



Philequity Corner (August 1, 2016)
By Wilson Sy

Who's afraid of ghosts?

President Rodrigo Duterte started his term four weeks ago. Despite being known for his tough guy persona, The Punisher is afraid of living in Malacanang because he heard that there are ghosts there. Yet, we cannot blame the President as he is not the only one who is bothered or scared of ghosts. Like him, investors are also wary of ghosts and get spooked by the ghost month, which is a seasonally weak period for stocks.

The Ghost Month

The ghost month is the seventh month of the lunar calendar. The dates vary each year, but this year, the ghost month will start on August 3 and end on August 31. The practice of observing the ghost month originated with the Chinese. According to Chinese folklore, the ghost month is a time when spirits of their dead ancestors and relatives visit the world of the living. As such, they refrain from doing things such as travelling, starting a business or moving to a new home as these may upset the spirits. Investments in new ventures and stocks are also put-off for later dates.

Ghastly Returns

In our book "Opportunity of a Lifetime", we discussed seasonality in the stock market (See Chapter 10 – Investor Education). In page 195 of the book, we showed tables of the performance of the PSE Index for each month of the lunar calendar and the Roman calendar. We show these tables again below, but we updated them with the most recent data (1987 to 2015).

Returns of PSEi during the different months of the lunar calendar

Month	No. of Years	Declines		Ave. Monthly Return
		Number	% of Total	
1	29	14	48%	0.8%
2	29	11	38%	1.2%
3	29	9	31%	2.7%
4	29	10	34%	1.0%
5	29	13	45%	0.4%
6	29	16	55%	0.8%
7	29	16	55%	-2.2%
8	29	14	48%	1.0%
9	29	12	41%	-0.2%
10	29	11	38%	2.6%
11	29	10	34%	2.6%
12	29	12	41%	3.3%

Sources: Bloomberg, Wealth Research

As seen in the table above, stock market performance during the ghost month has been historically weak. Based on data from 1987 to 2015, the PSEi was down 16 out of 29 times (or 55% of the time) during the ghost month, with an average loss of 2.2%. Moreover, out of all the months in the lunar calendar, the ghost month has the highest chance of declining and the lowest average return.

Returns of PSEi during the different months of the Roman calendar

Month	No. of Years	Declines		Ave. Monthly Return
		Number	% of Total	
January	29	10	34%	3.4%
February	29	15	52%	1.3%
March	29	13	45%	0.5%
April	29	10	34%	1.9%
May	29	13	45%	2.1%
June	29	13	45%	1.5%
July	29	11	38%	2.0%
August	29	20	69%	-3.9%
September	29	14	48%	-1.4%
October	29	10	34%	2.4%
November	29	14	48%	0.3%
December	29	9	31%	3.9%

Sources: Bloomberg, Wealth Research

In the table above, we show that the index was down in 20 out of 29 years (69% of the time) for the month of August, with an average loss of 3.9%. Moreover, the PSEi was down in 14 out of 29 times (48% of the time) during the month of September, with an average loss of 1.4%. We also note that August and September are the only down months in the Roman calendar.

Ghosts Scare Bulls

Due to the recent strong performance of global markets and the PSEi, many are wary of a possible correction, especially as ghost month comes. And sometimes, even the staunchest bulls can be spooked by the ghost month. Last week, Tom Lee, one of the most accurate forecasters in Wall Street, made a scary statement. Lee, a prominent market strategist who worked for JP Morgan, has made accurate calls since the start of this bull market. Like Philequity, he has continued to be bullish and has advocated staying the course on stocks (see Chapter 3 of our book – Staying the Course). Lee stated last week that he thinks August is a scary month for the stock market. He warned that the S&P 500 has performed poorly during the month of August since 2009. Below, we show the performance of the S&P 500 for the month of August, from 2010 to 2015.

S&P 500 – Returns for the month of August

Year	Return
2010	-4.7%
2011	-6.7%
2012	1.1%
2013	-2.9%
2014	1.7%
2015	-5.9%
Average	-2.9%

Sources: Bloomberg, Wealth Research

Lee, however, qualified his short-term forecast. He said that he expects the S&P 500 to fall to 2,100 from its current level of 2,168. This would equate to a 3% correction. However, Lee said that this is a dip that investors should buy, as he expects the S&P 500 to reach 2,325 by yearend.

Sell now then buy the dip?

Investors are probably wondering if they should sell in anticipation of a possible short-term correction. If the market indeed falls 2-3% from current levels, active managers and traders may take advantage of a trading window to generate outperformance. However, we note that it is very hard to sell near the top and buy near the bottom. Moreover, it is extremely difficult to accurately predict the magnitude and duration of such a correction. And even if seasonality in the stock market is backed-up by statistics, it is possible that the market may not even experience a near-term correction.

The Friendly Ghost

In our book, we said that investors should take advantage of the seasonally weak performance of the stock market during the ghost month and in the months of August and September by using these periods as buying opportunities. Below is an excerpt from page 196 of the book.

“Rather than being afraid of ghosts, investors should actually take advantage of these months so that when Santa Claus returns, they can sell stocks much higher and take profits. Instead of getting spooked and running away from ghosts during these two months, investors should use these dips as buying windows.”

Seasonality in the stock market should not have a major impact on the investment decisions of long-term investors. Instead, long-term investors may use these dips to gradually increase their equity portfolio. For those who missed the bull party or are still underinvested in stocks, the ghost month might be a good time to start building or adding to equity positions.

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