

Philequity Corner (October 6, 2008)
By Valentino Sy

“777”

In games of chance the number “seven” connotes luck. In slot machines “777” hits the jackpot, while in the dice game of craps, rolling 7 wins. Thus, the dice that roll 7 are a symbol of gambler’s luck. This is why people are willing to pay extra for a license plate or a phone number that bears “777”.

In mythology and religion, the number “seven” is very significant. The Pythagoreans called it the perfect number. The Goths had seven deities, as did the Romans. In Judaism and Christianity, God rested on and sanctified the seventh day (Sabbath). Even in literature, such as the Harry Potter novels, seven is said to be the most powerfully magical number.

Worst single-day drop in 20 years

“777” is a lucky number. This is what first came to my mind when I first saw the Bloomberg TV channel last Tuesday (which is Monday, Sept. 29 in US time). It seemed ominous that the Dow Jones Industrial Average (DJIA) dropped 777 points or almost 7 percent after the US Congress rejected the rescue plan for financial institutions worth \$700 billion. This is the worst single-day percentage drop in two decades and by far the greatest ever loss (amounting to \$1.2 trillion). Could it be that Lady Luck has finally smiled on the market?

Sadly, despite the uncanny appearance of lucky 7s that day, it would prove to be just coincidental. The US markets, along with most equities markets around the world, would end up much lower by the end of the week.

The following tables show where global equity markets now stand.

As of Oct. 3, 2008, the US and other major markets are already deep into bear market territories and are down 29.8 percent & 32.2 percent from their peaks, respectively.

		Price as of	Price as of	%Chg	%Chg
US Markets	2007 Peak	Dec. 31, 2007	Oct. 3, 2008	from Peak	Year-to-date
Nasdaq	2,861.5	2,625.3	1,947.4	-31.9%	-25.8%
S&P 500	1,576.1	1,468.4	1,099.2	-30.3%	-25.1%
DJIA	14,198.1	13,264.8	10,325.4	-27.3%	-22.2%
Average				-29.8%	-24.4%
Other Major Markets					
Japan (Nikkei)	18,295.0	15,307.8	10,938.1	-40.2%	-28.5%
France (CAC)	6,168.2	5,614.1	4,080.8	-33.8%	-27.3%
Australia (All Ordinaries)	6,873.2	6,421.0	4,695.4	-31.7%	-26.9%
Germany (DAX)	8,151.6	8,067.3	5,797.0	-28.9%	-28.1%
U.K. (FTSE)	6,751.7	6,456.9	4,980.3	-26.2%	-22.9%
Average				-32.2%	-26.7%

Source: Bloomberg

Meanwhile, Asian markets, on the average, have plunged 40.4 percent from their peaks.

Asian Markets	2007 Peak	Price as of Dec. 31, 2007	Price as of Oct. 3, 2008	%Chg from Peak	%Chg Year-to-date
China (Shanghai Comp)	6,124.0	5,261.6	2,293.8	-62.5%	-56.4%
Hong Kong (Hang Seng)	31,958.4	27,812.7	17,682.4	-44.7%	-36.4%
Taiwan (Taiex)	9,859.7	8,506.3	5,742.2	-41.8%	-32.5%
Singapore (STI)	3,906.2	3,482.3	2,297.1	-41.2%	-34.0%
India (BSE Sensex)	21,206.8	20,206.9	12,526.3	-40.9%	-38.0%
Philippines (PSEi)	3,896.7	3,621.6	2,447.2	-37.2%	-32.4%
Thailand (SET)	924.7	858.1	590.1	-36.2%	-31.2%
Indonesia (JCI)	2,838.5	2,745.8	1,832.5	-35.4%	-33.3%
Malaysia (KLCI)	1,524.7	1,445.0	1,016.7	-33.3%	-29.6%
Korea (Kospi)	2,049.6	1,897.1	1,419.7	-30.7%	-25.2%
Average				-40.4%	-34.9%

Source: Bloomberg

Politicians (around the world) are the same

While most of us in the investing world know the urgency of passing the emergency rescue plan, politicians think differently. The US House of Representatives, by ignorance, ideology, or politics, surprisingly voted NO on that fateful day of Sept. 29, 2008. Ironically, it was the president's own party, the Republicans, which gave the bill a thumbs-down.

On Wednesday, the US Senate passed a revised version of the bill. And on Friday, the US House of Representatives finally gave the thumbs up. It necessitated the 777 drop in the Dow on Monday to wake the Republicans from their stupor. But in the end, enough lawmakers now voted YES on the new bailout plan because it included the following:

- 1) mental health provisions on insurance plans,
- 2) state and local sales tax deductions,
- 3) subsidy to rural counties,
- 4) relief for victims of natural disasters,
- 5) business tax breaks,
- 6) and, energy subsidies.

Of course, NONE of these are related to the financial crisis!

Doing the right thing

Even Warren Buffett, the world's most successful stock market investor, criticized Congress for not acting sooner on the rescue plan. In recent interviews with CNBC, he made analogies to the present condition of the US economy and an athlete that's had a cardiac arrest and is flat on the floor.

He said, "*Paramedics have arrived, and are arguing who was at fault... The important thing, however, is to apply the resuscitator. It doesn't help spending time worrying about who is to blame for the patient having a heart attack.*" He believed, however, that in the end Congress will do the right thing ... and it did.

Not a panacea

Careful not to mislead people, Buffett added that, "*This (rescue plan) is not a panacea. This will not solve all our problems.*" The credit crunch is far from over. There is also no doubt that the

US economy will get worse before it gets any better. Nevertheless, we agree with Buffett that passing the rescue plan is crucial because it unfreezes the credit markets and restores confidence in the markets and in financial institutions.

Financial turmoil presents opportunities

When asked about his recent investments in Goldman Sachs and GE, Buffett answered, *“The reason we haven’t used our cash two years ago is we just didn’t find things that were that attractive. But when people talk about cash being king, it’s not king if it just sits there and never does anything. There are times when cash buys more than other times, and this is one of the other times when it buys a fair amount more, so we use it.”*

With regard to the extreme pessimism and negative sentiment of the markets, he said *“In my adult lifetime, I don’t think I’ve ever seen people as fearful, economically, as they are right now.”*

While Buffet acknowledges the present risks the US markets are facing, he believes that these are opportunities to profit from over the long term. *“You want to be greedy when others are fearful. You want to be fearful when others are greedy. It’s that simple,”* Buffett states.

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