Philequity Corner (March 10, 2014)
By Valentino Sy

7,000 in 1 year, 8,000 in 2 years

Last Saturday, March 8, 2014, Philequity and Wealth Securities held a joint briefing for clients and investors at the Meralco Theater. The turnout was quite big as over 700 clients, investors and news reporters attended to hear our views and forecasts on the stock market and the peso. At the end of the briefing, we had a question and answer portion where our fund managers and members of our research team answered questions from the audience. The discussion was particularly extensive and informative. We thought of sharing some of those questions and other points of discussion to the general public through this article.

1. With so many mutual funds and UITFs in the market, why should we invest in Philequity?

Philequity probably has the oldest and most experienced board of directors among local funds. The average age of Philequity board members is 64. The board, led by Mr. Wash Sycip, who at 92 is still very active and insightful, is comprised primarily of stock market veterans. It is also worth noting that unlike most local funds, which change their fund managers from time to time, the fund managers of Philequity have been the same since its inception 20 years ago. Our fund managers utilize extensive research not only locally but also globally. These factors have contributed to the continuity of the fund's management and the consistency of its performance. Most importantly, the directors and fund managers of Philequity have their own money in the fund, as they are soundly confident about how the fund is being managed.

2. How has Philequity Fund performed over the years?

One peso invested in the fund at its inception on February 1994 is now worth P31.50. This computation is already net of the fees that Philequity charges and translates to average annual growth of 19.3%. On the other hand, one peso invested in the PSE Index on February 1994, including reinvested cash dividends, would now be worth about P3.52. This translates to average annual growth of about 6.5%. This just shows that Philequity Fund has soundly outperformed the PSE Index in the past 20 years.

3. Will we be dragged down by other problematic countries?

In the past year, we have seen a lot of emerging market (EM) countries encounter various problems. Initially, the focus was on Asian countries such as India and Indonesia. Then, the concern moved to Latin American countries such as Brazil and Argentina. And lately, the focus has been on Ukraine and Russia. As we have seen in the past, serious problems encountered by these countries may cause global stocks to correct, thereby dragging our stock market. Further, we are associated with those countries because the Philippines is part of Asia and the EM index. However, we would like to point out that our country is in a much stronger position compared to our neighbors. We therefore view the stock market corrections caused by these problems as good buying opportunities.

4. Is the Philippines really different from its neighbors?

In a past article, we explained that our country does not share our neighbors' problems. This is why we said that the Philippines is the best house in a bad neighborhood (*The Best House in a Bad Neighborhood*, September 2, 2013). While troubled EM countries suffer from low GDP growth, high inflation and widening current account deficit, our country continues to enjoy high GDP growth, benign inflation and a persistent current account plus. Aside from these, most EM countries are reliant on exports to fuel their economic growth. Our growth, on the other hand, is buoyed by robust domestic consumption which is driven by OFW remittances and BPO revenues. These factors put us in a much stronger position compared to our neighbors and allow our economy to better withstand global shocks or black swan events.

5. Should we invest now? Is it the right time to invest?

Timing the market is extremely hard even for professionals. We often say that time in the market is more important than timing the market. The best time to start investing is now. For those who feel that they cannot time the market, we advocate buying in tranches. This style of investing will rely on the compounding effect of holding stocks over the long term. Those who cannot monitor the market on a regular basis can put their money in mutual funds like Philequity Fund and let professionals handle their money.

6. The market has moved up a lot since the bottom and is now nearing resistance. Should we wait for a correction and buy at lower levels?

What happens in the short-term is very hard to predict. We maintain a positive view on the market over the long-term. We think that the country's fundamentals would continue to drive the movement of our stock market. Although we would prefer buying at lower index levels such as 6,200, we really cannot tell if the index will fall to those levels before resuming its up-move. A correction is possible and would be healthier for the market, but nobody really knows the precise level at which the index will correct to.

Aside from these, we are also seeing signs of strength in certain stock markets. Like the PSE Index, the stock markets of countries like Thailand, Australia, Indonesia and India are starting to look stronger. These indices are refusing to go down despite all the problems that are hounding these countries (*The Best House in an Improving Neighborhood*, February 24, 2014).

7. Shouldn't we buy countries that are cheap and have not moved well?

One can always put a little amount of money in indices or stocks that have lagged their peers. But one must do so in light of diversification. Often times, laggard countries or stocks are cheap for a reason and stay cheap for an extended period of time. Considering this, we deem it safer to invest in countries that continue to do well like the Philippines. As investment guru Warren Buffett said, "It is far better to buy a wonderful company at a fair price than a fair company at a wonderful price." This also applies to countries and the Philippines is a wonderful country to invest in at a fair price.

8. How do you come up with your stock picks?

We always base our stock picks on fundamentals. We prefer companies with strong business models and are handled by experienced and competent managers. These are the businesses that continue to do well over the long-term, thereby leading to stock price outperformance. Buying stocks like these allows us to become partners and part-owners in excellent businesses that grow and expand over time. In the briefing, we showed that Universal Robina Corporation (URC) is a perfect example of this. Looking at the chart of URC, it reached a low of P4.50 in the 2008 bear market. Last Friday, URC closed at P140, a staggering 3011% return over a period of 5 years from its bear market low.

9. What is your forecast for the peso?

Considering recent developments, our immediate target for the peso is 44. However, if the 44 level is broken, we see the peso returning to its sweet spot of 42 to 44.

10. What is your forecast for the PSE Index?

Our 1-year forecast for the PSE Index is 7,147. This was derived based on 2015 earnings, assuming earnings growth of 11% and 15% for 2014 and 2015, respectively. Our 2-year forecast for the index is 8,220, based on 15% earnings growth for 2016. Our earnings growth projections are 2 to 2.5x our country's projected GDP growth of 6 to 7%. We also use 18x price-to-earnings (PE) for our index forecasts, a multiple that we think is fair considering the growth prospects of our country and Philippine stocks. Lastly, our forecasts do not yet assume possible PE multiple expansions.

Congratulations, Mr. Gokongwei!

In closing, we would like to congratulate Mr. John Gokongwei, Jr. for receiving the 2014 Lifetime Luminary Award from Channel News Asia. The award is given to esteemed business leaders in Asia. Mr. Gokongwei, the first Filipino to receive such a distinction, has contributed immensely to the development of business not only in the Philippines but in Asia as well. Congratulations!

For further stock market research and to view our previous articles, please visit our online trading platform at www.wealthsec.com or call 634-5038. Our archived articles can also be viewed at www.philequity.net.