

Philequity Corner (November 10, 2014)

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Yolanda: 1-Year After

One year ago, our country was hit by Yolanda, one of the strongest typhoons to ever make landfall. Its devastation was well-known and was closely chronicled by most broadsheets and TV stations. Its damage inevitably dented our economy and stock market's performance. After Yolanda struck, we wrote the following articles to share our conviction about the eventual recovery of our stock market.

- *Eye of the Storm*, November 18, 2013
- *Yolanda – A Black Swan*, November 25, 2013
- *Rebuilding Process for Country and Stock Market*, December 2, 2013
- *Yolanda and the Peso*, December 9, 2013

In this article, we look back at Yolanda's effect on our stock market and what has happened since it came to our shores one year ago.

Triple Bottom

Before Yolanda, our stock market had just recovered from two painful corrections caused by QE tapering (*The Tale of the Taper*, July 22, 2013) and the Asian scare (*The Best House in a Bad Neighborhood*, September 2, 2013). The PSE Index had just bounced from intraday bottoms of 5,678 (5-6-7-8, July 1, 2013) and 5,562. It was poised to move higher as it hovered around the 6,400 to 6,500 level. However, images of Yolanda's damage and devastation prompted heavy foreign selling, causing our index to drop 10% to a bottom of 5,709. A triple bottom, which is a bullish chart pattern in technical analysis, was formed when the previous bottoms were retested and not broken. The chart below shows this.

Chart 1 – PSE Index and the Three Corrections in 2013



Sources: Stockcharts.com, Wealth Securities Research

A Stormy Outlook

At first, people did not realize the magnitude of Yolanda's damage. However, when images and videos of destruction were repeatedly flashed on local and international news channels, investors began to focus a bit too much on Yolanda's devastation. Many fears surfaced about the extent of the damage, the possible impact to our GDP growth and the duration of the recovery. Many probably thought that it was the end of the bull market or that it would take a long time before our stock market recovers. As such, investors started to become gun-shy in buying Philippine stocks. Moreover, this gloomy scenario was probably the reason why many fund managers and investment houses made bearish calls on the PSE Index earlier this year. When they focused too much on the painful short-term picture, what they missed was the opportunity to buy low, in time for the ensuing recovery.

Post-Yolanda Recovery

We made presentations to various institutional clients shortly after the PSE Index hit its post-Yolanda bottom. When most investors were too focused on Yolanda's damage, we urged them to welcome the impending recovery and not to lose sight of the positive long-term picture. Moreover, we said that in every crisis, there is an opportunity. We showed examples of how stock markets eventually recovered strongly after being hit by the most disastrous natural calamities. We show this in the table below.

Table 1 – Recovery After Disasters

Calamity	Index	Return After Bottom		
		1m	3m	12m
Hurricane Katrina	S&P 500	2.2%	-1.0%	19.2%
Hurricane Sandy	S&P 500	4.5%	7.5%	8.4%
Thailand Floods	SET	11.9%	21.1%	52.7%
Japan Triple Disaster	Nikkei 225	11.5%	11.3%	17.6%
Typhoon Yolanda	PSE Index	1.4%	11.6%	?

Sources: Bloomberg, Wealth Securities Research

We reached our post-Yolanda bottom on December 13, 2013. From the way the market is moving, it looks like our stock market will be substantially higher one year after the Yolanda bottom. In fact, despite the extent of Yolanda's damage, the PSE Index is up 22.3% year-to-date while Philequity Fund is up 27.6% year-to-date.

Chart 2 – Post-Yolanda Recovery



Sources: Bloomberg, Wealth Securities Research

Resilience of Markets, Resilience of Men

There are many lessons that can be learned from our country's experience with Yolanda. As we saw again in this episode, there are opportunities in crises, especially if one is an astute student of the capital markets. Moreover, our experience with Yolanda has shown that despite the short-term pain, it is better to have a long-term perspective. If a country's fundamentals are intact, the stock market will recover strongly after a crisis, no matter how devastating the calamity may be. Though Yolanda dented our economy and stock market's performance, it did not change our country's long-term structural growth story. Lastly, we learned never to discount the resilience of Filipinos and the resilience of the Philippine stock market. Time and again, we have seen both our countrymen and our stock market recover from extremely painful setbacks only to emerge better and stronger than before.

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