PHIL EQUITY

Holiday Spirit
By ARSamson

We have already talked about the so-called Santa Rally in this corner last 19 November 2007 when we still firmly believed that there was a Santa Claus. ("Will Santa Come to Town This Christmas?") History of the last twenty years it was pointed out n that piece showed that in fourteen of those years the market had exhibited a Christmas spirit with a nice rally, even if it sometimes showed up after the opening of the gifts on boxing day, on the following month of January.

And yet Nassim Nicholas Taleb in his book, "The Black Swan: The Impact of the Highly Improbable" cautions us all on the use of historical statistics to predict the future. One simple example he gives is of the turkey who blesses his luck when being fed daily by the kindly farmer for 1000 days like clockwork (these are nice folks) and then on the Wednesday eve before Thanksgiving being dealt a rude awakening (or more precisely its opposite)—the turkey's version of the Black Swan which happens to be the butcher's idea of just a day in the office.

No, this is not a gloomy note for Christmas Eve.

We want to point out the effect of holidays on business in general, and market sentiment in particular. The psychological state of mind, after all, is as influential as PE ratios, revenue streams, and debt covers. Surely, there is an unwritten rule that states: "The longer we are out of the office taking a break from work, the less we think of work." This unscientific rule, which we don't intend to prove, is one way to explain the lingering effect of the sub-prime loans on the world economy. The first tsunami hit the United States and Europe at the vacation months of July and August and it was noted that many vacations were consequently interrupted by the sound of houses of cards falling… make that crashing. Imagine a fund manager checking his humming Blackberry while negotiating Dakota's Devil's Tower and being asked by his staff what to do with the inventory of sub-prime derivatives and Collateralized Debt Obligations. (Oh, I don't know. Just get rid of them. Now, which peak was I in?)

On this holiday of holidays, our country being famous for its longest celebration of the season, here is what market players, including analysts, investors, fund managers, bankers, and assorted corporate types may be occupied with starting from last week to the end of the month. The holiday spirit is pervasive.

There are no deals announced, no profit targets hinted at, and no investor briefings at this time. This absence of any market developments, even after the big privatization event and the rustling in the forest that followed that, is due to the holiday spirit. Because everybody, media included, is on vacation leave (use it or lose it) or getting ready for their costumes in the Christmas parties, no one is taking notes. A typical conversation between moguls conducted over the phone while waiting at the airport goes like this—do you want to talk about possible partnerships? Yes, we are definitely interested. Ok, let's discuss after the holidays. Deferring serious talk until the fruitcakes are but a memory lodged in the waistlines drives this news vacuum.

This lack of corporate news during holidays corresponds to the lack of political news on weekends. With government offices closed on weekends, not even the usual suspects have any reason for grandstanding. This is why for a long time, TV news programs relied only on updates on weekends read by unknown anchors due to an unspoken agreement that coups and such be put on hold until Monday. It's a Zen type of problem—when a tree falls in an uninhabited forest, does it make a sound? If a merger is announced on Christmas Eve, is it real?

The word, "window dressing" is too severe to describe the efforts of portfolio managers to show a good profit growth to track their performance against specific benchmarks (other funds). This process of aesthetic enhancement results in locking actual profits by selling good-performing stocks in the portfolio thus adding downward pressure on them and hedging against the red drift which will reflect in the portfolio value when marked to market at the day of reckoning, the last trading day of the year.

More players stay in the sidelines, including active market makers. This is evident in the generally lower transaction values, down by as much as 40% in the second half of this holiday month. While part of this sideline mentality is due to the volatility of the market and waiting for trends to be more stable, like seeing green for a week, much of the lowered activity is accounted for by the sign on the door of many offices—"out partying".

As hinted in the two Christmas pieces (there was another related piece in this same corner in the past, December 26 2005—"Santa Claus Rally and the January Effect") January may be a more hospitable month for a rally. By then, the hangover of the holidays will have dissipated. So, the holiday spirit is then replaced by a more acquisitive one. The vacation mode is discarded for full throttle investing. The floodgates of news are reopened and the rumor mill of deals and dividend declarations once again liven up insider trading.

For now and the next week, let us set aside the bulls, bears, and yes, pigs. More appropriate are camels and donkeys and the message from the manger of peace and goodwill to stockbrokers and research analysts.

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