Philequity Corner (January 21, 2013)
By Valentino Sy

The Run-up

After starting the year with a bang, the PSE Index continued its run-up last week. So far, the index has been up in 10 out of the first 13 trading days of 2013 and is already up 5.6% year-to-date (YTD). Moreover, on December 18, 2012, the PSE Index started its run-up and eventually broke out of a short consolidation. Since then, the PSE Index has been up in 16 out of the last 20 sessions, delivering a month-on-month return of 9.2%. The chart below shows the run-up of the PSE Index in the past month.

Source: Stockcharts.com

A Global Phenomenon

While there have been repeated predictions of a correction, it pays to note that the PSE Index is not the only stock market that is experiencing a run-up. In fact, the current stock market run-up is a global phenomenon. As seen in the tables below, most global stock indexes have made similar run-ups and have breached or are trading near all-time and multi-year highs (*Global Bull Market*, January 7, 2013).

Major Markets		
Index	**Country**	**YTD**
FTSE MIB	Italy	7.87%
IBEX 35	Spain	5.34%
FTSE 100	UK	4.35%
MICEX	Russia	4.33%
S&P 500	US	4.19%
Euro Stoxx 50	Europe	2.79%
CAC 40	France	2.76%
Bovespa	Brazil	1.65%
DAX	Germany	1.18%

Source: Bloomberg

While some foreign houses cite expensive valuation as a reason behind their underweight calls for Philippine stocks for the year 2013, our PSE Index has continued to rally. As seen in the table below, the PSE Index has continued to be the top performer among Asian stock markets.

Asian Markets		
Index	Country	YTD
PSE Index	**Philippines**	**5.62%**
Nikkei 225	Japan	5.00%
Hang Seng	Hong Kong	4.17%
JCI	Indonesia	3.45%
Sensex 30	India	3.15%
SET	Thailand	3.05%
SH Composite	China	2.11%

Source: Bloomberg

We will explain why we believe that the Philippine stock market performance is justified in subsequent articles and in our investor briefing on February 19, 2013.

Bull Runs in Spain

The current stock market bull run has prompted us to visualize the bull runs in Spain which are called *encierro.* These bull runs are parts of annual festivities and involve running in front of a group of rampaging bulls after they are let loose from their pens. These take place in blocked-off streets of the town leading to the bullring or the arena. Most men who join these bull runs do so in order to show off their *bravado* even though the practice usually results to a few hundred injuries each year.

Bull Runs in the Stock Market

Edwards and Magee, the authors of Technical Analysis of Stock Trends, define a major trend as a move "which lasts at least 1 year and shows a rise or decline of at least 20%." Based on this definition, our stock market is not only in a major uptrend but is clearly in a great bull market (*Opportunity of a Generation*, November 3, 2008) which has been surging for almost 4 years now. Our PSE Index has in fact more than tripled since the bull market's start in March 2009 (*666 on 3-6-9*, April 13, 2009).

In a previous article, we discussed that the fundamentals underpinning this bull market continue to be in place (*Christmas Presents*, December 24, 2012). Moreover, one of the Dow Theory's basic tenets, as discussed by Edwards and Magee, states that *"A trend should be assumed to continue in effect until such time as its reversal has been definitely signaled."* In fact, we at Philequity applied Sir Isaac Newton's Law of Inertia to the stock market. The law tells us that a market trending upwards will continue moving up until a drastic change in fundamentals and sentiment create an equal and opposing reaction (*Newton's Law of Inertia as Applied to the Stock Market*, October 30, 2006).

Considering these, it is but logical to conclude that our stock market will continue to move higher unless there is a strong enough reason to cause its reversal. And since we are witnessing a magnificent bull run in stocks, it pays to be on the same side as the bull trend. Just as it is true for the bull runs in Spain, anyone who goes against the rampaging bulls risk getting injured and trampled upon.

Catching Corrections

Because of the recent steep run-up of our stock market within a short time span, many professionals and stock market pundits have been predicting a correction. Corrections, however, can come in many forms. Some corrections can be very quick, examples of which are intraday and one-day corrections. This is the case for the PSE Index in this current run-up. Some corrections may be shallow while others may be deep, depending on the reasons behind them. Corrections may also be triggered by sector rotation as fund managers sell the sectors that have outperformed and switch to sectors that have lagged. Note the performance of PLDT and Globe last week.

Many say that our stock market should correct because it has reached overbought levels. Some have even made bold predictions about where the index will top and where it will bottom-out in time for the next rally. While a correction may in fact occur, we at Philequity believe that not even the smartest investor on earth can exactly predict corrections and outsmart the stock market. This is why we advise investors to use peso cost averaging, buying in tranches and buying on dips instead of trying to time the market.

How to Ride a Rampaging Bull

Since the start of this bull market, we have repeatedly urged our clients and readers to stay long Philippine stocks (*Staying the Course*, January 2, 2012) and to hold on to their winners (*Hold on to your winners*, April 16, 2012) because we believe that a market that makes new highs, such as ours, will continue to make higher highs until fundamentals change (*New High Means Higher*, September 20, 2010). Considering this, we believe that every investor should allocate a certain portion of his investments in equities. The current bull market in stocks, which is taking place amidst a backdrop of low interest rates, will allow investors to earn significantly more from investing in stocks than investing in time deposits, foreign exchange and fixed income.

Sit Tight, Enjoy the Bull Ride

In conclusion, we would like to borrow a quote from one of our favorite books, Reminiscences of a Stock Operator: "*Disregarding the big swing and trying to jump in and out was fatal. Nobody can catch all the fluctuations. In a bull market your game is to buy and hold until you believe that the bull market is near its end."* In another quote, the story's main character, Larry Livingston, explains what one should do after catching a bull market: "*It was never my thinking that made the big money for me. It was always my sitting. Got that? My sitting tight!"*

For the information of our investors, the NAV per share of the Philequity Fund has reached a record-high P30.0916. To our readers and shareholders who have followed our advice throughout the years: Congratulations, Sit Tight and Enjoy the Bull Ride!

For further stock market research and to view our previous articles, please visit our online trading platform at www.wealthsec.com or call 634-5038. Our archived articles can also be viewed at www.philequity.net.