Philequity Corner (August 16, 2010)
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Ghosts

For the Chinese, the 7th month in the Chinese lunar calendar is the month when the gods allow "hungry ghosts," usually confined in the underworld, to return to earth because they are hungry. During this period where spirits are roaming around, many things can go wrong. This is why the Chinese view this month as inauspicious to start anything, whether it be marriage, business, house construction or buying new stocks.

Lacklustre trading

Because most Chinese investors stay out of the market during this time, most Asian stock markets, including that of the Philippines, falter due to lacklustre trading and reduced liquidity. This is further exacerbated by the fact that most American and European fund managers take their summer vacations during this period when the weather is at its hottest phase in the Western hemisphere.

From the table below, you can see that the PSE Index has declined during the Chinese ghost month 14 out of the last 23 years or 60 percent of the time. The average decline of the market during this period is -3.1 percent.

Last August 10th was the start of the ghost month this year. Consistent with history, the market has returned -1.6 percent since then.

PSE Index Performance During Ghost Months (1987 to present)

	Chinese Ghost Month		%Chg in
YEAR	**Start**	**End**	**PSEi**
1987	24-Aug	22-Sep	-23.9%
1988	12-Aug	10-Sep	-6.5%
1989	2-Aug	30-Aug	-2.3%
1990	20-Aug	18-Sep	-26.3%
1991	10-Aug	7-Sep	2.9%
1992	30-Jul	27-Aug	-4.0%
1993	18-Aug	15-Sep	10.0%
1994	7-Aug	5-Sep	7.7%
1995	27-Jul	25-Aug	-3.1%
1996	14-Aug	12-Sep	2.6%
1997	3-Aug	1-Sep	-25.1%
1998	22-Aug	20-Sep	-14.4%
1999	11-Aug	9-Sep	-4.4%
2000	31-Jul	28-Aug	4.7%
2001	19-Aug	16-Sep	-5.3%
2002	9-Aug	6-Sep	2.6%
2003	29-Jul	27-Aug	-1.1%
2004	16-Aug	13-Sep	10.6%
2005	5-Aug	3-Sep	-1.6%
2006	24-Aug	21-Sep	10.8%
2007	13-Aug	10-Sep	-6.7%
2008	1-Aug	30-Aug	4.3%
2009	20-Aug	17-Sep	-2.4%
		Average	**-3.1%**
		No. of times	**14 out of 23**
			as of Aug. 13
2010	10-Aug	7-Sep	-1.6%

Source: Hong Kong Observatory, Technistock, Philequity Research

China slowdown spooks market

Since averting the dreaded Head and Shoulders breakdown last July (see *Head and Shoulders*, July 12, 2010), the benchmark US S&P 500 index has rallied as much as 10 percent. It held steady early last week despite the weak US jobs report and the rather grim economic outlook by the Federal Reserve which met last Tuesday.

But on Wednesday, the possibility that China was not going to prop up the global economy spooked the market. This led to a -2.8 percent decline in the S&P 500 that day. For the week, the S&P 500 is down -3.2 percent.

China's economic growth fell to 10.3 percent in the second quarter from 11.9 percent. Meanwhile, Chinese retail sales grew at an annual pace of 17.9 percent in July, down from 18.3 percent in June.

Signs of slowing growth in China even if that was precisely the goal of Chinese authorities brought back the bears. News from China did what negative news from the US could not do.

Impotence

The US Fed decided on Tuesday to reinvest their maturing holdings of mortgage-backed securities and agency securities into long-term US Treasuries. This effectively kept the size of its balance sheet constant and meant that its ultra-stimulative policies are here to stay.

Despite this announcement, the market still faltered. It seems that Helicopter Ben's quantitative easing (QE) policies no longer carry enough punch. Unlike when the Fed announced QE the first time around, QE part 2 no longer has that surprise effect on the market, making the Fed impotent.

New Trading System in the PSE

Aside from the seasonal effects of the ghost month, some people are also saying that the reduced volume in local stocks is partly due to the new trading system. A lot of the retail investors and the so-called "chupiteros" who day-trade, have stayed out of the market. The smaller price fluctuations in the new system limit their day-trading opportunities.

Philippines is Not Immune

With the recent data showing US and Chinese economies slowing down, the PSE Index cannot be immune to the global stock market sell-off.

But as we have noted in previous articles, there is a clear divergence now between the Philippine and the US markets (see chart below). While the PSE index made higher highs since May, the S&P 500 index could not break out of its consolidation pattern.

Source: Stockcharts.com

With the recent sell-off, we expect the S&P 500 Index to now trade between 1,000 and 1,100 in the near-term. There is also a distinct possibility that the recent low of 1,020 will be tested or even breached.

With the possibility of a sell-off in the US, a deeper correction in Asia and in the Philippines cannot be averted. However, the May high of 3,350 for the PSE index is now a strong support area for Philippine stocks.

Back to fundamentals

Whether it is the ghost month or the new trading system or the bad economic data, what is important is to look at the fundamentals. In the US, the fundamentals remained sluggish. Two years after the crisis, unemployment is still rising, home prices are still declining, banks are not lending and consumers are not yet spending. And the Fed no longer saved the day for stocks.

In the Philippines, however, the fundamentals remain strong. The sun-rise industries of tourism and business process outsourcing (BPO) are growing. OFW remittances continue to be robust. Foreign investments are seen to spike because of improved governance perception and policy predictability. And a more proactive debt management will raise tax collection efficiency and address the fiscal concerns.

Increase Weighting in Philippine Stocks

For long-term investors, the "buying on dips" strategy is still the best approach (ghosts or no ghosts). Increasing the weighting in Philippine stocks is an opportune time during a market correction.

Turf War continues in the PBA

The turf war between MVP and Ramon Ang continues in the PBA (see *Turf Wars*, July 13, 2009). Meralco is said to be replacing Sta. Lucia Realty while Petron will be replacing B-Meg Derby Ace Llamados. There are also talks of a possible acquisition of Barako Bull by Maynilad which would make it 3 versus 3 for MVP (Talk-N-Text, Meralco and Maynilad) and Ramon Ang (San Miguel Beermen, Petron and Brgy Ginebra Kings).

It would be interesting to watch big-name stocks, listed in the Philippine Stock Exchange, competing in the PBA.

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