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Market Sentiment

"Market sentiment" is a phrase securities analysts use to explain price fluctuations that economic statistics and financial ratios alone cannot account for. Investor mood is described as bearish, bullish, or that in-between outlook of wait-and-see when people are not paying attention and staying in the sidelines. Clueless is another category we have to introduce.

Like lovers, investors need to be in the mood for action, to buy, sell, or tend to their orchids. This mood is not entirely psychological as it is also driven by a combination of statistics on growth, inflation, and exchange rate, in addition to a brew of insider info, corporate rumors, feng shui, and the weather. It may even be informed.

Setting the mood

Watching Bloomberg TV with its parade of analysts going through statistics and Wall Street behavior like dentists looking for plaque or cavities can set the mood, even when none of the interviewed analysts agree with each other. Often, what the investor is looking for is somebody who agrees with him and justifies his moves in the market.

While bombs exploding in Zamboanga or a foreigner or two kidnapped or found stabbed in his mistress's apartment no longer upset anybody's breakfast, a combination of these isolated events or coming together in a critical mass can affect market sentiment.

Expected events like the announcement of the verdict on the previous (or, depending on the verdict, current?) president is factored in. These expected events are not Taleb's "Black Swans" as they are anticipated. The same lack of surprise goes for the 18 September announcement of the Fed which is presaged by clues planted like code in pre-announcement speeches of the Chairman.

But as in all bad news, be it opposition's resurrection of wiretapped conversations, broadband contracts missing in China, or the accuracy of the astonishing 7.5% second quarter GDP growth, the negatives get swallowed up and "discounted" in the price. This incorporation of bad news into the price of a stock theoretically makes the negative event irrelevant.

Some gutsy investors shrugged off the recent and persistent bearish market sentiment of the global and local market prior to the reduction of the rediscount rate and added liquidity from the world's central banks. Our own delayed reaction (from 20 August holiday economics) resulted in an almost 10% recovery of the Phisix on August 21, 2007 which ironically commemorated an airport assassination and also heralded the recovery of the market. Going against sentiment can be rewarding.

Mood swings

Some of the mood swings in market sentiment are exhibited in the following investor behavior.

Panic Buying. This behavior last seen in the rush to stock up on toilet paper by frantic homemakers (a synonym for desperate housewives) springs from the conviction that one is being left behind by the gravy train. The order to the broker is given to buy "at market" to ensure accumulation of a fancied stock. This lack of patience leads later to buyer's remorse which we have already discussed the last time. The opposite of this anxiety attack is the next behavior below.

Panic Selling. Many readers will turn the page on seeing this. They will feel a pang in the nether regions (where the wallet resides). These unfortunate disciples of Chicken Little dumped their equity position at a loss when they heard the phrase "sub prime", without bothering to ask if it was a preposition or an adjective. Because they took a deep loss, which is not the same as a "stop loss" strategy since the latter refers to a pre-designated percentage drop in price to trigger off a sell order, they now want to get back on the train and exhibit the same anxiety as the short seller trying to cover his position in a bull run. The panic seller seeing the steady rise of the stock she dumped will now try to catch the same stock "at market" and become a panic buyer.

Switching Portfolios. While fixed income securities like bonds and five-year (plus one day) time deposits keep the blood pressure steady and allows one to sleep at night, the switcher from equities after the sub-prime scare does not really stop looking at the PSE website or calling her broker. (Why are all these characters female?) She does not really buy peace and tranquility but a kind of rising panic. She knows she should stay in the sidelines and not invite the braggarts with an equity position to her parties so she is immune to their siren song. Like Ulysses, she should tie herself to the mast and put wax on her ears when the sirens sing their seductive tunes and lure her to cast herself to the sea. She must resist depression (the psychological and not economic kind).

Fear of ridicule

Emotion, mood, and the last person you talk with play a big part in determining market sentiment. True, it is a collective feeling and usually displayed by experienced market players but much of it is based on fear. It's not necessarily that of losing money (although that's a big part). Mostly, it is fear of ridicule, and being publicly wrong. Is it better to be jumping off the cliff with the herd or going against market sentiment and deciding to go in the other direction?

Does fortune reward the contrarian? Well, this breed is not shy about telling the herd—I told you so.

Ours is a moody economy. It has been said that the Philippines is seldom covered as a business story. It is always a political one like Bangladesh and Pakistan. Thankfully, a recent front page story by the Asian Wall Street Journal featured the Philippines as an economic story, a (dare I say it?) business turnaround.

When established and mature economies like the US and Japan are pointed out by analysts for their trade and budget deficits, many times worse than ours, capital does not flee at the news, at least not right away. Sure, the currency depreciates, but that's it.

For us, market sentiment is so fragile. While some attack foreign funds for their too ready rush to the exits when sentiment turns, I welcome them for bringing attention, and funds, into our tiny equity market. It is these funds, after all, that have put us back on the financial radar of international investors. And we are still quite a long way from being in the overweight position in their portfolio. Should we blame them for trying to make money? Isn't that what all of us are trying to do?

If investors are getting in the mood again, let's not spoil the party. Instead, we should just keep the music playing. Market sentiment is cool.

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