

Philequity Corner (December 2, 2013)

By Valentino Sy

Rebuilding Process for Country and Stock Market – An Analogy

Yolanda is one of the strongest storms in history and is actually the strongest recorded storm ever to make landfall. It wreaked havoc primarily in the Visayas region, dealing massive damage to property and crops while leaving thousands of people dead and missing. The colossal devastation that Yolanda brought eventually exposed certain weaknesses and vulnerabilities of our country and economy.

International Media Coverage Exposes Vulnerabilities

In our article last week, we talked about how Yolanda affected the stock market. The images of Yolanda's damage and devastation that were shown in international channels such as CNN and Bloomberg eventually triggered a change in market sentiment, from positive to negative (*Yolanda, a Black Swan*, November 25, 2013). Consequently, this sentiment change turned our stock market from one of the strongest performers in the world and in Asia to a recent underperformer. Since Yolanda struck, our market has experienced strong net foreign selling amounting to P9.8b. As we show in the table below, our index has recently been one of Asia's worst performers, along with Indonesia, which is suffering from persistent inflation and a wide current account deficit, and Thailand, which is reeling from political instability.

Asian Indices - Performance After Yolanda		
Country	Index	% Change
Indonesia	Jakarta Composite Index	-5.1%
Thailand	Stock Exchange of Thailand	-3.8%
Philippines	PSE Index	-3.5%
Singapore	FTSE Strait Times	-0.9%
India	Sensex Index	-0.1%
Malaysia	FTSE Malaysia KLCI	0.5%
China	Shanghai Composite Index	4.3%
Japan	Nikkei 225 Index	10.1%

Source: Bloomberg

Goodwill Planted, Goodwill Received

When other countries or institutions needed help, our country did our part in helping. We sent a team to help in the rescue and relief efforts in the aftermath of the 2011 tsunami and earthquake in Japan. In 2012, we extended a \$1b loan to the International Monetary Fund (IMF) to assist in providing funding to troubled European countries. Though this move drew a lot of criticism from various sectors, it created goodwill and it showed our country's willingness to extend help when other countries need it.

Unprecedented Foreign Aid

In our country's time of need, the goodwill that we planted has contributed to the inflow of aid, donations and help that we received after Yolanda. Total amount of pledges for aid has already reached

P16b. Moreover, the World Bank and the Asian Development Bank (ADB) have extended \$1b in emergency loans for the reconstruction and rebuilding efforts.

Christmas Parties Cancelled to Help Yolanda Victims

On top of the barrage of foreign aid, Filipinos did their part in helping their countrymen who were affected by Yolanda. Various groups and organizations devised creative fund-raisers to seek donations in the form of cash, food and clothes. Further, Filipinos from all walks of life – students, employees, executives and even the rich and the affluent– flocked to relief centers to help in packing relief goods for the Yolanda victims. Aside from these, Christmas parties of various local companies, villages and organizations have been cancelled, as they chose to donate the money that would have otherwise been used for the celebrations.

Recovery for Country, Recovery for Stocks

The process that our country is going through in recovering from Yolanda – from the damage created, to the rehabilitation efforts, to the rebuilding and the actual recovery – is analogous to the process that the stock market will go through in recovering from a storm of negative events. While there are various estimates on the extent of Yolanda’s devastation, what it is clear is that our country will need time, money and effort to recover. Similarly, our stock market, which broke significant support levels, will need time to heal and recover. Our stock market has to gradually rebuild strength and re-establish important support levels before it can resume its upward trajectory. Moreover, confidence in our stock market has to be restored. This will be hastened as soon as our country starts to show signs of recovery.

Portfolio Damage

The damage dealt by Yolanda has contributed to the volatility that our stock market has experienced this year. After the run-up in the earlier part of the year, we dealt with various global headwinds such as the talks about QE tapering (*The Tale of the Taper*, July 22, 2013) and the Asian scare (*The Best House in a Bad Neighborhood*, September 2, 2013). These caused our market to experience sharp and vicious corrections. We were also bombarded with a torrent of share issuances and placements that sapped stock market liquidity (*A Torrent of Share Issuances and Placements*, November 11, 2013). Aside from these, we experienced various natural and man-made disasters that contributed to the weakening sentiment in the stock market. Then came Yolanda, which triggered heavy foreign selling and ultimately caused our index to fall. If not for Yolanda, our index would probably be above the 6,500 level. The chart below shows the rollercoaster ride that our stock market has gone through this year.



Sources: Stockcharts.com, Wealth Securities

From a peak of 7,404 in May (27.4% higher vs. year-end 2012), our index is now at 6,209 and has a year-to-date return of 6.8%. From a stellar performer and a cut above the rest, our stock market has become a recent underperformer because of Yolanda.

Portfolio Reconstruction

Given the damage that our stock market has experienced this year, investors should focus on fortifying their equity portfolios. The goal is to create a portfolio that would do well in the long run and withstand the volatility caused by various headwinds and black swan events. Considering this, we recommend that investors focus on companies with unimpaired fundamentals and those that are less affected by global and local headwinds. We also prefer companies that can show sustainable earnings growth while providing a steady stream of dividends. Moreover, we recommend using a buy-on-dips strategy to slowly build equity positions, especially during times of volatility. Lastly, we would like to remind investors to exercise patience, as it is something that would definitely be needed in implementing an investment strategy in a difficult trading environment such as this.

History has shown us that our country can bounce back strongly from adversities and extreme events. And once we weather this storm, we believe that our country's trademark resilience and strong economic and corporate fundamentals will again shine through.

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