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Too Much Information

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Is there now a state of "too much information"? This is a social expression that checks someone from revealing too many personal details that are best left unsaid in the interest of privacy or the attention span of the listener. In the matter of stocks too, the goings-on of a country trying to muster a coalition government to try to hold on to membership in a common currency without the need for austerity may offer too much information.

Reporting on many countries with the state of their economies has become so routine that viewers regularly watch Bloomberg and CNBC and their take on the impact of Greece's exit from the Euro zone on the world economy. The unfolding Greek tragedy seems to be weighing too even on the local market more than revelations of bank deposits of someone being impeached.

One requirement in evaluating a company stock is to conduct "due diligence". This is a process that determines the proper value of a company and whether it is undervalued or not. Aside from the usual financial analysis, there is a search for hidden risks, like assets that are not properly reflected in the books, like mineral reserves. At the end of due diligence using available information and interviews of those running the company on where the organization is going and whether it is going to be an acquisition target, the investor is ready to set a price point for buying...and selling.

In an increasingly global economy, what happens in faraway countries that we only visit in the course of a cruise somehow affects the stock price of our local companies. How do all these dots get connected? And why should we care what happens seven time zones away?

Are abstract concepts like debt management in Europe really relevant to the local investor whose portfolio is all in pesos? Still, if you consider that some investment funds also come from abroad and are therefore subject to the buffeting they get elsewhere in the world for profits to be cashed in on the local bourse, then everything somehow becomes relevant.

Economics affects everyone, including the jeepney driver who understands the impact of oil prices in terms of his daily take home wage. He has a harder time though connecting a rollback in prices to the basic amount he can charge. The equity market more than any other segment of business requires an appreciation of economics.

In a morning show where news items are inserted between recipes for coconut milk and the joys of wheatgrass juice, business news may creep in. Even if it's true that economics is too serious a business to leave to economists, does the economics-challenged newscaster have a right to comment on business news? Comprehension of economic laws indeed helps in seeing through financial scams, even if greed in this case can trump knowledge. In his book, *Age of Turbulence*, Alan Greenspan quotes an investor in the thirties who declared that, "Bulls and bears make money. But pigs are always slaughtered."

The trend of virtual economics (pretending to know what you are talking about) is widespread. It is evident in late night television news where the vagaries of the local currency exchange rate and the stock composite index are casually illustrated by one OFW spouse getting fewer pesos. (I used to get more. Now look what I have.) No context is given on the lower cost of foreign debt and fuel in light of the higher peso value relative to the dollar. The favorite line is, "all this prosperity being heralded has no effect on the poor", without further explanation or statistics.

Maybe it is a healthy development that media are turning more and more to economic experts to explain the country's economic issues, preferably in plain English. Economic literacy seems to be the first step, beginning with an understanding of the science of allocating scarce resources and the need to make choices between guns and butter.

The rise of the middle class leads to owning a part of the economy, and therefore caring more about economics. When business news become part of our morning ritual, we will perhaps gauge our politicians more about how they will handle the economy than how they continually investigate foreign investments in natural resources.

Thus, the reasonable researcher has to sift through myriad facts and come out with a relevant analysis to guide the investor. It's nice to know how a parliamentary government works in resolving an economic issue in Greece, but is that now a case of too much information?

When buying a new car, the wise owner does his research. He asks others who have the desired model their experience with it, fuel efficiency, maintenance, and such. He himself does a physical evaluation, and kicks the tires and takes it for a test drive to see how it handles curves and how fast it accelerates.

How come when an investor puts money on a stock (usually a lot of money) sometimes all he relies on is a "hot tip" from an insider? This now is a case of the opposite of too much information.

The way people pick stocks or companies to invest on seems even more casual than the way selecting shampoos. At least for what they put on their head, they check the label. One only has to hear about yet another scam that has taken in supposedly wealthy (and presumably financially savvy) investors to appreciate the need for research.

With the rise of "private banking" units in local banks high net worth individuals, perhaps with investible funds of ten to fifteen million pesos, are accorded a portfolio adviser offering services beyond CASA (Checking Account/Savings Account). A periodic report (complete with pie charts) on how the client's placement with the fund is submitted. Even here, the client is asked about his investment goals, whether growth, high risk, or a conservative fixed income stream. But is it also enough to leave everything to the expert?

Nothing is more dangerous for the new stock player than early success based on a hot tip. Quick profits from an IPO or a tipped stock with business plans but no cash flow prospects for the next 8 years endows the inexperienced investor with beginner's luck and a dependence on unconfirmed tips. The danger increases when he outperforms research-based investors…in the short term. He is lulled into thinking that he needs neither expert advice nor any research at all, until the market corrects as it has done lately.

Doing away with basic financial information is a sure recipe for buyer's remorse. Why did I get into that stock? What was I thinking? The company has no assets, only business plans which consist of a wish list of favorable events taking place.

Here are some things to note.

Leave it to the experts? While this seems to be sound advice, it begs the question of which experts do you leave your money with. Experts managing funds have track records and these have to be examined. What stocks are in the top ten of the portfolio fund? How well did this fund do against the Phisix and other funds? This simple test of performance is available and can even be requested. Even in a bullish market, performance indicators are critical.

How is a stock doing in its industry? For individual stock picks, it is good to go with a company outperforming its market. This can be in terms of market share or profitability, an undervalued price/earnings ratio or revenue growth. If available, peer companies both local and in the region can also be evaluated to check if current price-earnings still have an upside.

Most listed companies have a full-time Investor Relations (IR) unit which deals with researchers and provide statistics on earnings, major challenges, market share, and changes in management. While only investment banks attend these, stockholders are often invited for a quarterly briefing. It is not necessary to ask questions directly. Attending these sessions give a feel of the quality of management and the firmness of business plans. These stats are also found in the web site of most listed companies.

News items in the business papers, interviews of the CEO, and company reports of the stockbrokers provide many insights into the company that can inform the investor to make intelligent decisions. In fact, the absence of information, or the frequent postponement of stockholders meetings, delayed releases of financial data, these are warning signs that must be heeded.

Maybe, there is no such thing as having too much information on a stock that one wants to buy. Even if the information is negative, at least, the investor knows when to sell and cut losses. It's a matter of going through facts and figuring out what is relevant to the price of the stock.

Because of low returns from bank deposits (low single digits), many savers have moved in a big way to the stock market. This is healthy for developing capital formation. Still, it should be back to investment basics and taking a healthy long-term view on good companies with a record of profitability, growth, maybe even dividends. In stocks as in anything worthwhile, it is always good to look (at the numbers) before you leap.

Information is a tool for making decisions, having too much of it creates clutter which can even lead to bad moves…like staying in the sidelines too long.

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