

## Philequity Corner (January 14, 2013)

By Valentino Sy

### 6000

When the PSE Index breached the 5,000 level in March last year (5000, March 5, 2012), President Noynoy Aquino visited the PSE and rang the opening bell to celebrate this milestone. Our president was so optimistic about our economy and our stock market performance that he challenged brokers to reach the 6,000 level for the PSE Index. PSE Chairman Titoy Pardo, who also made a speech that day, replied, “The difficult takes a while, the impossible a bit longer.”

After reaching 5,000, the PSE Index traversed 1,000 points and reached another milestone – the 6,000 level – in just 10 months. Many say that the PSE Index will probably slow down in 2013 as valuations start to look expensive after a record-setting performance in 2012. However, the performance of the PSE Index for the first two weeks of the year shows that it is poised to deliver another strong showing for 2013.

### More Fun at 6000

The 6,000 level was first reached when the PSE Index closed at its intraday high of 6,044.91 last Monday, January 7, 2013. When 6,000 was reached, traders at the exchange were seen flashing placards saying “More Fun at 6000.” They also gleefully gestured “7” with their fingers, clearly referring to 7,000, which is the next round number milestone for the PSE Index. With the PSE Index breaching milestone after milestone, those who participated in our stock market would really think that stock investing is more fun in the Philippines (*Stock Investing: It’s more fun in the Philippines*, January 16, 2012).

### 2012 Scorecard: Philippines, A Top Performer

The table below shows that the PSE Index was one of the top performing stock markets last year, next only to the Stock Exchange of Thailand. Our stock market’s performance was driven by strong net foreign buying which amounted to P110B for FY2012.

PSE Index vs. Global Stock Markets	
Index	2012 Returns
S&P 500	13.4%
Euro Stoxx 50	13.8%
Hang Seng Index	22.9%
Nikkei 225	22.9%
Sensex	25.1%
KOSPI Index	9.4%
FTSE KLCI Malaysia	10.3%
Stock Exchange of Thailand	35.8%
Jakarta Composite Index	12.9%
<b>PSE Index</b>	<b>33.0%</b>

Sources: Bloomberg, Wealth Securities

## 2013: Philippines – Leading the Pack

Starting December 28, 2012, the PSE Index had been up 7 straight days before it experienced a decline. Moreover, the index was up in 7 out of the first 8 days of 2013. Net foreign buying has continued to be strong and has already amounted to P18.5B for the first two weeks of 2013. As a result, the PSE Index is once again the top performing stock market in the early part of 2013.

PSE Index vs. Global Stock Markets	
Index	YTD Returns
S&P 500	3.2%
Euro Stoxx 50	3.1%
Hang Seng Index	2.7%
Nikkei 225	3.9%
Sensex	1.1%
KOSPI Index	0.0%
FTSE KLCI Malaysia	-0.4%
Stock Exchange of Thailand	1.4%
Jakarta Composite Index	-0.2%
<b>PSE Index</b>	<b>4.1%</b>

Sources: Bloomberg, Wealth Securities

### Proving the Skeptics Wrong

Many foreign houses have repeatedly recommended an underweight on the Philippine stock market for the last 3 years, citing the historically high valuation for Philippine stocks. What they have repeatedly underestimated is the certainty, quality and strength of the earnings growth of Philippine corporates. The continued strong performance of the PSE Index since the start of this bull market has proven these skeptics wrong.

### How to Join the Bull Party

Most of our readers and clients, especially those with little or no exposure to Philippine stocks, have been asking when or how to best enter our stock market. Some of them are worried that the current levels might be too high as our stock market has repeatedly established new all-time highs. Though buying on dips will likely be more profitable, we believe that corrections, especially short-term ones, are extremely hard to predict. Since there are many factors that precipitate corrections, it is difficult to gauge exactly when they will happen. Moreover, it is difficult to predict how long or how deep corrections will be. Even professional traders and experienced investors often make mistakes in predicting the exact duration or magnitude of corrections.

### Peso Cost Averaging

In a bull run such as what we are witnessing now, it is better for prospective investors or those with little exposure to the stock market to just get in gradually. We would advise investors who cannot monitor the stock market on a daily basis to use peso cost averaging to gradually increase their exposure to Philippine stocks. Peso cost averaging refers to a technique which entails buying a fixed peso amount of

investments on a regular schedule, regardless of prices. It can mean buying once a week, once every two weeks or once a month. This technique allows investors to buy more shares when prices are lower and less shares when prices are higher.

Investors applying this kind of buying technique should not be interrupted or shaken out by corrections. Since there are concerns about our stock market's current valuation, corrections will give investors a chance to increase their exposure to Philippine stocks at cheaper levels. We think that corrections will always be there as they are part and parcel of a bull market. Despite their repeated occurrence, we believe that corrections will not change the fundamentals and the growth story of this bull market.

### **Central Banker of the Year for Asia Pacific**

Recently, Bangko Sentral ng Pilipinas (BSP) Governor Amando Tetangco, Jr. was named Central Banker of the Year for Asia Pacific for 2012 by The Banker. Incidentally, he was also named Central Bank Governor of the Year for Asia for 2012 by Emerging Markets, an affiliate of Euromoney. BSP's policies have immensely contributed in insulating our economy from various global macroeconomic headwinds and tempering the peso's appreciation despite strong foreign fund inflows (*Is the peso too strong?*, December 31, 2012).

### **Finance Minister of the Year**

Similarly, Department of Finance (DOF) Secretary Cesar Purisima was named Finance Minister of 2012 by Euromoney. DOF's actions have strongly contributed to the country's solid fiscal performance. This gives the government enough fiscal leeway to actively pursue investments in infrastructure, which we believe are essential in propelling our country to the next level of economic growth.

### **Structural Changes and Sustained Growth**

Under the leadership of President Aquino, his Cabinet and government leaders such as Mr. Purisima and Mr. Tetangco, the Philippines is clearly in a better position than its bigger or more developed counterparts. Many developed countries, such as the US and those in Europe, are grappling with ballooning fiscal deficits, persistent sovereign debt problems and slow economic growth. Through the years, our country has undergone a series of structural changes that will enable it to deliver sustained economic growth. Now that the country has shown that it can deliver high GDP growth, we share the sentiment of various credit rating agencies and some enlightened government officials that the focus will now be on sustaining GDP growth at the 5-7% level. This will not only lead to more inclusive economic growth but it will also be a crucial underpinning of a sustained bull market in Philippine stocks and Philippine assets. We will discuss in our next articles the structural changes that caused this secular bull market and the reasons why investing in the Philippine stock market will continue to be profitable.

*For further stock market research and to view our previous articles, please visit our online trading platform at [www.wealthsec.com](http://www.wealthsec.com) or call 634-5038. Our archived articles can also be viewed at [www.philequity.net](http://www.philequity.net).*