

Philequity Corner (March 19, 2012)
By Valentino Sy

The Numbers Game

In this article, we are not referring to lotto, keno, bingo, roulette, blackjack, baccarat or other games of luck. These can all be found in casinos, bingo parlors and lotto outlets. However, if one wants exposure to casinos in the Philippines, one can buy AGI, BLOOM, BEL or LR. If one wants to invest in bingo alone, LR is your only bet here. But if one is looking for a pure play on lotto, then one should invest in Pacific Online (LOTO).

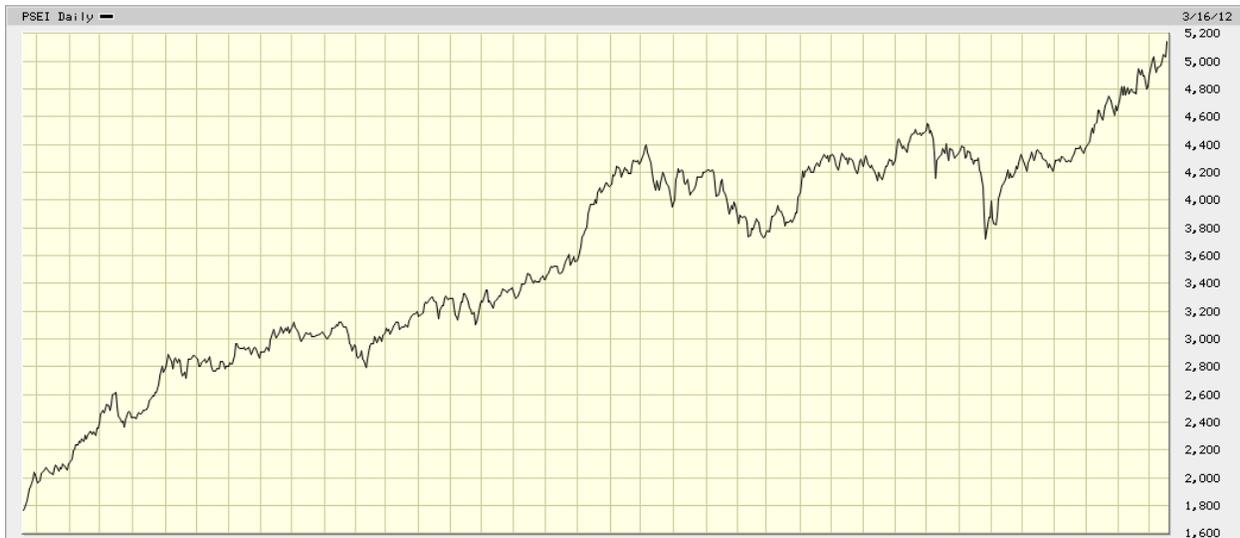
We are also not talking about the upcoming movie adaptation of the book “The Hunger Games”, which is expected to be a blockbuster that could be ranked along with iconic film series Harry Potter, Twilight and Lord of the Rings. For the information of fans and US stock investors out there, the producer of the movie, Lions Gate Festival, is listed in the New York Stock Exchange under the ticker LGF. The publisher of the book, Scholastic Corporation, is also listed on the NASDAQ under the ticker SCHL. LGF is up 124% over the past one year while SCHL gained 25% over the same period. By the way, the movie will begin showing in Philippine theatres on March 21.

The “Numbers Game” we are writing about is not a game of chance or the next movie hit. We are referring to the biggest game in the world – the “Stock Market”.

5,000 and beyond

Two weeks ago, we wrote that the PSE reached the 5,000-point level for the first time in its history (see *5,000*, 5 March 2012). This was such a momentous event for the stock market that President Aquino visited the stock exchange last March 6 to celebrate the breaking of the 5,000 mark with the investment community. This was important to President Aquino since it would help the country promote foreign investments. He said that “the stock market is the clearest indicator and fastest reacting business indicator to show business confidence”. As traders and investors alike were revelling in this historic event, the index kept pushing higher, eventually closing at an all-time high of 5,145.89 last Friday for a whopping 17.7% year-to-date return. See below a 3-year chart of the index showing the clear uptrend.

Philippine Stock Exchange Index Daily Chart (March 16, 2009 to March 16, 2012)



Source: www.bigcharts.com

Note that this particular bull market is only 3 years old (see *Happy Birthday, Bull Market*, 12 March 2012). If history will be our guide, we are only in the middle of the run.

Dow 13000, S&P 1400, NASDAQ 3000

The various US indices have also been pushing multi-year highs. The levels reached are also significant round numbers, similar to the 5,000 mark for the PSEi. Though these are not new highs, this development is still important since it has been more than 3 years since these levels were last reached. The 3 indices hit round numbers simultaneously last week, at the same that the PSEi reached a new high. In spite of the various crises that came our way last year, we see major indices going back to levels not seen since the last financial crisis started, a strong sign that a bull market is under way.

The Rule of Round Numbers

In stock trading, there are many trading methodologies and principles based on numbers, such as the Fibonacci sequence of numbers which uses ratios, such as 50% and 61.8%, to determine major support and resistance levels. Technical analysts adhere to many different strategies, but many of them pay attention to round numbers for stocks and stock indices. They view round numbers such as 10 and 100 or in the case of the PSEi, 5,000, as psychological resistance points. Notice that the US indices also breached round number levels. However, the rule of round numbers states that when a round number is reached and then significantly hurdled, that round number becomes a major support. A basic principle in technical analysis is that when a resistance level is broken considerably, it becomes a support level. Thus, people normally buy when these round numbers are breached. As a result, the PSEi ended the week above 5,000 points.

Psychological Numbers

To be strict about it, round numbers are not technical levels per se although it may happen that a support or resistance level does happen to land on a round number. However, because it is easily remembered, then it becomes a psychological resistance or support. Big round numbers, especially

those with a lot of zeroes, ring a bell to the public and make for better news headlines. This attracts more people to invest in stocks.

Elliot Waves, Fibonacci Numbers and Numerology

Other than round numbers, stock traders also use other numerical patterns to guide their trading. For example, the Elliott Wave theory states that chart patterns consist of impulsive waves and corrective waves. While there many rules to follow in applying this, traders keep in mind that an impulsive wave is composed of five subwaves and a corrective wave is composed of three subwaves. This count is crucial to the proper application of the Elliott Wave since it defines the end and beginning of every cycle. Another technique is based on the Fibonacci sequence of numbers mentioned above. Ratios based on this sequence are used to determine support and resistance levels.

The more superstitious investors even resort to numerology. There are numerous books written about theories on how to use numerology in stock markets, but the underlying principle is that there is a special relationship between certain numerical patterns and the suitability of various stocks for one's portfolio. Some say that even the number of shares you buy will affect your return.

Enjoy the run

Investors may use different strategies, be it the Elliott Wave theory, Fibonacci numbers, numerology, astrology, feng shui or even just simple reliance on round numbers. At the end of the day, what matters is that one studies the stock that he invests in and stick to fundamentally sound companies with strong businesses. If one picks the correct stocks, then all he has to do now is enjoy the run.

Till 6,000!

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