Philequity Corner (March 14, 2016)
By Wilson Sy

Happy 7th Birthday, Bull Market!

Last week, we celebrated the 7th anniversary of one of the longest and strongest bull markets in history. This bull market started when the S&P 500 bottomed at 666 on March 6, 2009 after going through a savage bear market and a global financial crisis. On that day, the PSE Index closed at 1,920. Seven years since then, our stock market has surged 270%, closing at 7,099 last Friday.

Calling the Generational Bottom

In 2008 up to 2009, we carefully scrutinized the bear market as it unfolded. Our thesis was that the end of the vicious bear would present a once-in-a-lifetime opportunity. In fact, we wrote an article entitled "Opportunity of a Generation", where we advised our investors and readers to prepare for this golden opportunity in the stock market. **While fear and desperation were prevalent during those times, we were focused on watching and waiting for the turn, as we knew that the end of the worst bear market in history would give rise to one of the strongest bull markets.** Doing this allowed us to spot the bottom of the bear market on March 6, 2009. **Moreover, we shared this thesis by writing articles before, during and after the bottom of the bear market.** We were so convinced about this rare opportunity that we wrote many articles about it. We enumerate some of these below.

1. The US can learn from the Asian financial crisis - January 21, 2008	*7. The US can learn from the Philippines - February 9, 2009*
2. Bear Watching – July 21, 2008	*8. 666 – March 23, 2009*
3. The Rescue – September 22, 2008	*9. Best Four Weeks in 75 Years – April 6, 2009*
4. Cash and Courage – October 20, 2008	*10. 666 on 3-6-9 – April 13, 2009*
5. Opportunity of a Generation – November 3, 2008	*11. US markets: Out of Intensive Care Unit - April 20, 2009*
6. 2009: A Year of Opportunity – January 12, 2009	*12. Back With a Vengeance - October 19, 2009*

Staying the Course

There were many bumps and scares in the current bull market's seven-year history. However, these were not enough to derail the underlying trend. It is worth noting that global central banks have always been on the side of the investors since the bull market started. Central bankers, particularly former Fed Chair Ben Bernanke, were the primary reasons why this bull market emerged. They have often done what is necessary to stimulate their respective economies and prevent a relapse into recession or depression. This is why we have maintained that the bull market will remain intact for as long as it is not overturned by a more powerful force. Consequently, we wrote several articles urging investors to stay invested despite the emergence of various headwinds. Moreover, our consistent advice was for investors to use dips to add more to equity positions. Time and again, this strategy was outlined in the articles that we wrote. We list some of these articles below.

1. The Noynoy Upgrade – May 17, 2010	*5. 5000 – March 5, 2012*
2. The Bull Market Turns 2 – March 14, 2011	*6. Global Bull Market – January 7, 2013*
3. PSEi, All-Time High – July 18, 2011	*7. 6000 – January 14, 2013*
4. Staying the Course – February 6, 2012	*8. Secular Bull Market – January 28, 2013*

The Recent Bear Scare

At the start of 2016, global investors witnessed a historic drop in stocks, currencies and commodities. The risks that caused the vicious correction in the first weeks of January 2016 were:

1. China's economic slowdown and extremely volatile stock market
2. Historic drop in oil and commodity prices
3. Fed rate hikes and divergent interest rate policies
4. US dollar becoming too strong
5. Weakness in EM currencies and stocks

Each of these had a detrimental effect to the stock market. Moreover, these risks served to reinforce the others, thereby causing panic among various asset classes. This resulted in widespread fear in markets, leading many analysts to conclude that it was the start of the bear market. The PSE Index dropped 25% in just seven months, from its all-time high of 8,127 on April 10, 2015 to its recent low of 6,084.

The Recovery

The historic drop in stocks was halted when global central banks stepped in and pledged to expand their stimulus programs in order to stabilize their respective economies (*Central Banks Strike Back*, February 1, 2016). The Fed also stated that policy actions will not be on a preset course especially considering the "increased volatility in global financial markets" and "exacerbated concerns about the outlook for global growth." Meanwhile, talks of possible cooperation between Russia, Saudi Arabia and other OPEC members precipitated a temporary bottom for oil prices. These events brought the much needed stability in oil, commodities, currencies and stocks. These eventually laid the foundation for a strong recovery. In our investor briefing last January 30, 2016 and in one of our articles (*Philippines, a sanctuary amidst global turmoil?*, February 15, 2016), we indicated that we may have seen the bottom of this current correction at 6,084 on January 21, 2016. **In subsequent articles, we reiterated that what we are witnessing is a correction and that the stock market has reached a significant bottom** (*The Bounce*, February 22, 2016 and *Adapt or Perish*, March 7, 2016).

Back above 7,000

Last week, the PSE Index closed above 7,000 once again, ending the week at 7,099. The PSE Index has recovered by 16.7% from the recent bottom that it touched 1 ½ months ago. Our stock market is already in positive territory with a year-to-date (YTD) return of 2.1%. This happened despite the pronouncements of many houses that we entered a bear market and that stocks would continue going down sharply. Meanwhile, the peso (which was forecasted by many houses to reach 50) has also started to recover. After reaching a closing low of 48.05 on January 21, 2016, the peso has recovered 3.0% and is now up 0.6% for the year.

PSE Index – Two-Year Chart

Source: Stockcharts.com

Time in the Market, Not Timing the Market

Although we spotted the bottom of the bear market in March 2009 and the bottom of this recent sharp correction, we know for a fact that not everybody can catch the bottom. Thus, our advice for those who cannot watch the market on a daily basis is to focus on building-up the size of their investment portfolios on a regular basis instead of trying to time the market.

We did a simulation to illustrate how a portfolio built by peso cost averaging would look like. If one invested P5,000 per month by buying a PSE Index fund starting March 2009 up to March 2016, his total investment would amount to P425,000. Despite the extreme volatility and the deep corrections that the market has endured, his investment would now be worth P652,468, amounting to an absolute gain of 53.5% and a compounded annual growth rate of 12.1%. Of course, the same P425,000 – invested fully in March 2009 using a buy-and-hold approach – would now be worth P1,572,500.

ECB and PBOC Walk the Talk

Last week, European Central Bank (ECB) President Mario Draghi fulfilled his promise of more stimulus by 1) expanding the ECB's QE program, 2) cutting its deposit and benchmark rates and 3) providing special lending subsidies for banks. Meanwhile, the yuan gained as the People's Bank of China (PBOC) fixed its currency to the highest level this year. **These moves are examples of the determination of global central banks in providing the necessary stimulus and policy actions to sustain the global recovery.** We devoted an entire chapter in our book "Opportunity of a Lifetime" to discuss the importance of central bank actions (Chapter 4 – Don't Fight the Fed). Not surprisingly, these moves contributed to the ongoing recovery and the strong performance of global stocks.

7 Years and Counting

The bull market continues and is now on its 8th year. Though it is proving to be one of the strongest and longest bull markets in history, it is not immune to bumps and scares, as evidenced by the historic drop in markets early this year. Since then, global stocks have recovered sharply because of determined statements and actions from global central banks. Despite the recent turn in sentiment, we do not discount that the stock market will continue to experience corrections, as these are natural occurrences in a bull market. **Notwithstanding, it is our view that we have seen the low for the Philippine market in**

this corrective phase and the ongoing recovery in equities will continue. We also maintain our strong belief that equities are still the best asset class to own and everyone should allocate a certain portion of their investment portfolio in stocks.

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