

Philequity Corner (March 21, 2011)
By Valentino Sy

Supermoon

Whenever we read the business section of the newspaper, it is inevitable that we will come across some sort of market prediction. These predictions are necessarily bolstered by fundamental or technical analysis, as well as macroeconomic principles. However, as convincing as these have been, the market paid heed to none of these during the past 2 crises. When fundamentals, technical analysis or macroeconomic theories did not work, some have decided to look to the stars, or in this case, the moon, for answers.

Historic volatility last week

Science taught us that the moon affects the movement of tides. However, last week, we saw the Japanese market ebb and flow in an exaggerated manner. In the span of two days, the Nikkei 225 experienced its largest two-day drop in nearly 25 years, falling as much as 20% due to panic selling and de-risking, including its 3rd biggest one-day drop in history of 10.55%. After this, it recovered on strong price movement, moving up by 6% in 1 day. Such volatility was also present in the Japanese yen, which rose 6% over the same period, hitting a post-World War 2 high of 76 yen to the dollar. Soon after, it recorded its biggest drop in 2 years, bouncing back to 81.7 yen to the dollar. The catalyst for this, as well as the recovery of the index, was the G-7's rare intervention to stem the rise of the yen. This was the first time the G-7 mounted a coordinated effort since 2000, when central banks likewise stepped into the market to support the euro.

Supermoon triggers Superquake?

As early as the last week of February, we read two newsletters, specifically Dennis Gartman's Gartman Letter and an investment advisory article by Paul Macrae Montgomery, warning about the impending approach of the moon in the middle of March. The analysts claimed that they have read studies which suggest that whenever a "supermoon" occurs, the probability of an earthquake happening increases. The theory is that if the moon's gravitational effect can affect tides, it can likewise affect stressed areas of the Earth's surface. Whether one believes the effect of the "supermoon" on earthquakes or not, the fact remains that the Sendai earthquake, the most powerful earthquake to hit Japan and the 5th most powerful in history with a magnitude of 9.0, happened after a series of "supermoon" warnings.

What is a supermoon?

The term "supermoon" was coined by astrologer Richard Nolle in 1979, who defined it as a new or full moon which occurs with the moon at or near its closest approach to earth in a given orbit. Last weekend, the moon was 356,577 km away from the Earth, which is at its closest distance in 18 years and nearly as close as it has ever been in the past 100 years. Moreover, the moon appeared 14% larger than its normal size. It is precisely because of this that it is called a supermoon.

Moon myths

Many beliefs and superstitions have been attached to the moon. Native Americans believe in the Wolf Moon, a full moon in January when hungry wolf packs howl outside their villages. Werewolves are likewise believed to transform during a full moon. Arcane rituals are also performed under the light of a full moon.

Lunar madness

Another interesting piece of trivia is that the word “lunatic” is derived from the Latin *luna*, or moon. *Lunaticus*, or moonstruck, is a description for people who have lost their sanity. As such, the moon has also been associated with madness and even misfortune. Unstable people tend to go crazy during a full moon. Evidence of this erratic behavior can be seen even in the stock market, where they sell at the troughs and buy at the peaks, creating immense volatility. When these irrational people go mad, it leads to irrational prices which we can take advantage of by buying or selling at extreme levels.

Beware the Ides of March

Even the Romans themselves attached importance to the occurrence of a full moon. Back in 44 B.C., Julius Caesar himself was warned by a seer to beware of the Ides of March, that is, a full moon during March. The emperor scoffed at this, saying “the Ides of March had come”. The seer replied, “Yes, it has come, but it has not gone”. Later that day, Julius Caesar was stabbed to death 23 times.

Moon Theory

One branch of pseudoscience that is premised on the strong influence of this particular celestial body is moon theory. The premise of this theory is that, other than affecting tides and supposedly even geology, the moon, by virtue of its gravitational pull, can influence human behavior and even stock returns. Some studies support the possibility of a lunar effect. For example, a study concluded that schizophrenic patients show signs of deterioration, in terms of quality of life and mental well-being, during the time of a full moon. Some researchers have also observed positive correlations between physiological changes such as induced seizures in epileptic patients and non-epileptic subjects, and the full moon period. In addition, a 2004 study found a statistically significant correlation between the lunar effect and hospital admissions due to gastrointestinal bleeding, particularly among males.

Investors are superstitious

As rational as they may claim to be, investors are actually a very superstitious lot. They even have lucky colors and numbers, which are manifested in their clothes and the number of shares they buy. They consult fortunetellers and astrologers, and even use *feng shui* to determine what stocks to trade and even when to buy or sell them. Some even ascribe to the moon theory described above. They claim that, regardless of any fundamental, technical or even political analysis, the so-called lunar effect has never failed them. There is even a patent for a trading system that claims to be able to exploit this phenomenon. Nevertheless, for the information of our curious and superstitious readers, in case you missed last weekend’s supermoon, the next supermoon will show its face on November 14, 2016.

US attacks mad Libyan dictator

During this supermoon, the lunatic Libyan tyrant Muammar Gaddafi started attacking the rebel forces despite a UN-sanctioned ceasefire. In response, the US and its allies launched missile assaults on Libyan air defenses. As of this writing, US and British ships have launched a total of 112 cruise missiles at Libyan strongholds. Again, this is an example of extreme volatility and extreme actions during full moons, especially supermoons.

Astrologists, geomancers, geologists, sociologists and political scientists

At Philequity, we have 1 economist, 3 fundamental analysts, 2 technical analysts and 1 strategist. We rely on macroeconomic and fundamental analysis combined with technical analysis to generate

outperformance. In addition, we also have consultants – astrologists, geomancers, geologists, sociologists and political scientists. However, recent events warrant that we consult them more often to make sense of the turbulence around us. At the end of the day though, we still believe that fundamental analysis outweighs everything.

Bad Moon Rising

We end this article with a 1969 song by Creedence Clearwater Revival titled Bad Moon Rising. Hereunder are the first three stanzas of the song:

I see a bad moon rising.
I see trouble on the way.
I see earthquakes and lightning.
I see bad times today.

Don't go around tonight,
Well, it's bound to take your life,
There's a bad moon on the rise.

I hear hurricanes a-blowin'.
I know the end is comin' soon.
I feel rivers overflowin'.
I hear the voice of rage and ruin.