

Philequity Corner (January 19, 2015)
By Valentino Sy

Year of the Sheep – High and Consistent Returns

Last week, we bade goodbye to the Year of the Horse and ushered in the Year of the Sheep. Based on the Chinese zodiac, the Year of the Wooden Sheep started February 19 and will end on February 6, 2016. Just as we have written about the different animal signs in the past, we will be describing the characteristics of this particular Chinese New Year.

Bold and wild

The 2014 Year of the Horse proved to be a very volatile one for the stock market. The Horse is known for being a bold and free spirit that is also wild and unpredictable. Thus, for the superstitious, it was no surprise that the stock market acted similar to a horse last year. Although it galloped higher, it was also fraught with volatility. October and December saw very large and swift drops for the PSEi, which were matched by equally strong and sharp rallies. But if an investor girded his loins and rode out the volatility in the Year of the Horse instead of running in fear, he would have gained 22.8% by staying invested in the index (versus 28.7% and 30.5% if he was invested instead in the Philequity Fund and Philequity Dividend Yield Fund, respectively).

Meek and mild

However, the nature of a horse is a far cry from that of a sheep. Known for being meek and mild, sheep would peacefully graze and calmly trod more often than running wildly. Those who follow the Chinese zodiac believe that people born in the Year of the Sheep also share this animal's nature. Unlike those born in the year of the Horse, those born on Sheep years grow up to be gentle and calm. Unlike the gregarious Horse, Sheep are also mild-mannered and shy.

Sheep is considered plain and unremarkable

Chinese zodiac followers believe that people born in auspicious years, such as that of the Dragon, will have many fortunes and blessings in their lives. This is the reason that the number of childbirths for Chinese parents rises significantly during Dragon years. Thus, the less auspicious years, such as that of the Sheep, are avoided by parents. They say people born in a Sheep year are common, plain and unremarkable. Hence, many mothers time their pregnancy such that they give birth on an auspicious year. In fact, many couples in China were rushing to give birth before February 19, even if it means having a caesarean section, just so their baby will be born in the Year of the Horse instead.

Outstanding and Successful Sheep People

Contrary to the notion that people born in the Year of the Sheep are unremarkable, there are actually many outstanding and successful people born in the Year of the Sheep, such as Bill Gates of Microsoft, Steve Jobs and Tim Cook of Apple, actors Mel Gibson and Bruce Willis, as well as China's current premier, Li Keqiang.

Stock prices rose strongly in Sheep years

This superstition also extends to the stock market, with Chinese zodiac followers making predictions about how the stock market will behave based on animal signs. However, at Philequity, we prefer to study the numbers to come up with our own statistics. See below a table showing the return of the PSEi in each Chinese zodiac year since 1987 until the present. Note that prior to the EDSA revolution, there was minimal trading in the Philippine stock markets. We therefore started with 1987, a Rabbit Year, because the statistics would be more relevant.

PSEi annual returns based on the Chinese calendar (1987-2014)

Chinese Zodiac	1st cycle	2nd cycle	3rd cycle	Average return
Rabbit	63%	5%	22%	30%
Dragon	-1%	-17%	36%	6%
Snake	29%	-18%	-6%	2%
Horse	-17%	-23%	29%	-4%
SHEEP	47%	48%	in progress	47%
Monkey	6%	30%	n/a	18%
Rooster	121%	5%	n/a	63%
Dog	-19%	57%	n/a	19%
Pig	21%	-3%	n/a	9%
Rat	15%	-42%	n/a	-14%
Ox	-49%	59%	n/a	5%
Tiger	10%	32%	n/a	21%

Source: Wealth Securities research, Bloomberg data

47% average return for Sheep years

What is notable in the table above is that the Year of the Sheep had proven to be the most consistent and 2nd most profitable year for stocks. For instance, in the Sheep Year of 1991, the PSEi rose 47%. In the following Sheep year, 2003, the PSEi had a return of 48%.

On the other hand, the Rooster years gave an average return of 63%. However, the Rooster's return has been less consistent, with the Rooster year of 1993 having a return of 121% but a return of only 5% in the Rooster year of 2005. Again, contrary to Chinese beliefs, our statistics show that the stock market in the Year of the Sheep has been very rewarding.

Starting the year on the right hoof... or foot

We also started the first trading day of the Year of the Sheep on the right foot. The PSEi, Dow Jones index and S&P 500 all had an auspicious first Sheep day, with all 3 indices closing at all-time highs last Friday. So far, the 2015 Year of the Sheep has proven to be far from plain and unremarkable.

Research is paramount

We are the one of the first, if not the first, to study the returns of the Philippine stock market during Chinese calendar years. To do this, our research team collated data from 1986 to 2015, a 30-year

timeframe. Since the animal signs occur over 12-year cycles, we have 2 or 3 examples per animal sign. What is noteworthy here is that the common belief that stocks perform better during auspicious animal signs is not true. In fact, our studies show that the unremarkable Sheep Year has actually turned in the best and most consistent performance.

While it is good to note that the Philippine stock market has performed remarkably well during Sheep years, there is another phenomenon that we studied and which we believe is far more important. We discovered that the Halloween to Valentine's seasonal pattern not only has more data points, but also has a batting average of 77% and an 11% average return (see *From Halloween to Valentine's*, 27 October 2014). Moreover, we only have 2 instances of Sheep years so far, versus 20 out of 26 Halloween to Valentine's periods with positive return.

All these are data that our research team has painstakingly studied. While it is good to know the facts, at the end of the day, studying a company's business model and fundamentals is still crucial to picking stocks. So, instead of looking to the moon and the stars for a sign, remember that research is still paramount.

Philequity Annual Investors' Briefing

We invite all our clients to our annual investors' briefing on Saturday, March 14, at the Meralco Theater. The briefing starts at 9AM, with doors opening at 8AM. Whether you believe in feng shui or not, if you are a Philequity client, please feel free to come.

Happy Year of the Sheep!

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