



**Philequity Corner (February 8, 2016)**  
**By Wilson Sy**

### **Monkey Business**

After a very turbulent Year of the Wood Sheep, we finally celebrate Chinese New Year today and usher in the Year of the Fire Monkey. From February 8, 2016 until January 27, 2017, we will be under the sway of this wily and naughty creature.

### **Volatile Sheep**

The Year of the Sheep was expected to be meek and mild, just like its zodiac animal. Unfortunately, this Wood Sheep was anything but mild. In the Year of the Sheep, crude oil prices fell from a high of \$70/barrel to as low as \$27/barrel. Prices of many commodities likewise hit historic lows. Terrorism reared its ugly head as ISIS escalated its attacks, striking deep into the heart of Europe. The financial world was not spared, with many emerging market equity indices entering bear markets as they saw their currencies hit historic lows against the US dollar. China's economy went wobbly as the likelihood of a hard landing increased. This sent the Shanghai Composite into a bear market as the government scrambled to stem capital outflows and calm investors. The sharp renminbi depreciation triggered a global stock market rout. As a result, 2015 became the PSEI's first down year since 2008 as it fell as much as 25% from its all-time high.

### **Hear no evil, see no evil, speak no evil**

Against a backdrop of turbulent geopolitics, weak economic growth and volatile financial assets, many have gone to fortune tellers, hoping that they will hear no evil, see no evil and speak no evil in the Year of the Monkey. Fortunately, feng shui experts are saying that the Monkey will turn out to be better year than the Sheep.

### **Versatile Monkey**

It is said that people born in the Year of the Monkey are intelligent, lively, witty, curious and innovative. They are also resourceful and can find unconventional solutions to problems. They are very versatile and can adapt to different working environments. They can think very quickly and have lots of ideas. Some famous people born in the Year of the Monkey are PNoy's parents, Ninoy and Cory Aquino, banking tycoon George Ty, internet billionaire Larry Ellison, United Nations Secretary General Ban Ki-moon, basketball player Yao Ming, singer Miley Cyrus, and renowned inventor & artist Leonardo da Vinci. As you can see, Monkeys have a broad range of talents.

### **Monkey Directors**

When I looked at the birthdays of Philequity's directors, I realized that 3 of them are Monkeys as well. True enough, our Monkey directors do exhibit the traits of a Monkey. They are charming, gregarious, cunning, clever, playful, fun-loving, wily and mischievous. In fact, one of them has gotten me into a fix many times. However, feng shui experts say that people born in the years of the Dragon and Monkey get along quite well. This may be the reason why we remain good friends all these years. A ladies' man,

this particular director exhibits the friendliness, wittiness and cleverness of the monkey. He is very entertaining and is always fun to be with.

### **Kuroda speaks no evil**

Another famous person who was also born on a Monkey year is Bank of Japan Governor Haruhiko Kuroda. Born on October 25, 1944, this 71-year old has his own bag of tricks. As stock markets around the world were experiencing historic start of the year drops (see *China pummels global markets*, 11 January 2016), it looked like all hope was lost. Then, out of the blue, Kuroda unleashed more stimulus and brought interest rates in Japan into negative territory, saying that he can “expand and further strengthen QQE in many ways.” This surprised everyone as Kuroda had been saying only days before that no stimulus was forthcoming. Thanks to Monkey Kuroda and ECB President Mario Draghi, global stocks bounced from their lows, with the PSEi ending the Year of the Sheep at 6,765, 11% above the low of 6,084, which was hit 2 weeks ago.

### **Tricky Monkey**

Despite the many opportunities in the Year of the Monkey, feng shui experts say that it will be very tricky, with many ups and downs. A year of surprises, they predict that it will be far from smooth. With the Year of the Wood Sheep ending up to be quite horrible, especially the last month of that year, some analysts have turned bearish saying that the worst is yet to come. On the other hand, some believe that stock prices have fallen so much that value has begun to emerge. Everyone from the analysts to the feng shui experts agree though that risks still abound. These different views are likely to lead to more volatility in the year ahead.

### **Statistics see no evil**

Fortunately, past statistics paint a rosier picture. See below a table showing the performance of the PSEi and S&P 500 in previous Monkey years. Due to limited availability of data, we only have 2 Monkey years for the PSEi while we have 7 years for the S&P 500. The Philippine Stock Exchange was established only in 1994.

<b>Chinese Lunar Year</b>	<b>S&amp;P 500</b>	<b>PSEi</b>
1932	-8.7%	n/a
1944	15.2%	n/a
1956	2.9%	n/a
1968	11.5%	n/a
1980	11.4%	n/a
1992	5.4%	6.3%
2004	5.1%	30.1%
<b>Average</b>	<b>6.1%</b>	<b>18.2%</b>

Based on the table above, you will see that in the past 7 Monkey years, the S&P 500 only logged a negative return once, which was in the aftermath of the Great Depression. In those 7 years, the S&P 500

had an average annual return of 6.1%. If statistics are to be believed, it looks like this Monkey year will see no evil.

### **Monkey years were Election years**

As you can see in the table, the PSEi had a positive return in both Monkey Years of 1992 and 2004 which, incidentally, were also election years. With an annual return of 6.3% and 30.1%, respectively, the index's average return was 18.2%. If this trend continues, this Fire Monkey will most likely be kind to Philippine stocks as well.

### **Advice from the Chinese Ambassador**

Last week, the Chinese ambassador, Zhao Jianhua, hosted a dinner and gave this piece of advice – “In the Chinese zodiac, the monkey symbolizes vitality, flexibility and intelligence. If you use your intelligence, and show some flexibility, you will have a vigorous Chinese New Year.”

With numerous global and financial risks, as well as 2016 elections coming up, we can expect the market to be volatile. Applying the advice of the Chinese ambassador to investing, we recommend that stock traders be nimble, flexible, agile, quick and tactical in their trades. . On the other hand, as we have pointed out in our briefing last January 30, the do-nothing investor outperformed most other traders in volatile times. So, if you are a long term investor, the intelligent thing to do would be to do nothing or, better yet, employ a peso cost averaging strategy. For people with a long term time horizon for their investments, remain steadfast and composed. Don't get tricked by the unpredictable, wily and mischievous Monkey.

Happy Chinese New Year!

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