Philequity Corner (February 13, 2017)
By Wilson Sy

Double Your Money

Last week, we wrote about the Dow Jones index's 20,000 milestone. Despite jitters brought about by Trump's controversial executive order imposing a travel ban on citizens of 7 Muslim countries, the Dow still managed to end the week at all-time highs. Moreover, there was a triple treat for stocks last Thursday and Friday as the Dow Jones, S&P 500 and Nasdaq closed at all-time highs. This trifecta of new highs is a very bullish signal for US equities.

"Phenomenal" tax cuts

Though the travel ban did cause a lot of concern, we would like to emphasize that it was Trump's economic policies that were the catalysts behind the resurgence of the bull market in the US (see *20000*, 6 February 2017 and *The Trump Card*, 12 December 2016). Foremost of these are the reduction in corporate & personal income taxes, boost in infrastructure spending, decrease in regulation, as well as repatriation incentives. Just last Thursday, in a meeting with airline industry executives, Trump said that there will be an announcement "over the next two or three weeks" that would be "phenomenal in terms of tax." This electrified US stocks across the board, bringing the Dow Jones to 20,269 as of last Friday.

Because of Trump or Despite Trump?

With the way US stocks are moving, it may be interesting to note that most foreign investment banks were expecting a double digit percentage drop in the event of a Trump victory. But lo and behold, the naysayers were proven wrong as US stocks surged. In fact, it seems that US equities are poised to double sooner because of Trump and not despite Trump. Whether the US will double again in the coming years because of Trump or get derailed by his policies is the hot debate among many pundits, strategists, analysts and fund managers.

10000 to 20000 in 6.5 years

Many investors doubted that the Dow Jones index could hit 20,000 this quickly. However, there were probably as many pessimists when the Dow Jones was on its way to 10,000. The first time the Dow Jones index touched 10,000 after the financial crisis was on October 2009 and the last time it was at that level was end-August 2010. Since then, it never looked backed. Thus, on January 25, 2017, 6 and a half years later, the Dow Jones closed at 20,000, enabling investors to double their money.

Philippine stocks also doubled

That said, Philippine stocks were not to be outdone. At the end of August 2010 (the last time the Dow was at 10,000), the PSEi was at 3,566. At current levels, we will see that our stock market has more than doubled over the same timeframe as the Dow Jones. In fact, it took us less than 3 years to double as the PSEi was trading above 7,000 in the 1st week of May 2013. However, a number of negative events caused us to consolidate for a few years, such as QE tapering, Yolanda, the devaluation in the renminbi and several geopolitical events.

PSEi doubles every 6 years

In our annual investors briefing held last February 4, we showed how the PSEi performed across the different Presidential terms. The attendees saw that on average, the PSEi doubles every Presidential term, or every 6 years (see *Philippine Presidential Elections and the Stock Market*, 2 May 2016).

Quadruple in 8 years

During the subprime crisis of 2008, we wrote numerous articles to alert our readers that an opportunity of a generation was forthcoming. These are all explained in Chapters 2 and 3 of our book, Opportunity of a Lifetime. Since the generational low of the US stock market on March 6, 2009, the PSEi has quadrupled to date. In fact, if you include the high of 8,137 last April 7, 2015, the PSEi would have nearly quintupled in 6 years. Thus, if an investor can hold for the long term despite the volatility, history shows that one can double, quadruple or even quintuple his money over a reasonable period of time.

The end of "lower for longer"

During the briefing, we explained how the global economy is moving from deflation to reflation. With the US on a stable growth path, the rest of the world is bound to follow. Taking this into account, the Federal Reserve expects to raise interest rates three times each year until 2019. This means US interest rates could rise by as much as 2.25% in the next 3 years. As interest rates have already started rising steadily, the era of "lower for longer" has finally ended.

More stocks, less bonds

Because of this, we cautioned investors against investing heavily in long term bonds as rising interest rates usually lead to lower bond prices. Moreover, if growth forecasts surprise to the upside, interest rates may rise faster than expected. While this can lead to high volatility, stocks are expected to significantly outperform bonds in the years to come. Thus, we recommend that investors shorten their duration in bonds and reduce their exposure to long-dated fixed income instruments in favor of equities.

Tax reform is crucial

Our investors briefing this year was made more special by the presence of Cong. Joey Salceda. Previously a seasoned equities analyst before entering government, he explained how the government's tax reform package will lead to inclusive growth and the greater good of the country. He showed how additional taxes will be generated without burdening the majority of the population. In our presentation, we explained how tax reform may well be the catalyst that will lead to the next leg of the Philippines' secular bull market. Not only is it crucial to our stock market, but also to our country.

Double every 5 years

Over the years, clients of the Philequity Fund have participated in our country's secular bull market. Those who have remained invested in Philequity since its inception in 1994 have seen their 1 peso grow to 34.7 pesos as of last week. Based on our historical performance, our investors also managed to double their money every 5 years, much faster than both the Dow Jones index and the PSEi.

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.