

Philequity Corner (August 11, 2014)
By Valentino Sy

20 Years of Outperformance

This year, Philequity is celebrating its 20th anniversary. As part of our year-round activities, the shareholders meeting on August 16 will not only have the usual stock market outlook and strategy, but something special as well. Everyone who attends will be given a rare glimpse into a fund manager's mind.

Inside the mind of a fund manager

In this briefing, the audience will experience the thought process of our fund managers over the past 20 years. There will also be a discussion on what precipitated their decision to sell in the years 1997 and 2000. Attendees will also be able to take a peek inside their minds as they declared that 2003 was the start of a bull market and that March 6, 2009 was the beginning of an opportunity of a lifetime.

Beating the index for two decades

Since Philequity started in 1994, it has grown at a compounded annual growth rate of 19% versus 7% for the PSEi, assuming dividends are reinvested. Thus, an investment of PhP 1 million with Philequity in 1994 would now be worth PhP 35 million. To further illustrate this, see below a table showing the PSEi and Philequity Fund's annual percentage return on a yearly basis. Note that the Philequity Fund outperformed the Philippine stock market in 17 out of the 20 years it has been active.

Year	PEFI	PSEi	Year	PEFI	PSEi
1994	4.97	-14.07	2004	28.43	26.38
1995	20.79	-7.29	2005	15.24	14.99
1996	58.28	22.22	2006	52.26	42.29
1997	-5.20	-41.04	2007	18.33	21.43
1998	30.01	5.33	2008	-40.71	-48.29
1999	35.83	8.85	2009	65.05	63.00
2000	6.80	-30.26	2010	54.18	37.62
2001	2.94	-21.84	2011	6.12	4.07
2002	-5.15	-12.81	2012	33.69	32.95
2003	35.56	41.63	2013	0.87	1.33

Separating the men from the boys

Looking at the table above, one cannot help but notice Philequity's significant outperformance in down years, such as in 1997-98 and 2000-01. While anyone can make money in a bull market, what separates the men from the boys is how one survives a bear market. What is distinctive with Philequity is not only did it lose less in down years, but it even booked positive returns in those years.

Investment lessons through a 20-year time capsule

We hope that this time capsule showing Philequity's 20 years of outperformance will not only give investors a 20-year history of the Philippine stock market, but also leave them with invaluable lessons on how to invest. We will show that the stock market is not a casino where one's fate is determined purely by chance. Instead, we will explain how, through hard work and focus, the stock market can be a source of wealth. See below some of our strategies in the past.

Dodging the Asian financial crisis

In 1997, Asia was the epicenter of a financial crisis. No country in the region was spared, with Asian stocks and currencies all dropping by more than 50%. Businesses were reeling from a multitude of defaults as dollar debts became too burdensome to pay, with many companies ceasing to exist even before the crisis ended. However, amidst this cataclysm, Philequity lost a mere 5%. On Saturday, we will explain how Philequity was able to dodge the bullet and outperform the PSEi by 60% in just 2 years.

Spotting defensive jewels in a crumbling market

The year 2000 was a particularly painful year for stocks. A dotcom bubble in the US, combined with a political and currency crisis here caused the PSEi to fall more than 30% that year. However, our fund managers were able to discover defensive stocks in a crumbling stock market. Very few spotted these jewels which allowed Philequity to again outperform the PSEi by more than 50% from 2000 to 2001. We will reveal these jewels on Saturday.

Be greedy when others are fearful – the Iraq invasion

Warren Buffett said it best when he stated that we should "be greedy when others are fearful." Our strategy in 2003 is a good example of this. During the US invasion of Iraq, Philequity actually released a newsletter saying the market had bottomed. In August of the same year, Philequity held an investors briefing at Makati Shangrila, where our fund managers reiterated their view that the US invasion of Iraq marked the bottom. Our strategy was validated when the fund ended the year with a return of 35.6%.

The birth of Philequity Corner

In 2005, Philequity Corner was born. Appearing in the business section of Philippine Star, our investment strategy is now on record. Since then, the thoughts of our fund managers have become available for the public to see every Monday. For nearly 10 years, this column has served as a guide for traders, investors and even the non-investing public. We write about anything related to investments, be it stocks or currencies, especially those with historical significance, such as the 2008 US Financial Crisis.

Opportunity of a Generation

In 2008, we had the worst global bear market in history. All asset classes crashed. As the stock market was crashing, we wrote that “we see this backdrop as an opportunity of a generation” (see *Opportunity of a Generation*, 3 November 2008). True enough, after 5 months of waiting, global markets finally bottomed out on March 6, 2009. We also said that this “quite possibly marked the ultimate bottom for stocks” (see *666 on 3-6-9*, 13 April 2009). Seeing that the risk-reward balance was now in our favor, we went all in. By the end of that year, Philequity had not only made back all its losses in the previous year, but also hit a new high. Our courage was duly rewarded as the fund recorded an unprecedented return of 65% in 2009.

A secular bull market

In this briefing, investors will learn why our fund managers believe we are in a secular bull market, as compared to cyclical bull markets in the past. We will show why the impact of the structural reforms instituted in the past will last for years and decades to come and why investors should take a long term view and ride the bull market we are in now. In fact, in 2012 when the PSEi reached 5,000, we gave out shirts with the words “Stay the Course” to reiterate our main theme (see *Staying the course*, 6 February 2012).

The importance of a global perspective

All these would not have been possible without the global perspective of our fund managers. As the bear market was unfolding, one of our fund managers stayed in North America to understand what caused the market to drop and watch out for the bottom. During the European sovereign debt crisis, he also went to the epicenter of the problem, travelling to Greece as the debt contagion was spreading. With his experience, wisdom and global perspective, our fund manager was able to navigate through crisis after crisis and still come out on top.

Still #1 after 20 years

This is why it is no surprise when, 20 years later, the Philequity Fund is still the #1 mutual fund in the country. With the same management team at the helm since 1994, investors are rest assured that Philequity will still be one of the top performers for years and decades to come.

Commemorating Philequity’s 20th Year

Philequity’s annual shareholders meeting is on Saturday, 9:30AM at the Meralco Main Theater. This is your chance to ask questions and pick the brains of our fund managers and their research team. Philequity’s stock market and Philippine peso outlook, forecasts, strategy and stock picks will be presented. Commemorative shirts will be given to the first 300 registrants as part of our 20th anniversary celebration. However, readers who wish to attend are advised to please register ahead of time at events@philequity.net. Priority will be given to Philequity investors and non-shareholders will be accepted on a limited basis.

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