

Philequity Corner (May 13, 2013)
By Valentino Sy

Similarities Between Stock Selection and Elections

In investments, there are hundreds of stocks to choose from. Given our limited amount of capital, how do we choose the best ones? Do you often rely on hot tips in the stock market? Coincidentally, it is Election Day today and we can pose a similar question – how do you select the candidates to vote for? In this article, we give some reminders on proper stock picking with a sprinkle of voting analogies.

Doing Research

We cannot stress enough the importance of doing research before heavily investing in a stock. At the bare minimum, investors should know what the company does and more or less how much it earns. A step further would be to know the key drivers as well as the key risks of the business. Doing research entails a lot of reading and keeping up with current events. This is why many opt for the easy way out of asking others what stock they are buying. Although it may be right at times to join the bandwagon, it is better to be knowledgeable yourself as to why you are buying this or that stock. Research will give you stronger conviction and will help you to not be shaken out of a good investment or not enter a bad one.

In elections, voters should research on the platforms, qualifications and moral conduct of the different candidates. It would also be helpful to know what the candidates' stance is on issues like reproductive health. Which candidates have a degree in law? Were they leaders in their organizations? A tool for doing research on candidates is the *Halalan* application of the Comelec (powered by ABS-CBN) on the iPhone. It is free and provides write-ups and the latest news on the senatorial and mayoral candidates as well as the different party lists. Elections should not be taken lightly as the candidates who win will serve a term of six years.

Business Models

Before investing, we compare the business models of different companies. A business model is what makes each company unique. For example, Starbucks was a huge success because its business model was to provide quality coffee in a cozy yet work-conducive environment. They built their brand simply by giving their customers the "Starbucks Experience" and without the use of advertising. In general, we like businesses that are relatively less risky, innovative and, of course, cash generative.

In the case of voting, we usually start by knowing the fields of expertise and the platforms of each candidate. We vote for those whose advocacy will be of most help to our country. Some of the common issues that these candidates want to address are substandard education and health care, the neglect of the agricultural sector and the lack of jobs and inclusive growth. Which of these would you like to see persistently addressed in the next six years? The answer to this question can help guide your decision on whom to vote for.

Track Record

Another important aspect to consider when selecting a stock is the company's track record. Examining their financial statements over the past three years can give an indication as to how well the company has executed its business model. We should look at both profitability and efficiency of operations. Has

the company been enjoying an increase in sales volume without blowing up costs and sacrificing sales price? Is the company growing organically or merely through acquisitions? Is the company known for managing debt levels over time?

In mutual funds, we look at a fund's past performance over 5, 10 or even 20 years. This is because a track record is established over a long period of time. Hence, a fund that has returned an average of 20 percent over 20 years can be said to have an established track record. Crunching hard numbers is an objective approach to narrow down our choices for our investments.

Candidates also have track records. We should look at their past experiences – what organizations did they serve? If applicable, what bills have they authored? How relevant were those bills? Moreover, we should look for excellence – what awards and accolades did they receive in their respective fields? Finally, similar to what we look for in fund managers, we should factor in consistency. Ideally, the candidate should have several recognitions and achievements under his or her belt over a relatively long career.

Valuation Metrics

After analyzing the fundamentals about a company and concluding that it is indeed in great shape, comes the question of what price to purchase its stock. A stock can become a good/bad investment if entered at unreasonably low/high valuations. To grasp a sense of value, we look at a stock's PE Ratio, PEG Ratio, PBV Ratio, Dividend or Cash Flow Yield, etc. and compare them with those of similar companies. The best returns come from buying the stock of a spectacular company at depressed prices, or what we call in investment speak as buying undervalued companies.

In the case of candidates, they may have gained experience and achievements in the past. But moving forward, how will they perform as senators? They must have innate values which will be their tools on this next leg of their career. For candidates, the valuation metrics we use are work ethics, intelligence, honesty, dedication, hard work, competence, composure, drive and moral values.

Management

Knowing who manages the company is extremely crucial in stock picking. Management should be competent. They should have vision in order to adapt to changes and remain competitive. They should possess professionalism and leadership qualities like the ability to motivate and inspire. But what we feel is most important is the value of integrity which results to trustworthiness. A company whose management is honest in its dealings with customers, suppliers, employees and investors will grow because they gain the trust of more and more people.

Candidates should also be evaluated according to how they manage their work. Is there good feedback regarding the candidate's professionalism and dedication to service? What about their personal lives? Are the candidates and their families free of scandals? The quality of integrity that we look for in a corporation's management is exceptionally imperative in politicians.

Corporate Governance

Finally, in relation to integrity, we have the criterion of corporate governance, which has been gaining more and more bearing in investment decisions especially after the 2008 financial crisis. Good corporate

governance is when the Board of Directors and other executives of the corporation look out for the interest of their shareholders as well as their creditors, suppliers and employees. It entails transparency and accountability on the part of directors and senior management. This is a difficult thing to do in practice especially during challenging times for the corporation.

This is even more challenging for our political leaders. Every Filipino is a stakeholder. However, each of us has interests that may differ and even clash with those of other people. Our future candidates must be able to find the best solution to address the most pressing needs of our country. They must also be transparent with their budgets and expenses to let people know that they are not after own selfish interests but are true public servants.

Wisdom from Washington Sycip

During the last Presidential Elections, Mr. Washington Sycip was steadfast in stating that a Noynoy Aquino victory would be very good for our economy and stock market. Prior to and after May 2010, Mr. Sycip would unequivocally say in our board meetings to BUY PHILIPPINE STOCKS in anticipation of a victory for Noynoy Aquino.

When PNoy was running for office, he made only one resounding promise: *Hindi ako corrupt*. True enough, the stock market responded positively and continued its run as investors' confidence grew. Three years into the Aquino administration, our country has shaped up quite noticeably. Our stock market has given us a return of 122 percent since his election in May 2010. Moreover, we are now a net creditor with an investment-grade seal. These recent developments have made people realize that our politicians can have a positive effect on our personal portfolios.

Mr. Sycip leads us by example – he does his own research on both investments and political candidates. After gathering all the information, Uncle Wash (as we fondly call him) is able to make his own judgements, which have proven to be timely, accurate and enlightened. He has been an investor and a director of the Philequity Fund for several years now and he continues to add value to every board meeting.

Vote wisely. Your votes (just like your stock selections) may well affect your stock investments.

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