

Philequity Corner (November 03, 2008)

By: Valentino Sy

Opportunity of a Generation

“When written in Chinese, the word crisis is composed of two characters: one represents danger (wēi) and the other represents opportunity (jī).” – John F. Kennedy, 12 April 1959.

The world is in a crisis, one that even famous financial icons like Alan Greenspan and Warren Buffett have never experienced before. Across all investment channels, bubbles have busted (see Philequity Corner last week titled *Bubbles Bursting*), and economies worldwide are headed for a downward spiral.

Blood, Sweat, and Tears

With all asset classes dropping like a rock, it looks like there's blood in the street. In watching markets plummet, investors holding on to their investments are having cold sweat. And as markets continue to slide, their eyes go teary as losses accumulate. In this type of environment, there's nowhere to hide. (See Philequity Corner article *Nowhere to Hide* on 13 October 2008 issue of Philippine Star.) While others are in state of shock, we see this backdrop as an opportunity of a generation.

Terrifying October

Just like watching a horror movie on a Halloween night, October was full of carnage. Last month was the worst October on record for the following issues:

- The DJIA had the biggest one-month decline in history. At its intra-day low of 7,882, the Dow was down 27%.
- MSCI World Index suffered its biggest monthly drop, falling by more than 20%.
- Crude oil plunged by 33%, its largest one-month decrease.
- S&P endured its biggest decline since 1987.
- Gold, copper and other commodities suffered their biggest one-month declines.
- The Fear Index or VIX Index hit its historic high this October.
- All asset classes, all world markets were crashing.
- Financial system would have collapsed if not for government intervention.

Indeed, we had a scary October. It has now been coined as the Black October. After the excruciating pain from witnessing the market collapse, this is the one month stockbrokers and portfolio managers are so relieved the day has ended and the weekend has arrived. In spite of the rally towards the month's end, traders, fund managers, and investors around the world are thankful that October has ended and November is here. Thank God October 2008 is over.

No Decoupling for Asia

As the threat of a contagion spread elsewhere, Asian markets were not spared. South Korea was the initial casualty, as their banks faced financial troubles. While other countries have minimal exposure to structured products relating to U.S. mortgages, the view of the global impact of a U.S. slowdown led to the collapse of Asian stock markets as a whole. Major indices like China, India, Hong Kong, and Singapore have fallen by more than 40 percent over the past three months.

Bear Market Rally or Stock Market Bottom?

Asian markets have started to rebound, suggesting that selling pressures may have been overblown and value stocks among more resilient economies have emerged. From October lows, most major Asian market

indices have rallied, with the PSEi rising modestly. Nevertheless, no one can say for sure that markets have bottomed. With the U.S. economy clearly not out of the woods, markets can always test new lows.

Peak-to-Trough Performance of Major Asian Indices, including the PSEi

	3Q08 Highest Close	October Low	% Decline	Latest Close	% Recovery
China (Shanghai B)	221.00	86.70	-60.8%	89.15	+2.8%
India (BSI)	15,579.79	8,509.56	-45.4%	9,044.51	+6.3%
Singapore (STI)	2,978.98	1,666.49	-44.1%	1,801.91	+8.1%
Hong Kong (STI)	23,134.55	11,015.84	-52.4%	14,329.85	+30.1%
Philippines (PSEi)	2,768.52	1,704.41	-38.4%	1,951.09	+14.5%

Source: Technistock

Acting in Unison

With the world as one big economy, central banks around the world are collaborating and are acting in unison to avert the further spread of the crisis. At the moment, there is a concerted effort to revive a languishing credit market, and bringing down interest rates to unprecedented levels should help attain that goal. U.S. is spearheading the move with the Federal Reserve cutting interest rates to 1 percent. The Bank of Japan followed suit. The European Central Bank is likewise expected to move in tandem when its members meet on 6 November. Last week, the Fed provided US\$120 billion in liquidity to central banks of Singapore, South Korea, Brazil, and Mexico to stop the “US Dollar squeeze”.

Our Bet: Governments Prevail

At times like these, government interventions – whether in the form of financial aid to remedy a weak banking system or additional spending to pump prime a lethargic economy – tend to work favorably. In most asset classes, we believe that government actions will prevail over massive deleveraging of hedge funds and fund managers. While a recession cannot be avoided, these government efforts will help turn economies around. If we have to put a bet, we believe the risk-reward ratio favors betting on the side of governments and going long on markets.

Biggest 1-day drop for PSEi

Our country is, of course, not immune to the global crisis. The PSEi has fallen in sympathy with other markets. Over the 3-month period, the index shed some 31.3 percent in value, breaching the 2,000 psychological support level. And last Monday, we witnessed the PSEi’s biggest drop in a single day, 12.27%, which triggered the mandatory trading halt.

While there is no assurance that the market has bottomed, we believe that the market is fairly cheap. Dividend yields, as a result, have risen to very attractive levels. Listed below are some of the stable companies with well-known brands offering above-market dividend yields.

Dividend Yields of Select Companies

	Price	Dividend	Yield
GLO	905.00	125.00	13.8%
PLDT	1,995.00	240.60	12.1%
PLTL	6.00	0.72	12.0%
URC	5.20	0.50	8.9%

Source: Technistock, Phil Stock Exchange website

We believe that owning stocks would provide the best returns for investors. The adage *Buy low, Sell high* may not be enough at times of market turmoil. We suggest buying stocks at low levels, sitting it out over

time as you receive cash dividends from companies with solid financial health, and sell during the bull market. Yes, the bull will return in due time.

Opportunity in Crisis

Whether in stocks, currencies, commodities, or even bonds, investors worldwide have incurred massive losses. Rather than feel despondent, investors should look at this as an opportune time. In viewing a crisis as an opportunity, one should always look at the long-term horizon. In this manner, one does not easily get swayed by negative issues as market recovery is often filled with bumps along the way. An investor with a short investment span tends to get shaken out during volatile times.

Also, always buy stocks in cash during bear markets. Never leverage. Although volatilities present opportunities, investors using leverage to buy stocks are prone to greater loss. Best of all, every investor needs to have patience, a lot of it. In stock market investing, patience is really a virtue.

At Philequity, we always remind all our investors about the value of long-term investing. In this way, our clients share our long-term view of the market.

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