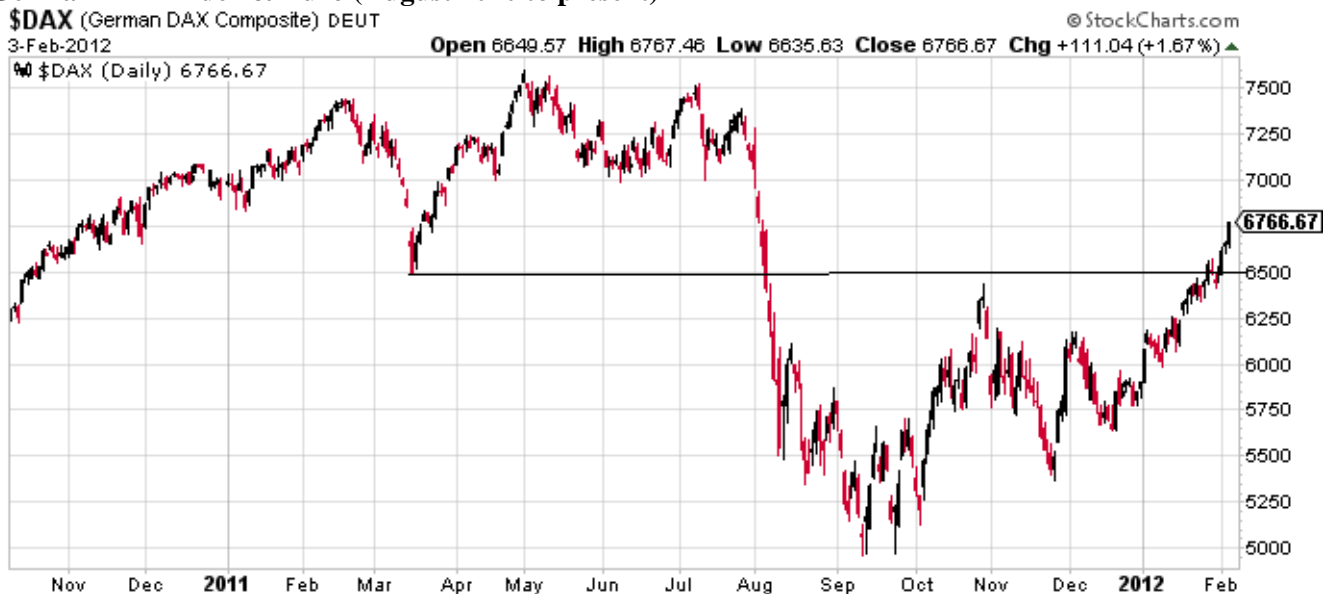
Our advice: STAY THE COURSE.

Europe appears to be bottoming out

After a volatile 2011, stocks around the world are off to its best start since 1984 as problems in Europe appear to be getting resolved. The movement of German DAX index confirms this as it moves higher after breaking strong resistance at 6,500.

Europe averted a major funding crisis in December after ECB President Mario Draghi cut interest rates twice and allowed banks to borrow nearly half-trillion euros (\$655 billion) from the ECB at low rates for three years instead of one year. The partial easing of global liquidity conditions in Europe prompted investors to sell the dollar and buyback the euro. The recovery in the euro indicates that “risk on” trade is now back and investors are now more willing to pile back into risky assets such as stocks.

German DAX Index & Euro (August 2010 to present)



Source: Stockcharts.com

US economy and markets turning bullish

Last Friday, President Obama appeared on TV and delivered the very favorable jobs report himself. January created 243,000 jobs, the most in nine months and almost double what most economists expected. This followed the positive news a week earlier which showed that US grew 2.8 percent in the 4th quarter of 2011, the fastest since the 2nd quarter of 2010.

There are many other signs that the US economy is turning around like the latest Institute ISM figures shows that manufacturing and service industries are surging in the fastest pace almost a year. US retail sales are improving as solid sales were reported for the 4th quarter of 2011. Also, the US Homebuilders ETF (symbol: XHB) has broken above its 2011 high which is a very positive sign.

Death Cross & Golden Cross

Note the US markets have already turned bullish after the sharp pullback last August 2011 during the height of the European sovereign debt crisis. In fact, the feared S&P 500 “death cross” which occurs when the 50-day moving average falls below the 200-day moving average (which in the past signals a severe bear market) has turned to a “golden cross” (which indicates a resumption of the long-term uptrend).



Invest in companies that you believe in

Despite the bullish move in the markets lately, a lot of investors are still afraid of buying stocks because of their fears over Europe. Because of this, many have missed a lot of profit opportunities in stocks.

One way to avoid this is to invest in companies with good business models that are not affected as much by geopolitical and macroeconomic events. In fact, this has always been our advice since the European debt crisis began. This way you would not be shaken out or whipsawed during bouts of uncertainty and wild market volatility.

“When you buy a stock, you should look at it as a business (refer to IPIS Theory, February 22, 2010).”

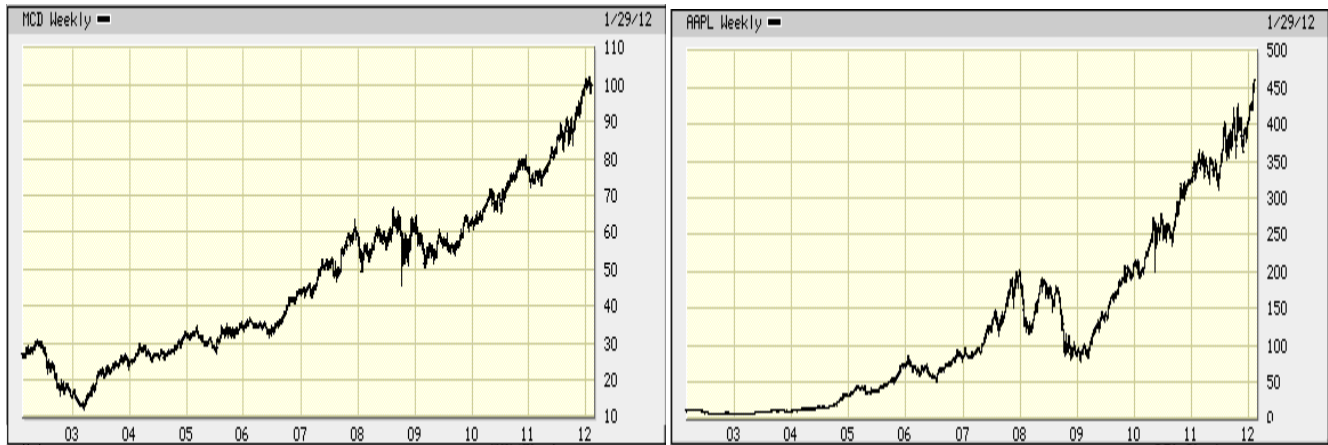
“Invest in a company that you believe in. Hold a core position in that company. Be patient and avoid the mistake of shifting your investment to a losing company with weaker fundamentals (refer to The Hare and the Tortoise, April 5, 2010).”

A great example is McDonalds. From being the quintessential American fast-food restaurant, it has transformed itself to a global brand with strong global sales. Part of its success is its ability to adapt its menu to local tastes while keeping its core product line intact. In good times and bad, McDonalds delivers. It has grown its earnings in 9 of the last 10 years. McDonalds is also one of the top dividend stocks in the Dow Jones Industrial Average yielding 2.8 percent.

Another great example is Apple. It has revolutionized the world with its innovative products and solutions (the iMac, iPod, iTunes, iPhone, and iPod). It made “tech” sexy. Apple has a history of over-delivering and beating expectations which benefits both its consumers and shareholders. The most recent quarterly earnings blew past analyst expectations with record quarterly revenues of \$46.3 billion. The company has nearly \$100 billion cash on hand.

As a result, shareholders were greatly rewarded as McDonalds share price grew 10x during the past decade while

Apple grew 45x (see charts below). Many similar companies were discussed in our board meeting last Friday. In comparison the Dow Jones Industrial Average (DJIA), the S&P 500 Index and the Nasdaq Composite Index went nowhere and just moved sideways the past 10 years.



Source: Bigcharts.com

Believe in the Philippines

In the same way that you should invest in companies with good businesses and fundamentals, you should also invest in the Philippines where the fundamentals are strong. The Philippine economy is very healthy and does not have the structural issues hounding the developed economies. The Philippines is growing faster and has a more manageable fiscal balance. Inflation is low and interest rates remain accommodative. OFW remittances are expanding steadily while BPO revenues are growing, putting the balance of payments and current accounts in surplus. As a result, international reserves are at record levels and the peso remains stable.

These are the reasons why the Philippine market has attracted healthy foreign fund inflows and why we think that the PSE index is headed to 5,300 (see *Goodbye Rabbit, Hello Dragon*, January 2, 2012).

Stay long, be long

So despite external risks we maintain our bullish outlook on the market. We believe in the Philippines. Its strong fundamentals remain intact. Just like our advice that you should buy stocks with good fundamentals and businesses that you believe in, we also urge investors to continue investing in the Philippine market. Stay the course. Stay long and be long Philippine stocks.

Philequity Investor's Briefing

Philequity Fund will be holding an Investor's Briefing on February 9, 2012 (Thurs) where we will be presenting our 2012 Market Outlook, our sector and stock picks for both here and abroad, and other topics that were presented during our board meeting last week. Philequity investors who are interested to attend can call up 634-5038 to register.

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.