

Philequity Corner (March 5, 2012)
By Valentino Sy

5000

The Philippine Stock Exchange Index (PSEi) reached a new milestone last Friday when it closed at 5,016 or above the 5,000 level for the first time ever. On its first try last February 23, the intraday high hit 4,997 which was just 3 points shy of the magic number. And on its second try last March 1, the index reached an intraday high of 5,011 but closed much lower at 4,939. It finally succeeded on its third attempt.

Just like in the US when the DOW passed the 10,000 mark for the first time and traders tossed commemorative caps and uncorked champagne, traders here in the Philippines cheered and gave each other high fives when the PSEi closed above 5,000. You can feel the excitement even in Facebook where screen shots of terminals showing the index hitting 5,000 is seen circulating.

In fact, even President Noynoy Aquino hailed the performance of the Philippine stock market saying that “we’re happy now that the PSEi started breaking that level.” The President also added that “the stock market is the clearest and fastest-reacting indicator of business confidence.”

The Rule of Round Numbers

Why is reaching 5,000 significant? In technical analysis, round numbers like 1, 5, and 10 for individual stocks or 1,000, 5,000 and 10,000 for indices tend to be important support and resistance levels because of their psychological significance. Although round numbers may not represent specific chart pattern targets, prices tend to cluster these numbers because they often represent major psychological turning points at which many traders will make buy or sell decisions. For most investors, especially the retail investors and those not in the market, PSEi at 5,000 rings a bell. The stock market now comes to mind when you say “5,000” and this is good because it encourages more investors into the market.

Round Numbers in the PSEi

The rule of round numbers is also evident in the PSEi. The chart below shows that the prices clustered around the 1,000 level (during the years 2001 & 2003), the 2,000 level (during 2005 to 2006), the 3,000 level (during 2007 to 2008), and the 4,000 level (during 2007, 2010 to 2011).



Source: Technistock

Delayed (Not Derailed)

It took the PSEi 17 years to climb from 3,000 (first reached in 1993) to 4,000 (reached in 2010). But it took only 1 ½ years for the index to surge from 4,000 to 5,000. If not for the Euro crisis, we believe it could have been achieved much earlier. In fact, as early as 2010 we already called for PSEi at 5,000 by end-2011.

“We are upgrading our forecast to 4,200 by yearend (2010) and 5,000 by end-2011.” – (see our article *Fly High*, September 27, 2010)

And in 2011, we said:

“Despite the volatility in 1H2011, we remain bullish about the continued strength of the Philippine stock market... We reiterate our target for the PSE Index of 5,000.” – (see *PSEi, All-Time High*, July 18, 2011)

Thus our target of 5,000 was only delayed by a little over two months, but not derailed.

Stay the course

For those who have not read our article last month (see *Stay the Course*, February 6, 2012) and are still wondering what to do with their investment funds especially with risks emanating from Europe still very much a factor. Our advice then and our advice now: **STAY THE COURSE**.

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. If you stay with those whose fundamentals are intact, you will not be shaken out. And because companies grow and countries grow, those whose fundamentals are intact will not be derailed. Growth should be achievable in due time even in the face of so much external risks.

So stay invested. Stay long and be long Philippines stocks.

What's next for the PSEi? 6,000? 7,000? ... 10,000?

While our PSEi target for end-2012 remains at 5,300, people are now looking at 6,000, then 7,000. In fact, hitting 10,000 before the Aquino-term ends in 2016 may not be an impossibility.

What is needed to get the index to 10,000?

- 1) **Maintain trust in government.** Two years into his presidency, President Noynoy Aquino and his government enjoys a very high trust rating. This attracts more businesses and investments which in turn translate to more jobs for the people.
- 2) **Maintain macroeconomic stability.** As mentioned in previous articles, the Philippines is not hounded by structural issues faced by the Western countries. Our fiscal balances are manageable. Our economy is growing faster, inflation is low and interest rates are accommodative. Our OFW revenues remain robust while BPO revenues are growing. Our external position is strong since the current account and balance of payments are both in surplus. And with gross international reserves at record levels, the peso remains stable.
- 3) **Expansion of public and private investments.** In the past years, our capital investments as a percentage of GDP has declined, compared to increasing trends of our Asian neighbors. Government investment as a percentage of tax revenue has also been declining. President Noynoy Aquino's Public-Private Partnerships (PPP) initiative should address this issue. We believe that this investment-led growth would be the next key catalyst for the economy and the market to move forward.
- 4) **Strengthening public education.** While government spending in education as a percentage of GDP

has increased, the level of spending is much lower than most of our Asian neighbors. In order to reduce poverty and sustain the country's growth momentum, investments in education, especially basic education should be made. *"Education can be the most effective economic equalizer,"* our director Washington Sycip always says. *"To reduce poverty, we must first focus on education and adopt long-term solutions."*

- 5) **Achieving the next level of growth.** With trust in the government and its economic managers led by Finance Secretary Cesar Purisima, the low interest rate regime and the stable peso, the favorable financial environment, and with both foreign and local investors now eager to come in and invest, the Philippines now have the unique opportunity to surge ahead. As Washington Sycip and a taipan friend of ours said, *"With all the ingredients in place which has never happened before, we should seize this opportunity. The Philippines can very well achieve the next level of growth of 5 to 7 percent - and at the same time sustain it."*

Commemorative "PSEi 5000" shirts

To celebrate this new milestone in Philippine stocks, Philequity Fund and affiliate Wealth Securities are distributing commemorative PSEi 5000 shirts to clients. Those who are interested to get their shirts should contact their respective agents or call the office at 634-5038.

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.