

## Philequity Corner (January 4, 2010)

By Valentino Sy

### The Best and the Worst

2008 and 2009 will go down as the most exciting two years in capital market history. It was like watching a suspense thriller. All eyes were glued on the screen, waiting for events to unfold, moment by moment.

As we usher in a new year, we thought it was necessary to recall what transpired in the last two years because they were inter-related. 2008 recorded the worst bear market drop in our lifetime, while 2009 registered the best bull market rebound of our generation.

### The worst stock market crash

2008 was nothing less than the financial version of “Armageddon.” There have been no safe havens. An unprecedented flight to safety pushed short-term US Treasury yields to almost zero (see *Nowhere to Hide*, Oct. 13, 2008).

Meanwhile, bubbles were bursting everywhere. We experienced the housing bubble, the credit bubble, the derivatives bubble, the equities bubble, the commodities bubble, the emerging market bonds bubble, the currencies bubble, the carry-trades bubble and the hedge funds bubble – all in such a short span of time (see *Bubbles Bursting*, Oct. 27, 2008).

The aftermath of this horrible 2008 saw global stocks plunging the most since the Great Depression. The benchmark Dow Jones Industrial Average dropped 32.7 percent, while the broader S&P 500 index slumped 38.5 percent. The Nasdaq Composite index plunged 40.5 percent.

Developed markets declined an average of 39.4 percent while Asian markets fell an average of 48.8 percent.

DEVELOPED MARKETS		% Returns
Country	Index	2008
US	Nasdaq Composite	-40.5%
Australia	S&P/ASX 200	-41.3%
Canada	TSE 300	-35.0%
Germany	DAX	-40.2%
US	S&P 500	-38.5%
France	CAC 40	-42.7%
UK	FTSE	-31.3%
Japan	Nikkei 225	-42.1%
US	DJIA	-32.7%
<b>Average</b>		<b>-38.3%</b>
<b>ASIAN MARKETS</b>		
China	Shanghai SE	-65.9%
Indonesia	JCI	-50.5%
India	BSE SENSEX 30	-52.4%
Taiwan	TAIEX	-45.3%
Singapore	STI	-49.2%
Thailand	SET	-47.6%
Philippines	PSEi	-48.3%
Hong Kong	Hang Seng	-48.3%
Korea	KOSPI	-40.7%
Malaysia	KLCI	-39.3%
<b>Average</b>		<b>-48.8%</b>

Source: Bloomberg, Philequity Research

### The dramatic rescue

Government and central banks around the world staged a dramatic rescue to save the global economy from deflation. Fed Chairman Ben Bernanke, who once threatened to send monetary helicopters - if that was necessary to avoid another Great Depression - kept his word.

In 2009, trillions of new dollars were pumped into businesses and returned to consumers in the form of tax breaks and outright government spending. Trillions of dollars more were allotted to repair bank balance sheets, to extend credit to household and small businesses and to purchase agency debt and mortgage-backed securities.

### The spectacular rebound

The reflationary efforts of central banks and governments, pumping trillions of dollars into the system, have succeeded in averting what could have been “another Great Depression.” In 2009, all asset classes rallied. Gold hit new record highs of \$1,200 per oz. Oil is back at \$80 per barrel. And stock markets have recovered much of their losses in 2008.

By end-2009, the DJIA rebounded 18.8 percent, the S&P 500 index bounced back 23.5 percent and the Nasdaq Composite index rallied 43.9 percent. Developed markets gained an average of 26.1 percent, while Asian markets increased 66.4 percent.

DEVELOPED MARKETS		% Returns	%Return
Country	Index	2009	from 3/6/09
US	Nasdaq Composite	43.9%	79.3%
Australia	S&P/ASX 200	30.8%	56.5%
Canada	TSE 300	30.7%	54.7%
Germany	DAX	23.8%	62.5%
US	S&P 500	23.5%	67.4%
France	CAC 40	22.3%	56.2%
UK	FTSE	22.1%	53.3%
Japan	Nikkei 225	19.0%	49.5%
US	DJIA	18.8%	59.3%
<b>Average</b>		<b>26.1%</b>	<b>59.9%</b>
<b>ASIAN MARKETS</b>			
China	Shanghai SE	80.0%	49.4%
Indonesia	JCI	87.0%	97.0%
India	BSE SENSEX 30	81.0%	114.0%
Taiwan	TAIEX	78.3%	76.9%
Singapore	STI	64.5%	98.9%
Thailand	SET	63.2%	78.6%
Philippines	PSEi	63.0%	61.5%
Hong Kong	Hang Seng	52.0%	92.8%
Korea	KOSPI	49.7%	59.5%
Malaysia	KLCI	45.2%	48.8%
<b>Average</b>		<b>66.4%</b>	<b>77.7%</b>

Source: Bloomberg, Philequity Research

If you measure it appropriately (i.e. from the lows of March 6, 2009), the developed markets would show an average gain of 59.9 percent, while Asian markets would record an average increase of 77.7 percent

The returns were even more spectacular on an individual stock basis. The table below shows the price performance of select US and Philippine stocks when measured from their lows last year.

<b>US Stocks</b>	<b>Sector</b>	<b>Current Price</b>	<b>2009 Price Low</b>	<b>%Chg</b>
Citigroup	Financial	3.31	0.97	241.2%
Freeport Mcmoran	Mining	80.29	21.16	279.4%
Las Vegas Sands	Resorts & Casinos	14.94	1.38	982.6%
Google	Technology	619.98	282.75	119.3%
Apple	Technology	210.73	78.2	169.5%
<b>Average</b>				<b>358.4%</b>
<b>Philippine Stocks</b>	<b>Sector</b>	<b>Current Price</b>	<b>2009 Price Low</b>	<b>%Chg</b>
Meralco	Utility	205	56.5	262.8%
Philex Mining Corp.	Mining	16	3.31	383.4%
Ayala Land, Inc.	Property	11.25	4.9	129.6%
PLDT	Telecoms	2620	1830	43.2%
Metrobank	Financial	45	19.5	130.8%
<b>Average</b>				<b>189.9%</b>

*Source: Bloomberg, Philequity Reseach*

### **Bumpy road in 2010**

Unlike 2009, we expect a bumpy road in 2010. More volatility and corrections are expected, but at the end of the year, we expect the index to reach our 2010 PSEi target of 3,300. We recommend investors to be more defensive in their portfolios. We also advise them to be more nimble and opportunistic, i.e. to trade their positions by selling during huge run-ups and buying back on deep corrections.

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