



Philequity Corner (September 25, 2017)
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ALL-TIME HIGH

Since the PSEi eclipsed the previous all-time high of 8,137 last September 14, our index continued to make new record highs. Last week, we notched our highest close ever at 8,294 and an unprecedented intraday high of 8,321.

Finally!

The first time we reached the previous record high of 8,137 was on March 2015, more than 2 years ago. Since then, we have written many articles about that crucial milestone (see *8000*, 13 April 2015, *Flirting with 8000*, 19 June 2017 and *Back at 8000*, 31 July 2017). For the past 5 months though, traders have started losing their resolve as the market meandered between 7,800 and 8,000. In fact, prior to last week, the PSEi touched 8,000 a total of 35 times without staging a decisive breakout (see *Breaking out is hard to do*, 14 August 2017). The PSEi had such a difficult time going above 8,000, which makes the breakout last week very significant.

Technical analysis pointing towards 9,100, then 10,000

Traders who follow technical analysis have all been waiting for a strong buy signal, such as a decisive breakout. The sign came when the PSEi broke above its 5-month ascending triangle pattern. This triggered a buying frenzy that brought the index to new all-time highs. Following technical analysis, the initial target of this measured move is 9,100. However, the breakout above 8,137 not only completes the short term ascending triangle, but also a larger 2 ½-year consolidation pattern with a possible long term target of 10,000.

Eight index heavyweights lift PSEi

With our stock market making new record highs, investors may be wondering what stocks have been lifting the index. The benchmark index stocks that made new highs in this run-up are (1) Ayala Corporation, (2) Ayala Land, (3) BDO Unibank, (4) Puregold, (5) Semirara Mining & Power, (6) Security Bank, (7) SM Investments and (8) SM Prime.

Although only 8 out of the 30 index components made new highs, we note that these comprise 47% of the PSEi. Narrowing it down further, one will see that the top 5 largest index components by weight are among those stocks that made record highs. Since these 5 stocks comprising 41% of our benchmark index already made new highs, it was only a matter of time before our market follows suit and broke records as well.

Hope in tax reform

There are many reasons why the PSEi is now at a record high, such as the synchronized global economic growth and the worldwide equity bull market. However, one of the most important catalysts for our breakout is hope in the passage of tax reform. Last week, the Senate Committee on Ways & Means

approved its own version of the tax reform bill, SB 1592. Though it generates less revenues and is harder to implement than the House version, it is still a step towards tax reform's eventual passage. It will now be up for debate before the plenary.

Foreign funds pour into the Philippines

It was not only the local investors that bought up Philippine stocks, but foreign funds as well. In the last 3 trading days, net foreign buying amounted to more than PhP 900 million. In fact, despite the geopolitical tensions that have been rattling investors, readers might be surprised to know that net foreign buying of Philippine stocks since the start of 2017 amounts to PhP 27.6 billion. This is a clear vote of confidence in the Philippine economy and its growth prospects.

Peso strengthens, back below 51

With foreign funds buying Philippine stocks heavily, the peso strengthened by 1% and closed at 50.67. Moreover, large foreign inflows, such as Japan Tobacco's purchase of Mighty, further bolstered our currency. At the end of this week, EDC will also be concluding its tender offer, which will bring in a hefty \$1.3 billion, or PhP 65 billion. This may further aid the peso's recent appreciation against the dollar – another boon for Philippine stocks.

Who's afraid of ghosts?

In the book, Opportunity of a Lifetime, we discussed how ghost month tends to have poor stock market returns. In the past 30 years, the 7th lunar month is down 57% of the time with an average return of negative 2.2%. However, the PSEi not only gained 1.8% during ghost month, but it also made a new all-time high as well. It looks like investors are no longer afraid of ghosts.

8000 resistance becomes support

While we expect the PSEi to make new record highs in the future, the speed and magnitude of its ascent makes correction or consolidation a possibility. However, one of the cardinal rules of technical analysis states that once resistance is broken, it becomes support. Following this, it means that the previous resistance of 7,900 to 8,000 is now a strong support level. For long term investors looking to increase their positions or short term traders waiting to buy back what they sold, dips towards these levels may be a good opportunity to buy.

New high means higher!

Though there are still some risks that may cause volatility, such as geopolitics, the new high reinforces our view that bull market is very much alive and kicking. With fundamentals, technicals and global macro conditions all aligned, we were finally able to see record highs for our stock market. If tax reform is passed in full, then it may usher in a golden age of infrastructure and create the next leg of our bull market. Thus, as we have told our investors and readers in the past, just stay the course because new high means higher!

Best Equity Fund 2 years in a row

Last Saturday, Philequity was given the Best Peso Equity Fund award for the 2nd straight year by the CFA Society of the Philippines. This award is given to the fund with the highest 5-year return on a risk-adjusted basis. A member of the CFA Institute's global network, the CFA Society of the Philippines is an association of financial practitioners such as bankers, trust officers, fund managers and analysts who are CFA charterholders. To become a CFA, which stands for Chartered Financial Analyst, one has to pass 3 very difficult and grueling exams. Only then can one attach the elite CFA acronym to his name. This is why we are very honored to receive this award from the well-respected and globally recognized CFA Society.

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.