Philequity Corner (March 18, 2013)
By Valentino Sy

10 Keywords

From its end-2012 level of 5,812.73, the Philippine Stock Exchange index (PSEi) is now at 6,654.60. As this 14.5% rally unfolded, we wrote articles reiterating our belief that this market is poised to move higher, notwithstanding corrections that can happen anytime. Week after week, even after hitting 6,000 points, we wrote that this run-up will continue (see *Global Bull Market, 6000, The Run-up, Secular Bull Market* and *The Impressive Run-up Continues*, 2013 January 7 – February 4).

Since 2008, we have been advocating that investors buy equities. Despite all the articles we have written and all the presentations we have shown since then, majority of investors are still in the sidelines or are underweight stocks. We believe that the fear to tread into equities is coming from their lack of understanding of what makes this market tick. Thus, many are still not invested or underinvested. We feel that it is our duty to make investors understand what happened in the past that paved the way for this bull market so that they will be convinced to have equities in their asset allocation.

Understanding the Bull Market and How to Profit From It

We wanted to address these concerns in a very succinct manner. So, during our joint Philequity and Wealth Securities briefing last February 19, we started our presentation with 10 keywords. With just these 10 keywords, one will be able to understand this bull market and how to profit from it. For the benefit of our readers, especially those who were not able to attend the briefing, we will enumerate and discuss each keyword below:

1. **US Subprime Mortgage Crisis**
    - A sharp rise in subprime mortgage delinquencies and foreclosures precipitated the worst crisis to hit the US since the Great Depression. Also called the Great Recession, this financial crisis brought down revered financial institutions like Lehman Brothers and Bear Stearns. During this crisis, stocks markets all over the world, the PSEi included, lost more than half their total market capitalization. (see *Bear Watching*, 21 July 2008 and *Nowhere to Hide*, 13 October 2008)
2. **European Sovereign Debt Crisis**
    - This is Europe's greatest crisis which almost caused the disintegration of the Eurozone. In 2010, investors started becoming wary of rising government debt levels in a number of European states. This was followed by a cascade of credit rating downgrades, which further exacerbated the problem by causing the country's borrowing costs to rise. It is important to note that whenever a country's 10–year bond yields stayed at 7% for a sustainable period of time, it always had to seek a bailout. Stock markets of these countries were likewise battered, with Greece's Athens Composite falling more than 80% from peak to trough. (see *PIGS GET SLAUGHTERED*, 8 February 2010, *The "IPIS" Theory*, 22 February 2010 and *A Greek Tragedy*, 12 September 2011)
3. **Opportunity of a Generation**
    - The magnitude of the price drop during times of crisis is what opens the doors to stocks whose business models were intact. It is these ridiculous declines that allow investors to purchase great companies at dirt cheap prices. Asia is no stranger to these types of crises, since we experienced our own financial crisis in 1997-1998. Even excluding currency

depreciation, the stock markets of the Philippines and its neighbors lost more than 2/3 of their value. Bottoming at 1,075 points, the PSEi is now up more than 6 times since then. It is the steepness of the drop and the sheer magnitude of the recovery that follows that has led us to conclude that this recent crisis and the bear market that followed have created an opportunity of a generation for equity investors. (see *Opportunity of a Generation*, 3 November 2008)

4. **QE (1, 2, 3 to Infinity)**
   - To get the US out of its recession and avoid a deflation or another Great Depression, Federal Reserve Chairman Ben Bernanke launched an unconventional monetary policy called quantitative easing, or QE for short. Through this program, the Fed buys financials assets, like mortgages and loans, in order to inject money into the economy. Every time the US stock market corrects, Bernanke comes up with a new series of QE. With the latest incarnation lasting until 2015, the program has now been dubbed QE Infinity. (see *The Rescue*, 22 September 2008 and *The Twist*, 26 September 2011)
5. **Great Global Monetary Easing**
   - With Bernanke leading the way, central banks around the world embarked on their own stimulus and monetary easing programs. The fear of a relapse or a double-dip recession created the greatest money supply push in history, creating a bull market in bonds in the initial stage and for stocks in the subsequent stage. Bernanke and the central banks believe that bringing interest rates to their historic lows will cause investors to shun cash and buy assets, including stocks. (see *The Great Global Monetary Easing*, 22 October 2012)
6. **Whatever It Takes**
   - Over time, the European sovereign debt crisis spread across the entire Eurozone, threatening the very existence of not only the unified currency, but the European Union as well. With Italian and Spanish bond yields at 7%, European Central Bank President Mario Draghi had to do something. So, on July 26, 2012, he said that "the ECB is ready to do *whatever it takes* to save the Euro. And believe me, it will be enough." He pledged to buy unlimited amounts of bonds issued by distressed EU nations through his Outright Monetary Transactions (OMT) program – the EU's version of QE. With European stock markets rising to multi-year highs, it was clear that, indeed, it was enough. (see *Whatever It Takes*, 27 August 2012)
7. **Dissipating Global Macroeconomic Headwinds**
   - As a result of global monetary easing, as well as reform-oriented government policies, the global macroeconomic headwinds we were facing the past few years have been dissipating. Although not all the problems have been solved, what is clear is that they are not as severe as they were before. Although some risks remain, such as China's property bubble, the US sequestration, and Italy's hung parliament to name a few, the global economy is on the right track to recovery. Recent data has also been positive. US unemployment is now at 7.7%, the lowest since December 2008. Japan also seems to be getting out of recession. The nomination of Haruhiko Kuroda as the new Bank of Japan President has also been welcomed by investors.
8. **Global Bull Market**
   - The consequence of all the keywords we discussed earlier is the global bull market we are in now. The strength of stock markets around the world last year has carried over to 2013, with many markets now at multi-year of even all-time highs. The Philippines, Indonesia, Thailand, Malaysia and even the Dow Jones are now trading at all-time highs. The DAX of Germany, FTSE MIB of Italy and the FTSE of UK are all past their respective 5-year highs and

are within 5% of their all-time highs. Even the Nikkei of Japan seems to have bottomed and is now trading at a 4-year high. (see *Global Bull Market*, 7 January 2013)

9. Positive Contagion

- Again, Draghi deserves to be quoted. He said that:
  "We spoke a lot about contagion when things go poorly, but I believe there is a *positive contagion* when things go well. And I think that's also what is in play now." Whenever a stock market goes to the new high, equity indices around the world rise as well. When the Nikkei rose more than 30% in a few months, it carried the rest of the world with it. Just as the Dow Jones hit a new high, so did a lot of markets. The same can be said about European stock markets. Thus, the Philippines is no longer an outlier, but a participant in this positive contagion sweeping the globe.

10. Great Rotation

- The next big catalyst is "The Great Rotation." As more and more investors become convinced that we are in a secular bull market, we expect money to move from the sidelines into stocks. This is already happening in the US and is just starting in the Philippines. With the SDA rate being slashed by the BSP and the benchmark interest rate at all-time lows, we see the risk-off money in fixed income assets moving into the riskier equity assets. The sheer weight of money looking for a place to go is contributing greatly to the bull market we are in now.

Understanding and Conviction

It is important that investors understand why the stock market is moving the way it is now. With just these 10 keywords, we were able to summarize what happened in the past and explain how this bull market came to be. We hope that this article not only enlightens our readers, but gives everyone the conviction to buy stocks. We want to emphasize that one's asset allocation should include equities. We hope that our readers understand what happened in the past 5 years, the reasons behind the crisis, what the central banks are doing to prevent the crisis from spreading, and the result of the actions taken by the monetary authorities.

After the dramatic rise of the PSEi, the market finally started correcting last week. A correction is indeed warranted after such a steep run-up. Such corrections are healthier for the market since it gives it time to digest the gains. However, this does not negate the secular bull market we are witnessing. We hope that by understanding this bull market through our 10 keywords, one develops the rationale and the conviction to invest in equities. Instead of being a bystander in this opportunity of a generation, we strongly encourage you to take part in it and profit from this global bull market.

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.