Philequity Corner (December 17, 2012)
By Valentino Sy

Target Reached!

The PSE Index reached our year-end target of 5,800 last week. In fact, it closed at an all-time high of 5,831.50 on December 11. Now that our target has been reached, we have been receiving many questions from our clients: Is it time to rejoice? Should we take profits? Did Santa come early this year? In this article, we would like to share these questions with our readers.

Why did the index go up so much, so quickly?

The most recent catalyst for our market to sky rocket was the surprising GDP growth of 7.1% in the third quarter. GDP growth is used to gauge an economy's health. The third quarter result, which came out last Nov 28, not only exceeded economists' expectations (5.4%) but also exceeded the government's target (6.0%) for the year. The breakdown shows a balanced and robust growth in the economy: government spending (+12%), consumer spending (+6.2%), net exports (+6.9%) and private investments (+4.3%).

What do we do now that our year-end target of 5,800 has been reached?

Each investor's action will depend on his asset allocation:

a) For investors who are overexposed in equities or who are on margin, now would be an opportune time to top slice their exposure in the local market.

b) Professional traders who are quick and nimble enough and who watch the market closely can take some profits and buy back later.

c) For long-term investors, we advise to hold on to positions as the long-term uptrend is intact and our country's fundamental story remains sound. These people who are not in the market full-time will find it difficult to time the market. That is, liquidating positions runs the risk of not being able to buy back at better prices later on.

d) For those who have been absent from the bull party, look to buy on dips those stocks with clear growth prospects and good business models. These people can also opt for mutual funds and let professional fund managers invest their money.

Why is our market correcting?

In under a month's time, our index dashed from 5,500 to 5,800. Because the index has moved up so much, so fast, a correction is in fact warranted. Based on technical analysis, the market has also reached overbought levels. Consequently, profit-taking is tempting at these levels. Fund managers may also be rotating to lagging markets such as China's. Compared to other markets, the Philippine stock market has gone up much higher. Our index has given us a YTD return of 30.5%, second best in the world after Thailand's 32.5%.

What is a corrective phase?

A correction is a decline of a stock price or stock index by five to ten percent in a short amount of time (approximately one to two weeks). This phase may seem nerve-wracking to neophyte investors. However, it should be noted that these corrections are normal occurrences even in a bull market such as ours. In fact, our index has seen two corrective phases this year – one in May and one in July – but has maintained the long-term uptrend.

How deep will this correction be?

Corrections are part of short cycles that occur within major trends. The short-term nature of corrections makes it difficult to predict how deep they will be. This is similar to how it is practically impossible to predict the day-to-day movement of the market. We find it easier to forecast the direction of a stock price over a longer time frame as we tend to look at the growth trajectories of companies that we have picked.

What is a buy-on-dips strategy?

Since the start of the bull market in March 2009 and all throughout 2012, we have advised buying on dips during market corrections and consolidations. This strategy is employed when the decline in the stock price is viewed as temporary. That is, the stock is seen to eventually rise. However, not all stocks that fall should be bought. A refinement of the buy-on-dips strategy would be to buy only those declining stocks that will have strong earnings growth in the future. When the market is correcting, equity analysts will have the advantage of conviction in picking up the right stocks.

Sin Tax and RH bill positive for capital markets

The Sin Tax and Reproductive Health bills are viewed positively by both local and foreign fund managers. The passage of sin taxes would be an indication that the Philippine government is fiscally responsible.

The RH bill, on the other hand, would be a step toward addressing chronic poverty in our country. Overpopulation in itself is not the root of poverty, but it does exacerbate the already existing poverty in our nation. The bill has received widespread support from the financial community, numerous groups and international organizations like the United Nations, World Health Organization and the International Monetary Fund.

Without adding to the debate, we would simply like to emphasize the positive boost these bills would give to our country's fundamental story. If enacted, these measures would contribute to a more equitable distribution of wealth and to a healthier and more educated populace.

PNoy: Bold and Resolute

We would like to commend President Aquino, his economic team and our enlightened Congress for being resolute to pass the Sin Tax Bill and RH Bill despite pressures from lobbyists and various groups. This goes to show that our President is not scared to do what is right for our economy. His recent action last Friday, to certify the RH Bill as urgent, further demonstrated his resolve to take action on what is correct even at the risk of disappointing some sectors of society. It has been evident that both foreign and local investors view his moves as positive for the market. This confidence in PNoy has contributed immensely to the bullish outlook for the Philippines.

Five eight, Slow your gait

The index will most likely take a breather after bounding from new all-time high to new all-time high the past weeks. Realizing gains is all part of the journey in investments. Still, we believe that our country continues to poise itself for growth. Infrastructure spending next year will invite foreign investments and will create employment for locals. However, successfully investing in the stock market will require indentifying those sectors that will benefit the most in this emerging economy. Specific stock picking will play a more important role in the next phase of this bull market. At this juncture of our market where the index has reached 5,800, we would advise investors to be more discerning in their stock choices.

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