

Philequity Corner (September 1, 2014)
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Historic Stock Market Milestones

People normally don't like to invest in stocks during the month of August because it usually coincides with the Chinese Ghost month and is believed to be unlucky. In fact, people refer to the month of August as AU-GHOST. But on the contrary, last month (August 2014) was a historic month for both global and local stocks where milestones were set and records were broken.

Milestone #1 - S&P 500 Index reach 2,000

The S&P 500 index surpassed the psychological 2,000 level for the first time on August 26 (Tuesday) and it is still above it as of August 29 (Friday) to close the month at 2,003.37. This set a new all-time high for the S&P 500 index. Likewise, the Dow Jones Industrial Average closed at a record high of 17,098.85.

Milestone #2 – S&P 500 Index triples in value

The 2,000 level marked another milestone because it is the level where the S&P 500 index has tripled since it bottomed at 666 on March 6, 2009. It took 25 months for the index to double from 666 and another 40 months to triple in value.

We wrote extensively about this historic bottom (see *Opportunity of a Generation*, November 8, 2008, *2009: A Year of Opportunity*, January 12, 2009, *666*, March 23, 2009, and *666 on 3-6-9*, April 13, 2009).

And we have, time and again, reminded our readers and investors to stay the course (see *Global Bull Market*, Jan. 7, 2012, *Staying the Course*, February 6, 2012, *Secular Bull Market*, January 28, 2013, and *The Global Bull Market Continues*, July 7, 2014).

Milestone #3 - Best August performance since year 2000

August 2014 also marked the best performance for the month of August in 14 years by the S&P 500 index. The index gained 3.8 percent last month compared with August gains that ranged from -6.4 percent to 3.4 percent the past 14 years.

Performance during the month of August (2000 to 2014)

	Close	% Chg		Close	% Chg
Aug-14	2,003.4	3.8	Aug-06	1,303.8	2.1
Aug-13	1,632.9	(3.1)	Aug-05	1,220.3	(1.1)
Aug-12	1,406.6	2.0	Aug-04	1,104.2	0.2
Aug-11	1,218.9	(5.7)	Aug-03	1,008.0	1.8
Aug-10	1,049.3	(4.8)	Aug-02	916.1	0.5
Aug-09	1,020.6	3.4	Aug-01	1,133.6	(6.4)
Aug-08	1,282.8	1.2	Aug-00	1,517.7	6.1
Aug-07	1,474.0	1.3			

Source: Bloomberg, Wealth Securities Research

Driving the gains was the strong earnings season, the second-quarter GDP revision (+20 basis points to 4.2 percent), and the still-strong consumer confidence (U. Michigan index came in at 82.5 percent vs. an expectation of 80.0).

Investors shrugged off rising geopolitical tensions, in particular, the heightened risks of war in the Middle East and Eastern Europe and focused on the historic low interest rates and the continuation of the recovery started over the past few years.

Milestone #4 – Global equities reach record market cap

According to Bloomberg, the value of equities globally reached a record of \$66 trillion when the S&P 500 hit 2,000. This compares with only \$25 trillion in March 2009 and \$63 trillion at the 2007 peak.

Milestone #5 - Record volume in PSEi

The Philippine Stock Exchange saw record volume last August 29 as value turnover amounted to Php32.55 billion even without the benefit of huge block sales. Shares traded in Philippine Long Distance Telephone Co. totaled Php16.28 billion on the last day of MSCI rebalancing. PLDT's weighting on the MSCI Philippine Index was doubled following MSCI's August 2014 Quarterly Index Review.

Milestone #6 – Philequity Fund's new all-time high

Our flagship fund, Philequity Fund, Inc. registered a new record high last August 27, 2014 when the Net Asset Value per Share (NAV) hit 35.9601 vs. previous high of 35.8884 registered on May 15, 2013. This means a new high water mark for Philequity Fund where all investors are now making money. At this point, nobody is losing in their investments which give our fund managers relief and fulfilment.

The chart below shows Philequity Fund outperforming both the PSE Index (PSEi) and iShares MSCI Philippines ETF Fund (EPHE) the past 5 years. While Philequity's NAV has already reached a new high, both the PSEi and the EPHE are still well below their 2013 highs.

Philequity vs. PSEi & EPHE (Oct. 2010 to Present)



Source: Bloomberg.com, Wealth Securities Research

The rule of round numbers

In technical analysis, a rule states that when round numbers are breached (like 10,000 for the Dow Jones or 5,000 for the Nasdaq Composite) they become major psychological support or resistance areas. Hence,

many are expecting the US markets to correct after the S&P 500 hit the 2,000 level because of the so-called “rule of round numbers.”

But as we have mentioned many times in the past, corrections are hard to predict. The US markets may correct from here not so much because the S&P 500 hit 2,000 but because the market has become short-term extended and moderately overbought, or another geopolitical event may occur that will cause the market to react.

Respecting the trend

One of the basic tenets of technical analysis is that a “trend has a higher probability of continuation than reversal (Dow Theory).” And that once established, it takes considerable power and time to turn it. So, while the market may take time to get comfortable at these new levels (i.e. consolidate from here), we have to respect the fact that the US markets are still in a long-term uptrend.

Corrections in a bull market

Meanwhile, the PSE Index slid 1.15% last week despite the record volume and foreign inflow. Note that the market itself was short-term overextended following a 4-week run-up which took it from 6,850 on July 28 to 7,160 on August 27. In the process, the PSEi also hit our 1Q15 target of 7,147 which implies 18x PER 2015.

Nonetheless, we maintain our bullish stance on Philippine stocks. While short-term corrections are hard to predict, we believe that they are part and parcel of a bull market. Hence, a correction in the market is actually healthy and warranted because of the swift run-up which hit our target well ahead of time.

Looking at the bigger picture, the long-term uptrend in Philippine stocks remain very much intact. So we have to **STAY THE COURSE** and **RESPECT THE TREND**, until such time that we see a greater reaction in the opposite direction that would nullify that trend.

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