Philequity Corner (March 9, 2015)
By Valentino Sy

Happy 6th Birthday, Bull Market!

Exactly six years ago, amid the throes of the worst financial crisis since the Great Depression, the best bull market in a generation was born. On March 9, 2009, the benchmark S&P 500 index registered a bear market closing low of 676, signaling the start of the global bull market. The momentous intraday bottom low of 666 was secured the prior trading day on March 6, 2009.

As we celebrate the bull market's 6th birthday, we at Philequity are happy and thankful that we have delivered excellent returns to our shareholders. Each year our investment strategy has been guided by themes and these can be seen from the articles we have been writing.

2008 – Opportunity of a Generation

During that time, investors were baffled, tired and discouraged and many wanted to give up altogether on the market. But we at Philequity urged our readers and shareholders to remain vigilant and watchful because opportunities are huge (see *Bear Watching,* July 20, 2008).

In fact, we wrote a number of articles chronicling the impending turn of the market from bear to bull. For us at Philequity, it is important for investors to spot the birth of the biggest and historic bull market. Those with cash, courage and patience will be able to take advantage of this opportunity of a generation.

With fear and panic gripping the markets, those holding cash will be able to cherry-pick the bargains. In contrast, those without cash will have to sit on the sidelines and watch this once-in –a-lifetime opportunity go by… This brings to mind what Warren Buffet said: Cash combined with courage in a crisis is priceless." (see *Cash and Courage*, October 20, 2008)

2009 – Market Bottoms

In late 2008, we saw that governments around the world have gotten their act together, and in a concerted effort, addressed the global financial crisis with coordinated rate cuts, massive liquidity infusion, and economic stimulus packages.

"If we have to put a bet, we believe the risk-reward ratio favours betting on the side of the government and going long the markets." (*Opportunity of a Generation*, November 3, 2008)

Global markets reached the ultimate bottom on March 6, 2009. After doing our research and writing many articles about the "opportunity of a generation" that was possibly right in front of us, we were elated that we were able to advise our readers and investors of this wonderful opportunity.

"We believe that 2009 will be a year of opportunity for investors willing to stay in the game… This is the time to rummage through the rubble." (see *2009: A Year of Opportunity*, January 12, 2009)

"It is not surprising that only a few would dare to call a bottom this time around because the bulls have already given up and most of the bears have turned early bulls and were wrong… Nevertheless, we think that the odds have dramatically improved that an important bottom is at hand." (see *666*, March 23, 2009)

2010 – The Noynoy Upgrade

In 2010, global financial markets faced another crisis which was the European sovereign debt crisis (see *PIGS Get Slaughtered,* February 8, 2010 and *The "Ipis" Theory,* February 22, 2010). Against this background of volatility and fear of contagion, however, we remained positive and even upgraded our PSE index forecast after the overwhelming victory of PNoy in the 2010 elections (see *The Noynoy Upgrade*, May 17, 2010).

"With the right economic policies, right external conditions, and the right leader at the helm, we believe that Philippine stocks will continue to make higher highs. OUR TIME IS NOW." (see *Our Time is Now*, July 26, 2010).

2011 – Paradigm shift, Buy Philippines!

In 2011, external headwinds rocked the Philippine markets. In Europe, the sovereign debt crisis intensified as the crisis spread from Greece to bigger economies such as Italy and Spain (Europe's 3rd and 4th largest economies). Meanwhile in the US, dysfunctional politics was exposed during the "debt ceiling" debacle which led to the S&P's decision to downgrade US debt to AA- from AAA.

In an apparent role reversal, the Philippines and other ASEAN economies became more attractive due to good demographics and better fiscal policies. Hence, we urged investors to continue buying Philippine assets.

"Why should investors look for opportunities elsewhere? The most profitable investments are right here in Asia, specifically, the ASEAN countries, including the Philippines. ASEAN is the way to go with fund flows now moving from developed markets to ASEAN." (see *Role Reversal*, July 25, 2011)

"There is now a paradigm shift where local investors seek safety and security of investments in their own backyard… With all the problems abroad, why should one invest outside the country? Our advice – in times of uncertainty, bring back your euros and US dollars to your home country. Buy Philippine bonds, buy Philippine pesos and buy Philippine stocks. Buy Philippines." (see *Panic in the Streets*, August 8, 2011)

2012 – Stay the Course

In March 2012, the PSE index reached the milestone 5,000 level for the first time. Philequity gave out commemorative t-shirts with "5,000" printed on the front for this momentous achievement. And on the back was a message saying "Stay the Course."

"Despite external risks, we maintain our bullish outlook on the market. We believe in the Philippines. Its strong fundamentals remain intact. Just like our advice that you should buy stocks with good fundamentals and businesses that you believe in, we also urge investors to continue investing in the Philippine market. Stay the course. Stay long and be long Philippine stocks." (see *Staying the Course*, January 2, 2012)

Towards the end of 2012, the external headwinds the previous year significantly diminished after global central banks unleashed a wave of global monetary easing. ECB President Draghi pledged "to do whatever it takes" to save the euro and Fed Chairman Bernanke started QE3. Central banks all over the world have also followed suit, using conventional and unconventional tools to stimulate their respective economies. (see *The Great Global Monetary Easing*, October 22, 2012)

2013 – Secular Bull Market

2013 had a great start with the PSE index reaching the 6,000 level in January 2013 and 7,000 by April 2013. Our theme for the year was the "secular bull market" happening in Philippine stocks. We noted the structural changes transforming our country the past three decades which served as the foundation for the secular bull market that we are experiencing.

"A series of structural changes have caused our growth profile to gradually strengthen and become more structural. This has allowed our economy to perform strongly even when there is weakness globally…

Considering this, we believe that the structural growth story of the Philippines will continue for many years to come." (see *Secular Bull Market*, January 28, 2013)

By the middle of the year, however, there was a "big unwind" after Fed Chairman Bernanke hinted QE tapering. Emerging markets sold off, including the Philippines.

2014 – The Best House in an Improving Neighborhood

While no one was spared from the sharp drops in 2013, we believed that "*the Philippines, given its stronger fundamentals relative to its neighbors, will recover first once the market stabilizes."* (see *Best House in a Bad Neighborhood,* September 2, 2013).

Amidst the turmoil which culminated with the devastating typhoon Yolanda in November 2013, we noted that there were incipient signs of strength in the Philippine markets by early 2014.

"Our structural growth story remained unchanged and by 1st quarter of 2014, the Philippine stock market was once again among the best performers in the world." (see *The Best House in an Improving Neighborhood*, February 24, 2014.

2015 – Philippines, the Biggest Winner

The unexpected drop towards the $40 per barrel level is a bonanza to most economies. And according to UBS and Oxford Institute, among all the countries in the world, the Philippines stands to gain the most as oil prices drop.

"Domestic consumption will be the ultimate beneficiary of lower oil prices as inflation drops and spending power rises… With 75% of our country's GDP coming from domestic consumption, the Philippines is clearly the biggest winner in this low oil price environment." (see *The Game Changer*, January 19, 2015)

As a result, foreign funds have come in droves this year boosting share prices to new highs. Since the start of the year, the Philippine stock market has registered more Php 40 billion worth of net foreign inflows, driving the PSE index up 8.7 percent in the first 9 weeks of 2015.

RIDE THE BULL AND STAY THE COURSE

From the time that the market made a historic bottom on March 6, 2009, the constant theme and strategy that we have presented to our investors and readers is to RIDE THIS BULL MARKET and to STAY THE COURSE. This opportunity of a lifetime which began in 2009 would have been for naught if you have not followed what we have been writing. You may have caught the bottom but if you sold too early, the opportunity cost would have been great.

Since the PSE index bottomed over six years ago (November 2008), the PSE index have already gained 366 percent. Meanwhile, investors who have stayed with us in our flagship Philequity Fund would have already returned 420 percent over the same period.

Philequity Annual Investors' Briefing

We invite all our shareholders and clients to our annual investors' briefing on March 14 (Saturday), at the Meralco Theater. The briefing starts at 9am, with doors opening at 8am. Our strategies of how to ride this bull market will be discussed during the briefing.

Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit www.philequity.net to learn more about Philequity's managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 689-8080 or email ask@philequity.net.