

**Philequity Corner (December 8, 2014)**  
**By Valentino Sy**

### **The Fear Before the Storm**

Last week, the stock market experienced a 2-day, 2% drop as investors sold in fear of the aptly named typhoon called Hagupit. The fact that this sharp sell-down occurred even before the typhoon entered the Philippine area of responsibility just shows how fearful investors are of the coming super typhoon.

#### **Fear of the unknown**

As forecasts from the various weather bureaus came in, there were varying estimates of its strength, with some saying it is close to Yolanda's power. Fears were exacerbated by news that Hagupit may hit Metro Manila. Although no one really knew exactly how damaging this storm would be, the fear of the unknown brought down our stock market even before Hagupit could do any damage to the countryside.

#### **Foreign hedge funds sell in anticipation of a super typhoon**

When Yolanda struck last year, it was not only the countryside that was ravaged but the stock market as well, causing the index to drop as much as 13% over a month. With memories of how the stock market crumbled due to the onslaught of Yolanda fresh in their mind, investors were expecting the worst. Last Thursday, when all Asian markets were up, the Philippines was the only one in the red. Foreign hedge funds with no love lost for the Philippines sold and shorted our stock market as they anticipated a sharp drop in stock prices, similar to what happened post-Yolanda. In just 2 days, foreign funds net sold nearly PHP 3 billion worth of equities (excluding Petron block sales).

#### **Local fund managers exercise caution and prudence**

Local fund managers and long term investors remained on the sidelines, choosing to exercise caution and prudence as they wait for the aftermath of the storm before buying heavily. With fear pervading the markets, the PSEi shed as much as 182 points in 2 days even before the typhoon struck.

#### **A stark contrast**

It is important to highlight the stark contrast between the stock market's reaction to Yolanda last year and its reaction to Hagupit this year. Last year, investors underestimated the impact of Yolanda. In fact, the PSEi remained steady even after Yolanda struck. It was only when economic damage and actual casualty figures came trickling in that the stock market began to fall. Thus, as these numbers started adding up to the billions of dollars and thousands of dead, the market kept dropping as foreign and local funds alike sold their positions. Compare this to the sharp correction of the PSEi last week even before Hagupit entered the Philippine area of responsibility.

#### **Nothing to fear but fear itself**

Fortunately for our countrymen, as the storm moved closer to the Philippines, it lost a significant amount of strength. As of this writing, Hagupit has been downgraded to a Category 3 storm from Category 5 and is packing maximum winds of just 175kph from 250 kph. Thus, the much-feared Hagupit lost its super typhoon status. Similar to the Ebola scare that happened in the 1<sup>st</sup> half of October, it seems

that fear has caused more damage to stock prices than the actual event itself (see *Epidemic of Fear*, 20 October 2014). Although Hagupit will still bring torrential rains to parts of the Philippines, the damage it will deal is a far cry from the havoc wreaked by Yolanda. However, the drop in the stock market last week clearly shows that some fund managers will sell first and ask questions later. It is precisely this fear of possible widespread damage that has caused premature corrections in the stock market, regardless of whether it materializes or not.

### **Largest peacetime evacuation in Philippine history**

With forecasts from weather bureaus all over the world including PAGASA, government agencies were able to act quickly. As of this writing, about 700,000 people had been evacuated from their homes, with the UN citing this as the largest peacetime evacuation in Philippine history. Adequate supplies of basic necessities were also shipped ahead of time to evacuation centers in critical areas. Police, military and medical personnel have also been deployed even before the typhoon strikes in order to maintain peace and order, as well as coordinate the mass evacuations. With the Yolanda experience in mind, our government is clearly doing the best it can to minimize the damage and casualties from this storm. We commend our government for its thorough preparation and decisive action against Hagupit.

### **Prepare for the worst and hope for the best**

These repeated warnings and comparisons to Yolanda struck fear in the hearts of our countrymen, especially those who live in areas ravaged by Yolanda last year. In critical areas like Leyte, Samar and Masbate, grocery shelves were emptied and gasoline stations were pumped dry as panic buying set in last week. Everyone in the path of the storm, especially those who suffered from Yolanda, were preparing for the worst.

Sometimes though, fear can be useful if it leads to adequate preparation. Last year, barely anyone even knew what a storm surge was. Thus, President Aquino made sure that everyone used the lessons from Yolanda to improve their response, saying he “will be unforgiving of failure” this time around. True enough, government agencies were very proactive in preventing widespread casualties. With all the preventive measures in place, everyone is hoping for the best and praying that Hagupit does not live up to its name.

### **You are not alone**

For our countrymen who are facing the brunt of Hagupit, the proactive moves of the government are reassuring and sends the message that you are not alone. The entire country is watching the storm and monitoring the situation in the various provinces. To end this article and express our sympathy, we leave you with the song “You’ll Never Walk Alone” from the Rodgers and Hammerstein musical “The Carousel”:

### **You’ll Never Walk Alone**

When you walk through a storm  
Hold your head up high  
And don't be afraid of the dark  
At the end of a storm is a golden sky  
And the sweet silver song of a lark

Walk on through the wind  
Walk on through the rain  
Though your dreams be tossed and blown  
Walk on, walk on with a hope in your heart  
And you'll never walk alone  
You'll never, ever walk alone

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