Philequity Corner (August 25, 2008)
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Business-oriented politicians or politically oriented businessmen heading business groups that like to draw up position papers and be available for sound bites for TV interviews seeking the reactions of "big business" to some issues of the day, like charter change (cha-cha) or regional hegemony (chop-chop), allude to the effect, usually dire, on "investor confidence". This elusive concept of confidence is also mentioned in the light of other extraneous events like the hike in oil and rice prices, the recent flash point in Mindanao, or bombings, but only if these happen in the metropolis.

What exactly is "investor confidence" and how do you shake it or lose it? More importantly, how do you regain it?

Signs that an economy has lost it, or is in the process of moving in that direction, seem clear. A few indicators will suffice. The peso depreciates against the dollar showing a flight away from the local currency, even if this is due to the strengthening of the dollar. Another is the drop in the Phisix, a basket of stocks that reflects the stock market performance. A sub-set of this is the daily volume of trading. Foreign investments, either in portfolio or direct capital, are also tracked to check the status of investor confidence.

Now and then, pollsters get into the act and run a survey precisely to measure business confidence. This gets thrown into the pot and even gets bigger headlines —business losing its confidence in the economy. Not surprisingly this same survey will also track the favorable rating of the woman in charge. Approval rating usually moves in the same direction as business confidence, although often in a more southerly direction.

Are there metrics that track investor confidence, or is it merely perception and therefore a purely subjective opinion bandied about by critics? Does this phrase equate to economic moodiness, much like the biorhythm of the healthy female who pleads a headache when the intimate moment is upon her?

Economists in fact have an accepted metric for misery; aptly enough called the "misery index" which is a simple addition of two already tracked economic statistics, the deadly duo of inflation and unemployment. The total of these two indicators of economic ill health, the higher the worse, form the misery index.

While investor confidence is a short-term event, lasting only days or weeks, "investment climate" is more of a long-term concern. It tracks a country's business hospitality, its openness to private enterprise and capital. This embraces infrastructure like airports, roads, and transport. It also includes telecoms, though one no longer hears about this particular inadequacy with a penetration rate of over 60 percent for wireless phones and our designation as text capital of the world. Investment climate now also counts on the talent pool (English speakers for the call centers), legal system that respects private property, competitive wages, office space, union aggressiveness, tax laws, and a host of softer items like how incumbent businesses are faring.

The investment climate issue is a consideration when foreign investors are shopping for emerging economies to get into. It is an entry-level decision and does not much affect existing economic players already doing business here. The investment climate then precedes confidence and is not as easily lost, except perhaps in a leftist coup, in which case both investment climate and confidence tumble.

For this corner which tracks the stock market and influences on it like the strong dollar and the falling commodities prices, topics of previous columns, is investor confidence strong?

As in everything, including comedy and when to get hitched to a partner, success depends on timing. Thus, the question of when to get back in if one has indeed left and not merely fastened his seatbelt through the roller coaster ride, deals with charts and whether we have already hit the bottom.

This corner has maintained that we may already have hit bottom in stock prices and are now in the process of gradually rising. The volumes are picking up and the index is regaining the 37 percent loss from January to the lowest level. With commodity prices stabilizing at lower levels, core inflation rates may not hit the 15 percent forecasted for December which will set the inflation at 11 percent. This rate then may be lower, softening half of the misery index.

Contrarians often make (or lose) the most money because they do not follow the herd. If investor confidence is down, they buy. If confidence is on the rise, they lock in profits.

With most of the corporate earnings of listed companies already disclosed for the first semester, there is a better reading of corporate confidence. Analysts set profit targets for their watched stocks and “market sentiment” (a first cousin of investor confidence) usually shifts after the earnings announcements. But since stock prices are all about future earnings, the fist half gives a clue as to where the company or sector is headed in terms of the stock price.

If the chattering classes on TV fear for a loss of investor confidence with the cha-cha and chop-chop, does this mean that the current state of IC is healthy? It’s certainly time to bring it back.

Investor confidence fortunately can be a self-fulfilling prophecy.