Philequity Corner (February 25, 2013)
By Valentino Sy

How to join the bull party

We just had the joint investor forum for Philequity and Wealth Securities last Tuesday, February 19, 2013, at the PSE Auditorium in Tektite. It was a standing room only event as about 500 clients and prospective investors filled the auditorium to the brink. This shows the increasing interest of people in investing in our stock market. This is also seen in the record subscriptions that we experience in the Philequity Fund, driving its assets under management to exceed the P9.0B mark. In this article, we shall discuss the pertinent topics and questions from our recently held investor forum.

What is our target for the PSE Index and what is our basis?

We periodically forecast our yearend target for the PSE Index. We use the individual target prices that we set for each of the index constituents and derive the resulting value for the index. At the forum we presented that our base case target for yearend 2013 is 7,257. We also came up with a bull case target of 7,517. Our bull case target is in-line with the immediate target of our technical analyst, which is 7,500. Moreover, our technical analyst has a long-term target of 10,000 for the PSE Index.

Will there be a correction soon?

Since our stock market has performed so well and is up almost 15% in less than 2 months, many clients and readers have been asking if our market will correct soon. In fact, this was the prevalent question in last week's forum. We have repeatedly said that corrections are extremely hard to predict because there are many factors that affect it. We also believe that even the most intelligent investor on earth will not be able to exactly predict when, how deep and how long corrections will be.

So far, we only had relatively short and shallow corrections. Some of these only happened intraday while others only lasted 1-2 days. Our market seemed poised to correct last Thursday and Friday but still closed strongly on both days. Last Thursday, our market was down 31 points intraday but closed 19 points up. Similarly, last Friday, our market was sharply down by 102 points intraday, but ended the day relatively flat. These moves just show that corrections are extremely hard to time and predict.

What might trigger a deeper correction?

Although our market has not corrected yet, what we have observed is that volatility among global and even local stocks has recently increased. There are various risks globally and any of these may trigger a correction in global stocks, which in turn might precipitate a correction in our stock market. In the US, politicians are debating on how to solve their fiscal problems. If they do not beat the March 1, 2013 deadline, there will be sequestration, which refers to automatic cuts on federal spending. Investors fear that this sequestration might dampen US economic growth. In Europe, investors are concerned about the conclusion of the Italian elections and the political turmoil in Spain. In China, the concerns revolve around the possible monetary tightening efforts of the Chinese central bank and the moves to further regulate its property sector.

US, Europe and China were down steeply last week. How come the Philippines did not correct as much?

The risks that we mentioned may significantly affect the fiscal and economic conditions of US, Europe and China. This goes to show that there is much to be done in those countries in order to ensure clearer and stronger economic growth. However, as we discussed in the investor forum, the Philippines has been less affected by these risks because our growth has been anchored on robust domestic consumption and is therefore stronger and more stable.

How come the Philippines keeps going up even if our stock market is trading at high multiples?

Over the past years, some foreign houses have called an underweight on Philippines. They have repeatedly cited that the Price-to-Earnings (PE) Ratio of our stock market is high compared to regional multiples. Moreover, they have said that the multiples of Philippine stocks are already at historical highs. However, they have been proven wrong time and time again as they failed to study the growth profile of our country and the companies in it.

In our investor forum, we pointed out that there are countries such as Korea, Taiwan and China with lower multiples compared to the Philippines. However, their growth may be questionable as it depends more on exports and on the global economy. Their growth may therefore come and go and has significant risks. This is why they remain cheap.

In contrast, the growth of our country is driven by strong domestic consumption. It is less dependent on the state of the global economy and therefore has less risks. Considering the clarity and certainty of our corporate earnings and economic growth, the Philippines would actually appear as a more compelling investment compared to other countries, notwithstanding our high multiples. The continued strong performance of the Philippine stock market has proven that investors prefer countries that deliver high quality earnings growth over those that have low PE multiples but questionable growth.

What are our favored sectors?

Since we really like the Philippine growth story, we prefer sectors that will benefit from our country's robust domestic consumption. This is why we favor retail and consumer companies. Notice that over the past few weeks, these are the stocks that performed particularly well. Aside from these, we also see the property and banking sectors as beneficiaries of our country's growth. For more details on individual stocks, you may contact your investment adviser from Wealth Securities.

How do we join this bull party?

Most of our readers and clients are asking how to trade this market. Some of them are concerned that our market has kept going higher and higher without a significant correction. Since corrections are extremely hard to time, we advocate buying in tranches. Investors may use peso cost averaging, which is an investing technique that entails buying a fixed peso amount of investments on a regular schedule. This can mean buying once a week, once every two weeks or once a month. Doing this would eliminate the timing problem and would focus the attention of investors on slowly increasing their exposure in the stock market. If investors would still not be comfortable doing this, it might be best to invest with a fund, such as the Philequity Fund, that is run by professional fund managers.

Asset allocation is another important thing that investors have to decide on. How much to invest on the stock market would depend on one's risk appetite. If he is more aggressive and is confident about how he manages his portfolio, then he can put more of his assets into equities. If he is more conservative, then he should have a more balanced portfolio that is allocated into bonds and equities.

Why should we invest in local stocks?

Whether one is an aggressive or conservative investor, we are sure of one thing: everyone should have a certain portion of their assets in local stocks. We have often talked about the monetary easing that global central bankers have embarked on (*The Great Global Monetary Easing*, October 22, 2012). Their moves have significantly lowered interest rates and penalize those holding significant portions of bonds and cash. Their efforts have consequently made stocks cheaper relative to bonds.

Aside from this, we prefer investing in the local stock market rather than investing abroad. We have written repeatedly in the past that instead of looking to invest elsewhere in the world, Filipinos should seize the great opportunities that are abound right here in our own backyard (*Staying the Course*, January 2, 2012 and *5000*, March 5, 2012).

We are bullish on Philippine stocks because of the unique structural growth story that is presently unfolding. The seeds of this growth story were planted over a span of two decades while the fruits have only recently blossomed. As we discussed in a previous article and in our investor forum, we believe that we are in a bull market that will last for many years to come (*Secular Bull Market*, January 28, 2013). We will therefore remain bullish on the Philippines for as long as fundamentals remain intact. And since we are in the midst of a magnificent bull market, we have repeatedly asked everyone to invest in Philippine stocks. Our message in the forum was this: don't just be a witness; be a part of this great Philippine bull market.

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