Phil Equity Corner

**What's Hot, What's Not?**
By ARSamson

In every briefing on the investment landscape, whether in hotel ballrooms for high-net-worth clients or on TV interviews of portfolio managers in the business channels, the resource person is always asked to designate his stock pick, a list of sectors and companies he favors, presumably already part of holdings he manages or advises. This preference is backed up by expert analysis and research.

Here are the things the picker presents.

The category of investment is specified. It can be fixed-income bonds and treasuries, equities, or commodities. Each category is assigned a champion. They are often invited not really to confuse the investor (although this is inevitably the result) but to provide an array of options, much like the lunch buffet offerings of five-star hotel coffee shops. The categories are offered as models of risk aversion. Thus, the most risk-averse may opt for the fixed-income investments like government securities. Corporate commercial paper may also be considered acceptable though slightly less safe. Risk and yield are always in inverse proportions.

Usually, the odd statistic or historical trend is offered. The proponent of precious metals like gold may provide a startling image and ask the audience how big in cubic meters the sum total of all the gold ever mined is (including the one in Fort Knox and jewelry when Iraq was still called Mesopotamia)—take a guess. Few ever take on such invitations to look clueless in a roomful of strangers. The gold bug declares that if melted and compressed into a cube, the total would be only 20 cubic meters in size. This dramatizes the scarcity of the metal and makes the case for its role as a good defensive investment.

In terms of equities, sectors are usually favored. Reasons can range from scarcity and high demand (oil, wheat, rice) or opening up of new markets like the OFWs who seem to give a boost to the mid-range property sector—in the local market.

There are always sectors that enjoy favor for a while. It's as if all the research analysts had coffee together, much the way fashion designers do each December to choose the "color of the year". Tech stocks had their day and oil seems to be a current favorite. Once a sector is chosen, the next step is to provide a list of companies in that area to put money on. These star performers usually are overlooked companies which still have low P-E ratios compared to the industry, or are on the verge of being taken over, or have just introduced a new killer application.

It is not enough to provide the list of picks. The entry price range is given. Anything over this level is considered already too pricey, which means that the upside is quite narrow. The target price is also revealed, the time to sell and take profit, usually two ticks before the predicted level.

If everyone is getting the same advice, what is the "herd effect" of the expert's choice? Not to worry, there are a lot of experts, as well as much discounting done even in these supposedly well-researched suggestions. At the back of the listener's mind is the nagging thought—he probably bought the stock at an even lower price a week ago. Is he just hyping it up?

In a recent Bloomberg article one is made to wonder if there are really true experts to begin with. The piece cites 1,800 Wall Street analysts (count them) who forecasted US earnings growth for the third quarter of 2007 at 8.2% higher than actual. In the following quarter the estimates were 33.5% too high! (That deserves an exclamation point.) The chief investment officer of a California Fund worth USD 60Billion declares that analysts are "going to lead you off the cliff." A vote of confidence on analysts, this is not.

When experts give their hit list, they also accompany this with what they want you to avoid—their "shit list". This is easier to do as it is based on current performance (or non-performance). All those companies with red as their favorite trading color fall in this list. Yet, even for this group, the question is asked—have they hit bottom? Is it time to buy? The contrarian observer, when asked this question on the wisdom of "averaging down", may well allude to an unexpected metaphor of things being attracted to the pull of gravity—will you catch a falling knife?

The discrediting of experts can be a healthy thing. It encourages the investor to at least understand what the conversation is about. A healthy skepticism when asked to part with your money needs to be embraced. In this present market when the word "correction" is safely deposited in the closet to be opened maybe just before Christmas, even experts are hedging their words.

It is worth noting the fine print on TV features dealing with stock picks. There is a little disclaimer that flashes now and then—this station will not be responsible for forecasts being made by the confident faces you see on your screen. You're on your own, Buddy…or words to that effect.

It is refreshing to watch interviews of those who stammer and show signs of unease at their own putative expertise. They may declare that people are spending money they don't have and then betting on stocks like they were in Macau. The old-fashioned habits of saving and investing wisely need to be revived.

Of course, there are still a few experts who opt for liquidity—keep your cash and wait for bargains. The trick is in deciding when the fire sale will start…and when the fire storm has actually ended.

All I can say is that stocks have always recovered. And if you believe this, you are called a long-term investor (even if you didn't start out to be one).

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