

Philequity Corner (April 27, 2013)

By Valentino Sy

7000

Last Monday, April 22, 2013, the Philippine stock market reached another milestone. At 9:51 in the morning, our PSE Index breached the important 7,000 mark. Later that day, our index made a new all-time high and closed at 7,120. To celebrate this milestone, we made commemorative t-shirts for our clients and investors with “7,000” printed at the front and the text “New High Means Higher” printed at the back.

A Top Performer

Following its strong performance last year, the PSE Index has continued to perform strongly this year. As seen in the table below, our index is now up 20.9% year-to-date (YTD), beating most major and Asian markets. The PSE Index currently ranks 2nd after Japan’s Nikkei 225 Index.

| Major Markets | | |
|---------------|---------|--------|
| Index | Country | YTD |
| S&P 500 | US | 10.9% |
| FTSE 100 | UK | 9.0% |
| CAC 40 | France | 4.6% |
| DAX | Germany | 2.7% |
| Euro Stoxx 50 | Europe | 1.8% |
| FTSE MIB | Italy | 1.8% |
| IBEX 35 | Spain | 1.6% |
| MICEX | Russia | -6.9% |
| Bovespa | Brazil | -11.0% |

Source: Bloomberg, Wealth Securities

| Asian Markets | | |
|------------------|--------------------|--------------|
| Index | Country | YTD |
| Nikkei 225 | Japan | 33.6% |
| PSE Index | Philippines | 20.9% |
| JCI | Indonesia | 15.3% |
| SET | Thailand | 13.7% |
| KLCI | Malaysia | 1.3% |
| Hang Seng | Hong Kong | -0.5% |
| BSE Sensex 30 | India | -0.7% |
| KOSPI | South Korea | -2.6% |
| SH Composite | China | -4.0% |

Source: Bloomberg, Wealth Securities

7 Reasons for 7k

In previous articles and briefings, we often talked about the country’s strong fundamentals and impressive structural growth story. These resulted to the secular bull market that we are presently in

(*Secular Bull Market*, January 28, 2013). We believe that these are the ultimate reasons behind the continued strong performance of Philippine stocks. Aside from these, our stock market has also benefited from various positive developments here and abroad. Below, we enumerate some of the recent catalysts that helped our index reach 7,000.

- 1. Japan's fight against deflation.** In a previous article (*Out of the Sandtrap*, April 15, 2013), we wrote about the unprecedented policies that will be initiated by Japanese Prime Minister Shinzo Abe and Bank of Japan Governor Haruhiko Kuroda. Their efforts are geared towards pulling Japan out of a 2-decade long deflationary trap. Abe and Kuroda's plans have so far caused the Nikkei to surge 60% since mid-November 2012. Moreover, the Nikkei is up 33.6% YTD, leading most developed and emerging market indices. The continued strong performance of the Nikkei has lifted the Philippine stock market as well as other Asian stock markets.
- 2. US stock indices at all-time highs.** Despite various concerns about slower global economic growth, US counters continue to trade at or near all-time highs. The continued strong performance of US stocks has contributed to the confidence of global investors, particularly those that are looking at the Philippines.
- 3. Anticipation of strong 1Q2013 earnings.** The earnings season for Philippine stocks has just begun. The companies that reported their 1Q2013 performance have so far shown robust earnings growth that have either met or exceeded market expectations. We believe that global investors will better appreciate the Philippine growth story once they see how strong our corporate earnings growth is.
- 4. SDA rate cuts.** Last Thursday, the Bangko Sentral ng Pilipinas (BSP) again cut the SDA rate by 50 bps to 2.0%. For the year, the SDA rate has declined by 150 bps, making SDA a less attractive investment. Note that as of March 2013, total SDA deposits amounted to P1.9T. Because of significantly lower SDA rates, we have witnessed migration from SDA deposits to the local stock market.
- 5. LT Group (LTG) placement.** Last April 17, 2013, LTG successfully conducted its secondary placement or re-IPO. The group successfully sold 1.84B shares at P20.50 per share. With a total transaction value of P37.7B, the placement became the biggest ever IPO or re-IPO in the Philippines. The transaction was also heavily oversubscribed. The wide acceptance of LTG's placement made more foreign investors aware of the kind of growth prospects that Philippine companies present. Moreover, the sheer size of the transaction and the fact that it was many times oversubscribed reaffirmed the conviction of local players about the strength of our stock market. This reignited their confidence in buying more Philippine stocks.
- 6. PNoy in Time magazine.** Time magazine recently named President Noynoy Aquino as one of the 100 most influential people in the world for 2013. PNoy joined the list of prominent world leaders, entertainers and athletes. The magazine credited PNoy for stabilizing the country's political situation and invigorating the country's economy. Aside from making our country more visible to the international community, PNoy's citation also reaffirms our thesis that there is really something good happening in our country.
- 7. Philippine ETF picks up in volume.** The iShares MSCI Philippines Investable Market Index Fund (EPHE) is an exchange-traded fund (ETF) listed in the New York Stock Exchange. It started trading on September 2010 (*Historic Moment*, October 4, 2010). Recently, EPHE has experienced a marked increase in trading volume, proof of the growing interest of global investors in Philippine stocks.

Proving the Doubters Wrong

Every now and then, we read bearish articles or calls on the Philippines. Some say that our stock market is already expensive and that it should go down or plunge. Others, in a more benign tone, would just repeatedly make underweight calls on the Philippines, saying that they prefer other stock markets.

Time and again, the continued strong performance of Philippine stocks has proven all these doubters and skeptics wrong. Reaching another round number milestone is a testament to the strength of Philippine stocks and the confidence that investors have in our stock market. Although it is natural for the market to experience corrections, we believe that the uptrend for Philippine stocks is very powerful, clear and intact.

5, 6, 7 – Stay the Course

We also wrote articles and printed commemorative t-shirts when our index breached 5,000 (5000, March 5, 2012) and 6,000 (6000, January 14, 2013). In those articles, we urged investors to stay invested in Philippine stocks because our country's fundamentals are intact. Moreover, our structural growth story is stronger and clearer compared to most developed and emerging market countries. Printed in our previous commemorative shirts were the words "Stay the Course." Now that we have reached 7,000, our advice stays the same: Stay the Course.

For those investors who cannot monitor the market full-time and are underinvested in Philippine stocks, we advise buying using peso cost averaging. For investors who would like to trade the market actively, we have always advocated keeping core and trading positions. Investors can then use their trading positions to take advantage of market moves, such as selling during sharp rallies or buying during deep corrections. While they are doing this, their core positions are intact and unmoved, taking advantage of the continued upward trajectory of our stock market.

A "Must Have" in an Investment Portfolio

As we have said in previous articles, we believe that exposure to Philippine stocks is a "must have" in everyone's investment portfolio. Investors should take advantage of this secular bull market by allocating a certain portion of their assets to Philippine stocks. While corrections may come at any time, we believe it is prudent, wise and judicious to always have part of one's portfolio in Philippine equities.

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.