Philequity Corner (February 16, 2015)
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Valentine Treat

It was Valentine's Day last Saturday and investors got a timely Valentine treat as a result of the stellar performance of the Philippine stock market. In an article that was published in October last year, we said that the period from Halloween to Valentine's is a very strong period for the Philippine stock market (*From Halloween to Valentine's*, October 27, 2014). During this period (from Halloween last year to Valentine's this year), the Philippine stock market performed impressively and established a new all-time high.

High Batting Rate, High Return

Based on trading data from 1988 to 2013, we found that the PSE Index delivered positive returns during the period 77% of the time (20 out of 26 years), with an average return of 11.0%. The period from Halloween to Valentine's provides one of the highest batting rates and highest returns. This is why we said that this is a high-probability trade that traders and investors can benefit and profit from.

9.4% Return from Halloween to Valentine's

The PSE Index delivered a return of 9.4% from October 27, 2014 to February 13, 2015 (109 calendar days). Our stock market did not move much and trading activity was muted in December 2014 probably due to the limited number of trading days caused by the long holidays. However, the index more than made up for its lackluster performance in December as it performed very strongly in January and the first half of February 2015.

Foreign flows drive the run-up

So far this year, the stock market has continued going up despite events that would have normally caused corrections, such as the Mamasapano clash (which resulted in the deaths of 44 elite police officers) and five overnight placements amounting to $945m. Instead, foreign investors continued to be net buyers in our stock market, with year-to-date net foreign buying amounting to P36.5b. To put this in context, this is already 66% of the net foreign buying for full-year 2014.

Biggest winner from low oil prices

Instead of being affected by negative news, foreign investors continued to focus on positive catalysts for the Philippine stock market. A number of research firms have said that the Philippines stands to benefit the most from lower oil prices (*Falling Oil Prices, A Boon to the Philippine Economy*, November 3, 2014) since domestic consumption accounts for more than 70% of our country's GDP. For our country, lower oil prices would mean lower inflation, higher savings and higher domestic spending, which should translate to faster GDP growth.

Differentiating the Philippines

Aside from lower oil prices, our country's GDP and domestic consumption should benefit from the resumption of government spending this year, the start of election spending in the 2nd half of the year and the continued strength of OFW remittances and BPO revenues. All in all, these are reasons that will continue to drive our country's resilient economic growth.

All-Time High

As a result of this differentiation, our stock market experienced a very strong run-up. Our stock market reached an intraday high of 7,808 and an all-time closing high of 7,783 last week. Moreover, the PSE Index has delivered positive returns in 18 out of the last 28 trading days.

Run-up to continue?

The recent run-up of our stock market has been very swift and furious. And since we are in the middle of a run-up, many investors and traders might be asking if this will continue and how long it will last. In cases of breakouts from previous all-time highs, the path of least resistance is higher since there is no overhead resistance anymore. Though a correction may indeed be warranted, nobody can predict with certainty how far our index will go before it corrects. Globally, markets are also getting stronger and are moving higher. Moreover, the US stock market reached an all-time high last Friday, February 13. These may further fuel the run-up that we are experiencing.

Post-Valentine Blues?

After the best period of the year for the stock market and after the index went up 9.4% during Halloween to Valentine's, some investors and traders may be wondering what they should do next. The former all-time high of 7,414 should function as a strong support level in case of a deep correction. And since our stock market has experienced a relatively uninterrupted run-up, corrections may possibly occur anytime.

For traders who read our column and followed the Halloween to Valentine's phenomena for a short-term punt, it is definitely tempting to take some profits. However, for long-term investors who also followed our advice, it might be better to continue being invested and keep your core holdings intact. For those who did not follow our advice or who failed to read our column, use corrections or pullbacks to increase your equity exposure.

Short-term is hard to predict

Unlike the Halloween to Valentine's trade which is backed by statistics, short-term movements and corrections are harder to predict as they are influenced by many factors. Unpredictable events can happen locally or globally and may push our stock market in either direction. For example, we must be cognizant of how the Greek situation unfolds, as the final outcome of this problem may determine how global markets will move.

Moreover, corrections can occur in many forms – our stock market may experience a shallow pullback, a momentary pause or even a sharp but quick correction. Our market may also experience a long consolidation or even a rotation among sectors. Given these permutations, it is almost impossible to accurately forecast what will happen in the very short-term. However, for us at Philequity, the long-term upward trajectory of the Philippine stock market is clear.

Staying the Course

At this point where a stock market run-up is ongoing, we would like to again highlight the importance of investing regularly by using peso cost averaging. This would allow one to gradually increase his equity exposure without worrying about timing the market or being exposed to an unexpected correction. This would also allow one to build adequate exposure to local stocks in order to benefit from the bull market that we are experiencing. For those who are content or are satisfied with their overall Philippine equities portfolio, this run-up demonstrates the wisdom of long-term investing, holding a core position and staying the course during a secular bull market.

Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit www.philequity.net to learn more about Philequity's managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 689-8080 or email ask@philequity.net.