

**Philequity Corner (March 30, 2015)**  
**By Valentino Sy**

### **Green in a Sea of Red**

Last Thursday, something remarkable happened. Our Bloomberg screen was all red as global markets were sent reeling because of the sharp down move in the US. In the midst of all this red, one will notice that the Philippine stock market was green.

#### **Green means up and red means down**

In stock market parlance, “green” means that a particular stock or index closed higher than the previous day. On the other hand, “red” means that a particular instrument had a lower closing price than the previous day. Green and red are also interchangeable with up and down, as both terms refer to the positive or negative return of an asset.

#### **Green flags**

One of our investment strategies is to closely study stocks that are green when almost all others are red. These green flags bear watching not only because they are rare, but because they may be a sign of something very significant. This is one investment lesson that we would want to impart to our readers as this has proven to be one of the more profitable trading techniques which we have used.

#### **The significance of being green on red days**

When markets are down, it is very difficult to buck the trend. Thus, when a stock is moving in the opposite direction when everything else is down, it means that there is something good happening to that stock, which makes it special. This company must be doing something right or something different as compared to its peers. Most of the time, we would be buying this stock. But at the very least, this stock should be further studied.

#### **What works for stocks also works for countries**

What works for stocks also works for countries. Last Thursday proved to be a very remarkable day as the PSEi was in the green while others were red, meaning that there is something special happening to the country. This significant move happened during a period when most other major equity indices were either down or reeling from volatility, further highlighting how different the Philippines is from its neighbors.

Early in 2014, we also noticed the same phenomenon of the Philippines being green in a sea of red and we showed this in our strategy presentation to our investors. We also wrote that this was one of the incipient signs in the market that point towards the Philippines being differentiated from the rest of its neighbors and that it was poised to move up (see *Best House in an Improving Neighborhood*, 24 February 2014). This is exactly what we are witnessing again right now.

#### **PSEi makes a new high as others fall**

That said, it is not just the PSEi's one-day move that is significant. While other markets were correcting or searching for direction, the PSEi not only went higher, but also continued to make new highs. Last Friday, the PSEi reached an intraday high of 7,889.25 before closing at a historic high of 7,877.96. Again, note that this new high was made as other stock markets were falling.

### **Volatile global markets**

The volatility in global markets, especially the US, was brought about by concerns over the impending US interest rate hike. This left investors worried about whether the US economy is strong enough to exit a practically zero interest rate environment.

On the other hand, Europe, Japan and many other countries are concerned about their weak economic growth. Hence, central banks in these countries have resorted to cutting interest rates to kick start their economy.

These concerns over weak and uneven growth, coupled with US policy tightening, have led to significant volatility in global stocks over the past few weeks. In fact, both the Dow Jones index and S&P 500 gave up all their gains for the year as they lost more than 2% last week.

### **Steady "Say"**

Among bankers and his close circle of friends, BSP Governor Amando Tetangco, Jr. is known as "Say." However, because of his policies, we would like to call him "Steady Say."

Note that while the US is on the road to raising rates, most countries have been moving in the other direction. All told, there have been 25 rate cuts so far this year. While other central banks are tweaking their interest rates higher or lower, the Philippines has simply been keeping rates steady.

In last week's Monetary Board policy meeting, "Steady Say" said that "the economy doesn't need additional monetary stimulus." In a recent statement, he summarizes this matter clearly.

**"If things remain as they are**, that is inflation expectations are well anchored, domestic demand continues to be resilient, oil prices remain low but not too volatile and Fed normalization is orderly, I think **we can keep rates steady** for the most part of 2015."

- BSP Governor Amando Tetangco, Jr.

What is notable here is that the central bank does not have to do anything to keep our economy growing. In fact, as it is, the Philippines is the 2<sup>nd</sup> fastest growing economy, second only to China. This **clear, steady and stable growth** is a testament to the emergence of the Philippine economy and the prudence of "Steady Say" and his team at the central bank.

### **Buy the green**

With the Philippine economy standing out among its peers, it is no surprise that our stock market continues to draw more inflows, both foreign and domestic. Net foreign inflows already amount to more than PhP 40 billion so far this year, and it is this sheer weight of money that continues to push the Philippine stock index higher. We also wrote 2 months ago that the Philippines is the biggest winner in

this low oil price environment (see *The Game Changer*, 19 January 2015). Just like in stocks, in a sea of red, one should buy the green. History shows that choosing a winner has always been the winning strategy.

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