Philequity Corner (September 12, 2016)
By Wilson Sy

The market is dropping… what now?

Last month (August 13), we held our investor briefing at the Meralco Theater. As with our other briefings, we devoted time for a Q&A portion to answer questions from the audience. In this column, we share our answers to some of the common questions or concerns that were raised during the briefing. We believe that these topics are still relevant given recent developments and current market conditions.

1. The ghost month just ended. Should we expect the stock market to start performing better soon?

The ghost month for this year started on August 3 and ended on August 31. For that period, the PSE Index posted a 3.1% loss. Though the ghost month is over, we note that September is also a relatively weak month. In a recent article, we showed that September has an average return of -1.4%, with a 48% chance of declining (*Who's afraid of ghosts?,* August 1, 2016).

Although it is very hard to predict what will happen to the stock market in the short term, we use historical data to uncover seasonal patterns in the stock market. In our book "Opportunity of a Lifetime" (page 196), we said that we use August and September as buying windows since they are seasonally weak months for stocks. We do the buying during the weak months of the year in preparation for December and January, which are the strongest months of the year. December has an average return of +3.9% while January has an average return of +3.4%.

2. The market is dropping. Should we sell now and buy later? What is a good level for buying?

We have seen significant market sell-offs in the past. It is during these times that having a long-term view on the stock market is important.

Time and again, we have said that timing the market is extremely difficult, even for professionals.

When the market drops, we advocate using a buy-on-dips strategy. Instead of trying to time the exact bottom of a correction, one can buy in tranches in order to avoid the timing aspect while taking advantage of the drop in stock prices. We view these volatile episodes as buying opportunities for stocks which have solid fundamentals and attractive growth prospects.

3. How much of my money should I invest in stocks?

Investment decisions should always consider one's asset allocation strategy and risk appetite. Ideally, one should diversify his investments among different asset classes such as real estate, businesses, bank deposits, fixed income and stocks. Those who can tolerate more risk can allocate more of their investments in equities. However, those who are uncomfortable with market volatility and the sometimes wild swings of stocks should keep equity investments at more manageable levels. Still, we believe that everyone should maintain a certain portion of their investments in stocks, as equities still offer the best long-term upside potential.

4. I have some money now but I want to set it aside for my children's education. Should I invest the money in the stock market?

Time horizon is an important consideration for investment decisions. From our experience, investing in stocks offers attractive long-term upside potential for those who are able to withstand short-term volatility. Though we have often said that the short-term picture for stocks may be unpredictable and volatile, the long-term trajectory is usually more predictable. Long-term direction ultimately depends on the fundamentals of the country / companies that one invests in. Thus, we do not recommend stock investing for people who have a short-term time horizon, as there are many things that can drive equity prices in the short run.

5. Which fund among the Philequity funds would you recommend?

Philequity has three equity funds – the Philequity PSE Index Fund (tracker fund), the Philequity Fund (flagship fund) and the Philequity Dividend Yield Fund.

a. **Philequity PSE Index Fund.** This tracker fund mirrors the performance of the PSE Index regardless of market conditions. As such, it should be 100% invested in the constituents of the PSEi.
b. **Philequity Fund.** Like all other non-tracker mutual funds, the Philequity Fund can only invest up to 95% and is actively managed. Thus, in a flow-driven market, the tracker fund may perform better. However, in cases of a deep correction or a bear market, the fund managers have the discretion and leeway to lessen the flagship fund's investment level. Moreover, the fund managers can invest in non-index stocks or second-liners which have less or no correlation to the PSEi. As such, the flagship fund may offer better downside protection during deep corrections or bear markets.
c. **Philequity Dividend Yield Fund.** Our dividend yield fund, as the name implies, focuses on companies with a steady stream of dividends and those that can grow their dividends over time. By its nature, the fund has a more conservative portfolio composition since most high-dividend paying stocks tend to be more defensive and stable. Moreover, the stream of income from dividends can afford the fund some protection during prolonged corrections or consolidations.

The choice of which equity fund to invest in is different for each investor. This will depend on one's investment objective, time horizon, asset allocation strategy and risk appetite.

6. Aside from equity funds, does Philequity offer other types of mutual funds?

Aside from equity funds, Philequity also has two bond funds – the Philequity Peso Bond Fund and the Philequity Dollar Income Fund. These funds are for investors who want to diversify their investment portfolios by putting money in fixed income.

7. What differentiates Philequity from other mutual funds?

It is important to note that our fund managers are founding directors of the company and have been with Philequity since the fund's inception. The main fund managers both have more than 40 years experience in financial markets. Our research analysts are some of the most experienced in the industry. We also have one of the oldest and most experienced board of directors, led by Mr. Washington Sycip.

Philequity Fund has built a long track record of outperformance vs. the PSE Index, dating back to its inception in 1994. The fund has outperformed the PSEi in 18 out of the last 22 years. More importantly, Philequity puts paramount importance on downside protection instead of return-chasing. Since inception, Philequity Fund has outperformed the PSEi seven out of eight times during down years, with an average outperformance of 18% per year.

Philequity is one of the very few mutual funds in the country which is independent and not owned by a bank or an insurance company.

Lastly, Philequity's fund managers have a sizable portion of their own money in the different Philequity funds and in the fund management company. Our directors, family members, friends and classmates also have substantial investments in the fund. In fact, many of our directors invest in Philequity in behalf of their children, godchildren and grandchildren. Aside from generating respectable returns for our clients, having our own 'skin in the game' gives us added motivation to perform better.

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.