

Thinking Beyond Stock Market Lull

BY GIA SINGH

“When it rains it pours!” how many times have you said this when something negative has happened to you? I for one can tell you that it was one of my most used sentences until recently. My best friend introduced me to the New Age ideology known as the “Law of Attraction”. As defined by Wikipedia the “Law of Attraction” states that people experience the corresponding manifestations of their predominant thoughts, feelings, words, and actions and that people therefore have direct control over reality and their lives through thought alone. Thus, a person's thoughts (conscious and unconscious), emotions, beliefs and actions are said to attract corresponding positive and negative experiences or "harmonious vibrations of the law of attraction". In other words, the "law of attraction" states "you get what you think about; your thoughts determine your experience."

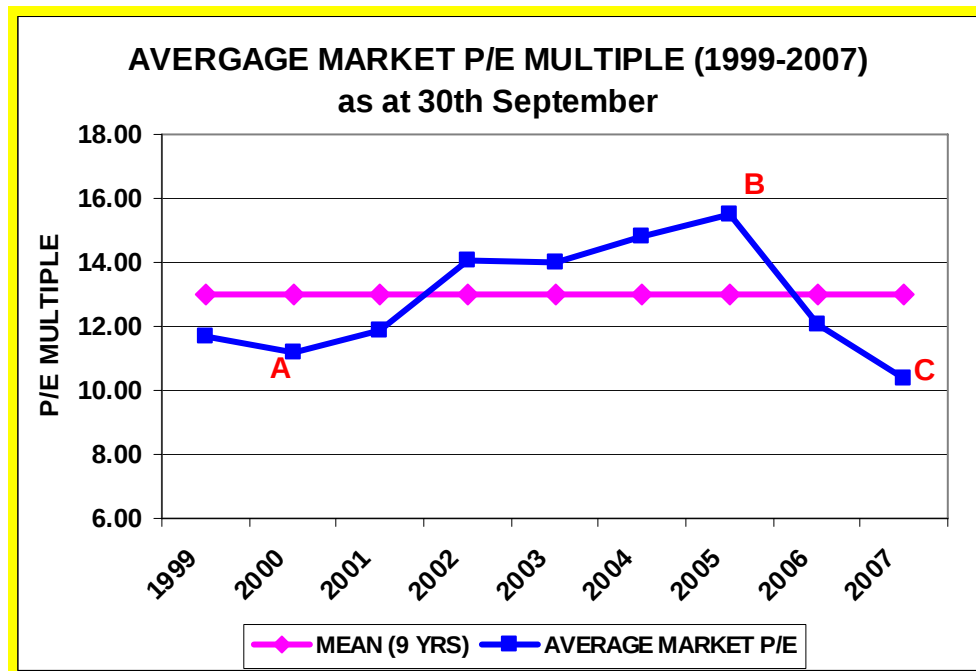
While this theory has received intense criticism from multiple circles in the media, the scientific community, and even other areas of the New Age Movement; I thought that instead of writing another article about the negative feelings towards investment in the local stock market, that something of a more optimistic nature might breathe positive energy into its veins. Don't get me wrong! I am not saying that by simply thinking that you are going to get rich that you will. However, maybe if you see the stock market in a more positive light, you and others alike may be more confident which in turn can exude some positive market sentiment.

So, let's focus on the good. To start with, fiscal 2007 has indeed been a year of growth for a lot of the companies listed on the local market. This growth has been across all sectors. In the Banking Sector, FirstCaribbean International Bank (FCIB) reported a substantial increase of 21 per cent in earnings year on year for its Nine Month period in FY2007. FCIB has consistently been showing growth in earnings over the last five years and based on forecasted multiples, this share has an expected 12 month return of approximately 22 per cent. Our local Conglomerate, Neal and Massy Holdings Limited (NML) is another example of exceptional growth, reporting Earnings Per Share (EPS) of \$2.74 for the nine month period ended June 30, 2007, up an outstanding 32 per cent when compared to the same period in the last financial year. We have forecasted an expected 12 month return of approximately 17 per cent for this Company. In the Manufacturing Arena, Trinidad Cement Limited (TCL) and its subsidiary Readymix West Indies Limited (RML) saw enormous growth after having some problems in fiscal 2006. TCL was up a noteworthy 85 per cent Half Year 2007 on Half Year 2006, while RML was up an astounding 660 per cent. The prospects for both companies in 2007 are very optimistic and this has been reflected in the performance to date. The companies mentioned above provide just a snap shot of the positive fundamentals and attractive returns in the market. In fact, as stated earlier, you will find this kind of double digit growth in at least one company in each sector.

This brings me to my next point. With earnings growing at a much faster pace than share prices the subsequent effect has been lower price to earnings multiples. Just as the name implies, a price to earnings multiple is a valuation ratio of a company's current share price compared to its per-share earnings. Generally, the lower the P/E multiple: the greater the possibility for higher returns. Please note that I have said “generally” as there

are various factors which must also be taken into consideration before making an investment decision. **Graph 1** shows the Average Market P/E multiple over the last nine years as at September 30th. The mean over the period is approximately 13 times and for 2007 the multiple as at September 30th stood at 10.40 times (Point C). What does this mean? Well, it means that the market is currently trading at a discount of 20 per cent to its average over the last 9 years. Also interesting to note, is that following the trough at Point A, the Annualized Five Year Return to Point B was 19 per cent. Now, doesn't that sound good!

Graph 1



As we enter the last quarter of the year many investors are trying to predict what their net position will be at the end of 2007, that is, whether the market is going to be above or below its starting point. Since we don't have a crystal ball, the next thing would be to look at the past for some sort of trend or indication as to what the future might hold. Over the last 10 years, the average return during the fourth quarter has been approximately 7 per cent which is higher than most other investments. For instance, a one year Treasury Bill pays about 7 per cent for 12 months, or 1.75 per cent per quarter. Another factor worth considering is the fact that this is an Election Year. If we look at past Election Years, that is: 1997 and 2002, the return in the last quarter was 29 per cent and 11 per cent respectively. (See Table 2) Do you still have those negative feelings?

Table 1

Composite Index Return in Last Quarter (Q4) (1997-2006)				
YEAR	Start of Q4	End of Q4	% Change	
1997	273.85	352.27	28.63%	Election Year
1998	455.92	436.30	-4.30%	
1999	401.73	417.47	3.92%	
2000	447.33	441.50	-1.30%	
2001	444.08	434.19	-2.23%	
2002	488.61	542.14	10.96%	Election Year
2003	596.72	693.67	16.25%	
2004	962.76	1074.63	11.62%	
2005	1082.86	1067.38	-1.43%	
2006	868.78	969.17	11.56%	
2007	936.57	*****	*****	Election Year
Average Return for Q4 over 10 Years			7.37%	

As a final point, I would like to boast the fact that since its inception in 2000, the WISE Top Picks have consistently outperformed the benchmark index (TTSE Composite Index). Essentially, the WISE Top Picks is an equally-weighted hypothetical portfolio of our preferred stocks listed on the local exchange. These stocks are chosen at the beginning of the year based on fundamental analysis in addition to other factors such as liquidity of the stock and industry outlook. This year we chose five companies: Ansa McAl Limited (AMCL), Neal and Massy Holdings Limited (NML), One Caribbean Media Limited (OCM), Scotiabank (Trinidad and Tobago) Limited (SBTT) and Trinidad Cement Limited (TCL). Year to date, the average return on these stocks (inclusive of dividends paid) has far exceeded both market Indices. (See Table 2)

Table 2

2007 - Return to September 30, 2007	Open \$	Close \$	Return	Dividend (FY)	Return With Dividend
Ansa McAl Limited	\$ 43.75	\$ 46.95	7.31%	\$ 0.50	8.46%
Neal & Massy Holdings Limited	\$ 42.66	\$ 48.00	12.52%	\$ 1.10	15.10%
One Caribbean Media Limited	\$ 18.99	\$ 17.03	-10.32%	\$ 0.72	-6.53%
Scotiabank (T&T) Limited	\$ 27.03	\$ 28.49	5.40%	\$ 0.42	6.96%
Trinidad Cement Limited	\$ 7.01	\$ 7.74	10.41%	\$ 0.06	11.27%
Average Return			5.07%		7.05%
Composite Index	969.17	936.57	-3.36%		
All T&T Index	1205.73	1179.58	-2.17%		

Suffice to say, all is not lost! Yes the market is down, but see this as an opportunity and not a threat! For new investors it is a great time to get in and for existing ones it's a great time to average down costs. There is no need to be despondent about the current lull, especially when the focus should be for the long term. Certainly we need to take advantage of the present moment in order to create our future!

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