

## Philequity Corner (November 5, 2012)

By Valentino Sy

### Superstorm Sandy

Last week, a large tropical storm by the name of Sandy struck the US, whipping the Northeast Coast with high-speed winds and rain. For safety measures, New York City shut down its subway system and evacuated some of its residents ahead of the storm. Accordingly, the New York Stock Exchange (NYSE) closed its trading floor, while airports closed and cancelled thousands of flights. As Sandy fast approached, its wind speed of 90 mph brought tides that reached as high as 14 feet, beating 1960 Hurricane Donna's record of 10 feet.

### Frankenstorm

To make things worse, other elements of nature supplemented Sandy's wrath – the full moon bolstered the tides and an oncoming cold Arctic wind threatened a collision with Sandy to create a Frankenstorm. Even before making landfall, Superstorm Sandy had 11 lives under her belt and had cut power supply to hundreds of thousands. Due to heightened levels of danger, the NYSE was compelled to suspend trading for a second day – the longest trading halt since 1888.

### Sandy by the numbers

Death toll in New York City	38
Customers who experienced power outages	8 million
Cancelled flights	20,000
Flooded subway tunnels	7

### Typhoon in the Philippines; Hurricane in the US

Both typhoons and hurricanes are severe tropical systems with wind speeds greater than 74 mph. The two are actually the same, but the location of the storm is what gives it its name. It is called a hurricane if the storm is formed in the Atlantic or Eastern Pacific Ocean, and it is called a typhoon if it originates in the Western Pacific. Some experts refer to the two simply as cyclones – a rotating mass of thunderstorms with an eye or a center of calm air.

Like the Philippines, the land of milk and honey is not immune to cyclones, the costliest of which was Hurricane Katrina in 2005. In the case of Sandy, the damages resulted not only from the destructive winds but from the floods that turned streets into rivers and airport runways into lakes.

Year	Event	Estimated Damage (USD B)
2005	Katrina	146
1992	Andrew	44
2008	Ike	29
2005	Wilma	19
2005	Rita	19
2004	Charley	18
1989	Hugo	17
2004	Ivan	17
2004	Frances	11
2011	Irene	10

Source: National Climatic Data Center

### **Sandy's Fury**

Eqecat, a catastrophe risk modeling firm, estimates that Sandy dealt \$30 billion to \$50 billion in economic damages and \$10 billion to \$20 billion in insured damages. However, storms tend to have a ray of sunlight in the sense that rebuilding efforts cushion the blow to GDP. Moreover, the repeated hurricane visits have elevated the level of disaster preparation in the US. Many analysts believe that the economy will see only a minor downward revision in GDP growth for 4Q2012. In fact, rebuilding may be reason to increase GDP growth forecasts for 1Q2013.

### **Mixed trading for insurance companies**

Trading on the NYSE resumed Wednesday with no resounding negative sentiment. However, some insurance companies – those with bigger market shares – are expecting an adverse effect from the storm. Based on recent experience, these firms each reported 3Q2011 losses of about \$300 million to \$500 million from Hurricane Irene. The impact on smaller insurance companies was small, if any. Given the extent of Sandy's havoc, it follows that these large companies may each have to take on \$400 million to \$800 million worth of claims for the next three to four quarters.

### **In Favor of Home Depot and Lowe's**

Organized rebuilding after the storm will consist of repairing roads and New York's subway system. But behind the scenes, people will be busy fixing up their homes. They will need floorboards, new doors, paint and tools. Hence, the sales of Home Depot and Lowe's are expected to increase in the coming months. Contrasted with insurance companies, these home improvement stocks gained after Hurricane Irene and are likely to profit from Sandy. Although these companies each closed 50 stores during the storm, the net effect on their earnings is seen to be positive in the short-term.

### **Effect of Superstorms in the Philippines**

Rains and floods are nothing foreign to the Philippines. We have written several articles in the past in reaction to devastating typhoons and its implications on stocks (*Typhoon Milenyo Closes Financial Markets*, Oct 2, 2006 and *Epic Flood: The Effect on Stocks*, Sept 28, 2009). In our most recent typhoon piece (*Another Epic Flood*, Aug 13, 2012) we backtracked to show that the stock market rebounded just one month after Milenyo and Ondoy. This is due to the strong upward trajectory of our index during those years.

## PSEi Stays Afloat

After 3 months of consolidation, the PSEi closed at another new high of 5,443.74 last October 4. It seems that our stock market is a buoyant one beating the year to date returns of many countries. This resilience is attributed not only to the global monetary easing of central banks but also to the country's sound and robust economy. It is no longer far-fetched to see the index reach 5,500 by year end.

<b>Country</b>	<b>Index</b>	<b>YTD Return (%)</b>
Thailand	SET	27.64
Germany	DAX	24.37
Philippines	PSEi	24.08
India	SENSEX	21.11
Hong Kong	Hang Seng	20.03
US	S&P 500	13.52
Indonesia	JCI	13.40
France	CAC 40	9.99
Malaysia	FTSE Bursa Malaysia	8.89
Japan	Nikkei 225	7.05
UK	FTSE 100	5.20
Korea	KOSPI	5.09
Brazil	Ibovespa	2.87
China	SSE50	0.51
Spain	IBEX 35	(7.94)

Source: Bloomberg as of Nov 2, 2012

## Fortifying Your Portfolio

Natural disasters usually come on such short notice. Hence, with the element of surprise and their sheer magnitude, these hurricanes, tsunamis and earthquakes hurt people's properties. However, past experiences should have taught us to secure our homes for such events. In a similar manner, we advise investors to build their portfolios as if preparing for adverse shocks. We stress the importance of investing in companies with comprehensible business models and clear growth prospects. In addition, a diversified collection of stocks has proven to be less prone to large losses. The aim is to create a portfolio that will allow you to sleep peacefully even when superstorms arrive.

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