

Philequity Corner (March 2, 2015)
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1,000 points in 40 days

“What we are currently witnessing is a bull market in Philippine stocks.” – (Stock Market Outlook for 2015, Philequity Corner, February 9, 2015)

In just 40 trading days, the PSE index rallied nearly 1,000 points. From a low of 6,882 in mid-December, the index surged 14.2 percent to an all-time high of 7,862 last Wednesday - just a tad short of our interim target of 7,900 for the PSE index

Given the steep market run-up in such a short time, many of our readers are asking what will happen to the market next? How did we come up with a PSE index target of 7,900 in the first place? Will the index reverse, correct, or continue upwards after hitting this level?

Using of technical analysis as a tool

While fundamental analysis (financial statement analysis, valuation, etc.) is the core of our investment decision making, we at Philequity use technical analysis to gauge market direction by identifying trends and patterns in charts. Technical analysis also serves as a guide post to time our buying and selling decisions.

We also use technical analysis to “project” potential targets based on confirmed pattern breakouts. Thus, we came up with an interim target of 7,900 for the PSE index which is based on a “measured move” following the index breakout to new all-time highs above 7,400.

What is a measured move?

A measured move is a basic concept in classical technical analysis. In essence, a measured move is a projection or forecast of the upcoming price move after a chart event, e.g. a completion of a pattern.

In the case of the PSE index, a “rectangle” pattern was formed when it traded in a 500-point range between 6,900 and 7,400 from September 2014 to December 2014. The break above 7,400 or top part of the rectangle last January projected a 500-point rise to 7,900 as the target of the subsequent rise (see chart below).

PSE Index (March 2013 to present)



Source: Bigcharts.com, Wealth Securities Research

Interim target of 7,900 met

Last week, this interim target of 7,900 may have been met when the PSE index reached 7,862 or just 0.5 percent short of our “measured move” price target. The market now appears to be taking a breather, pulling back 1.2 percent week-on-week.

Note that this is only the PSE index’s first weekly loss after a blistering pace of nine consecutive weekly gains.

Corrections are hard to predict

Time and again, we have said that corrections come in many forms and are difficult to predict. A pullback or correction may be deep like those in the 2nd half of 2013, or shallow like in the 1st half of 2014. Corrections can also be sideways or range bound like that from September to December 2014. It can also be in the form of rotation or shifting from one sector to another.

Trying to predict the magnitude and the duration of corrections, therefore, is not only difficult but futile.

A restive and healthy pause

Healthy trending markets have multiple pullbacks or corrections within a longer term uptrend. Just like in a marathon where runners need a second wind, a bull market also needs restive and healthy pauses (whatever form or shape), especially after an extended and exhaustive run which took the market 1,000 points up in 40 days.

The long-term trajectory is higher

While we don’t know how the next correction will look like, what is important is that the long-term trend of the Philippine stock market continues to be bullish. And although the market now

appears to be pausing or consolidating after nearing our “measured move” target of 7,900, it does not mean that the move ends here.

The next technical move will depend on what kind of consolidation pattern comes about. It is really the fundamentals that will carry the market to the next level. However, what is important to note is that the long-term trajectory is higher.

PSE Index (2001 to present)



Source: Bigcharts.com, Wealth Securities Research

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