Philequity Corner (March 14, 2011)
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The Bull Market Turns 2

Last week marked the second anniversary of the bull market in global stocks. It was on March 6, 2009 that the S&P 500 index hit an intra-day low of 666 (although the actual closing low was registered on March 9), triggering a world-wide bottom in stocks.

The bottoming out process, however, did not happen in one day but over several months. In fact, most Asian markets hit their lows in October/November 2008 and retested these levels in March 2009. Nevertheless, we consider the bottom of the S&P 500 as the ultimate bottom not only because the US is world's biggest economy but principally because the US itself was the source of global financial crisis.

The best bull market in a generation

The best bull market in a generation was born at the depths of the worst financial crisis since the Great Depression. Prior to the turn, the markets experienced nothing less than the financial version of Armageddon. Global equities markets were in free fall, commodities markets tanked, credit markets were virtually frozen and credit spreads have surged through the roof. There was no escaping the financial tsunami. All asset classes were viciously dragged down by the bear onslaught.

Yet in the midst of this extreme bearishness, we at Philequity saw that a reversal in prices was near. In fact, in a series of articles, we alerted our readers and shareholders of the impending turn in the market:

"*With fear and panic gripping the markets, those holding cash will be able to cherry-pick the bargains. In contrast, those without cash will have to sit on the sidelines and watch this once-in-a-lifetime opportunity go by. There are a lot of opportunities in a market turning around even if the risks are also high. This brings to mind what Warren Buffett said: Cash combined with courage in a crisis is priceless*." – Cash and Courage, October 20, 2008

"*Despite all the gloom and doom, there are some signals that a turn in the markets is near. The CBOE Volatility Index (VIX) or the so-called investors "fear index" shot up to a record high of 89.53. There were also extremely wild swings in the currencies and commodities markets – all of which are indications of "panic" and "capitulation". Prices often exhibit wild swings during market tops and bottoms. These wild swings in stocks, currencies and commodities typically characterize major inflection points*." – Bubbles Bursting, October 27, 2008

"*With all asset classes dropping like a rock, it looks like there's blood in the streets. In watching markets plummet, investors holding on to their investments are having cold sweat. And as markets continue to slide, their eyes go teary as losses accumulate. In this type of environment, there's nowhere to hide. While others are in a state of shock, we see this backdrop as an opportunity of a generation*." – Opportunity of a Generation, November 3, 2008

"*It is not surprising that only a few would dare to call a bottom this time around because the bulls have already given up and most of the bears have turned early bulls and were wrong… Nevertheless, we think that the odds have dramatically improved that an important bottom is at hand*." – 666, March 23, 2009

"*Despite the strong price action (in fact, the best since 1933) which typically characterizes an important bottom, investment firms like Goldman Sachs, Credit Suisse, Morgan Stanley, JP Morgan, UBS, PIMCO, Deutsche Bank, Merrill Lynch and most other houses have a cautious view, preferring to be defensive until the economy gets better. Most of these houses are advising their clients to sell the rally or stay in* *the sidelines… Rather than cower in fear, we see this as an opportunity of a generation.”* – Best Four Weeks in 75 Years, April 6, 2009

“*It is such a coincidence that the S&P 500 Index bottomed at 666 on 3-6-9 (i.e. March 6, 2009). While these numbers have important meanings when viewed in the concept of numerology, for us, they are significant because they quite possibly marked the ultimate bottom in stocks – the opportunity of a generation.*” – 666 on 3-6-9, April 13, 2009

Big rewards for those with CASH and COURAGE

Our readers and shareholders who had cash and courage and heeded our advice were abundantly rewarded (see tables below). The benchmark S&P 500 Index gained 70.8 percent in the 1st year alone and nearly 100 percent by the 2nd year. Other developed markets have returned an average of 83 percent by the bull market’s 2nd year anniversary.

Developed Markets	Index	2009 Price Low	1-Year %Chg	2-Year %Chg
US	Nasdaq Composite	1265.62	83.8%	120.0%
Germany	DAX	3588.89	63.8%	100.0%
US	S&P 500	666.79	70.8%	98.1%
Canada	TSE 300	7479.96	60.1%	90.5%
US	DJIA	6469.95	63.3%	88.1%
UK	FTSE	3460.71	61.8%	73.1%
France	CAC 40	2465.46	58.6%	63.1%
Australia	All Ordinaries Index	3090.8	54.4%	60.4%
Japan	Nikkei 225	7021.28	47.7%	52.3%
		Average	**62.7%**	**82.9%**

Source: Bloomberg

Among Asian markets, Indonesia gained the most with a 184.6 percent return after two years. Thailand and India are the 2nd and 3rd best performing Asian market with 143.6 percent and 129.7 percent returns, respectively after two years. The Philippines is at 4th place with a 122.5 percent increase.

Asian Markets	Index	2009 Price Low	1-Year %Chg	2-Year %Chg
Indonesia	JCI	1244.87	107.2%	184.6%
Thailand	SET	408.78	77.1%	143.6%
India	Sensex	8047.17	111.2%	129.7%
Philippines	PSEi	1745.39	75.9%	122.5%
Taiwan	TAIEX	4164.19	84.1%	111.0%
Hong Kong	Hang Seng	11344.58	83.2%	106.3%
Korea	KOSPI	992.69	64.7%	101.9%
Malaysia	KLCI	836.51	55.4%	82.0%
China	SSE	1844.09	64.4%	59.6%
		Average	**80.3%**	**115.7%**

Source: Bloomberg

Indeed, the 2009 bear market bottom was one of the greatest buying opportunities of a generation. In the case of some individual stocks, the gains are even more magnified. After two years, Las Vegas Sands is up 30-fold from its 2009 low of 1.38 and Wynn Resorts is up more than 9-fold. Meanwhile, Caterpillar, Freeport McMoran and Apple are up 4-fold.

In the case of Philippine stocks, DMCI Hldgs. is up nearly 15-fold and JG Summit is up 10-fold from their 2009 lows. Semirara Mining is up 9-fold. Meanwhile, gaming firms Belle Corp. and Alliance Global Group, Inc. are up more than 8-fold.

US Stocks	Sector	2009 Price Low	1-Year %Chg	2-Year %Chg
Las Vegas Sands	Gaming	1.38	1194.9%	3063.0%
Wynn Resorts	Gaming	12.58	396.0%	939.8%
Caterpillar	Industrials	20.4	183.7%	407.1%
Freeport McMoran	Mining	10.32	282.3%	401.1%
Apple	Technology	78.2	180.0%	360.4%
Philippine Stocks	**Sector**			
DMCI Hldgs., Inc.	Holding Firms	2.26	375.7%	1486.3%
JG Summit	Holding Firms	1.76	303.4%	1002.3%
Semirara Mining Corp.	Mining	20.41	180.9%	908.3%
Belle Corp.	Property / Gaming	0.53	205.7%	871.7%
Alliance Global Group, Inc.	Holding Firms / Gaming	1.24	311.3%	851.6%

Source: Bloomberg

After 2 years, can the bull market maintain pace?

As the bull market enters its third year, things get more challenging. The initial surge off the bottom over the last two years - as typical of new bull markets – will slow in 2011 and gains would be more muted.

Nevertheless, if history is a guide, this bull market should still have legs in it. According to data compiled by Standard & Poor's, of the 15 bull markets since 1932 (excluding the 2009-present bull run), only 3 failed to make it past its 2nd year. The average length of the previous bull runs is 45 months, which means that at 24 months, the current bull run may just be half-way through.

Meanwhile, statistics compiled by Stock Trader's Almanac show that there hasn't been a down year in the third year of a presidential term since 1939. "*Typically, each administration does everything in its power to juice up the economy so that voters are in a positive mood at election time*," the Almanac says.

External shocks vs. Internal strength

In the short-run, the major risks to the current bull market are high oil prices, high food inflation and rising geopolitical risks (refer to Philequity's articles *What does Tunisia or Egypt have to do with Philippine stocks?,* January 31, 2011 and *The Good, the Bad and the Ugly*, February 7, 2011).

External shocks such as these, however, are hard to predict. Who would know what Gadhafi will be doing next or whether the protests in Saudi Arabia would escalate out of proportion? Who could have predicted the 8.9 magnitude earthquake that hit Japan last Friday (the 5th largest in history) or the 10-meter tsunami that it generated (Black Swan event)? Japanese authorities are now warning of a potential nuclear meltdown in 3 reactors in the Fukushima Daiichi nuclear plant. If not contained, analysts say it will be the worst nuclear disaster in history. But just like the European crisis (see *PIIGS Get Slaughtered*, February 8, 2010), we see the world economy ultimately recovering from these external shocks.

Note that the US economy is already exiting recession and heading into expansion as GDP is expected to expand from 3.5 percent to 4 percent this year. Companies are reporting strong earnings. Strong balance sheets and free cash flow are leading to significant increases in dividends, share buybacks, mergers and acquisitions (M&A), and business reinvestment.

So, unless oil prices hit $120 per barrel for an extended period of time or the situation in Saudi Arabia blows out of proportion (affecting millions of our OFWs), we expect the global economy's healthy fundamentals and internal strength to gain a foothold in the long-run. Despite the exogenous events like the Middle East & North Africa (MENA) political upheavals, the rising food inflation and the earthquake in Japan, we expect the S&P 500 going to 1,400 and the PSE index testing its previous highs of 4,400 over the next year.

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