Philequity Corner
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Getting in the Mood

This corner has noted investment cycles that rise (Pacquiao Rally) or dip in price and volume in the Ghost Month, a moveable four-week period around August. This investor behavior is not due to any macroeconomic numbers, corporate disappointments in profit guidelines, or failure of an acquisition or partnership to materialize. A mood, let's not call it irrational behavior, is related more to feng shui (where to put the fountain, how to position the desk to get the chi right) rather than "fin shoo" (financial shooing of companies with disappointing quarters). It's heart more than chart.

Getting in the right mood and feeling groovy can take over the investment market, even assuming the level of what former Fed chairman Alan Greenspan called in relation to the tech bubble in 2000 as "irrational exuberance". Depression too (the psychological kind) can take hold of the players like a virus. Suddenly nobody wants to buy condos, franchises, and proprietary shares. The next moment, investors are throwing money at circus acts, venues for events, rock concerts, and retail businesses.

"Market sentiment" is the word securities analysts use to explain why investors are diving into a pool of sharks or staying in the sidelines and just watching the food chain at work. The mood is described as bearish, bullish, or that in-between emotion of wait-and-see when analysts cannot explain what's going on or people being distracted from making money; instead cleaning their driveways of the debris from the deluge, or having their cars tuned up. Clueless is another category we have to understand.

Investors need to be in the proper mood to buy, sell, or opt to take up yoga as a way to gaining equanimity. Mood is not entirely psychological. It is also driven by a combination of rising fuel costs, international tension in some contested fishing grounds to a whole brew of insider buzz, unsettling succession plans and what a holding company is supposed to be actually holding — valuable assets or just a bag.

One can be taking to heart Bloomberg or CNN parading analysts discussing statistics and quotations to diagnose possible Wall Street behavior, like dentists looking for plaque or cavities. This financial chatter across the ocean can set the local mood, even when few of the TV analysts agree with each other. What the investor is looking for is somebody who agrees with him and to justify his moves in the market.

While calculations on the flood's economic impact have been thrown around, they don't seem to have any relevance to or impact on the market outlook. The conversation on the post-deluge environment tends more towards ecology and resettlement issues, which except for certain sectors like mining and tourism, seem to be going on in another room — not where serious economics is being discussed.

Emotion, mood, and the last person you talk with play a big part in determining market sentiment. It is a collective feeling and usually displayed by experienced market players as well as desperate housewives.
Ours is a moody economy. Only recently has the Philippines been cautiously described by foreign analysts as "no longer a joke", which as a compliment is a bit disconcerting, even when mentioned in the SONA as a positive thing. Like the rating upgrade to being a notch below investment grade, the "NLAJ" category is probably a bit higher than the three other lower classifications of: "sick man of Asia', "still a joke" and "no one is laughing".

Moody economics is quite fragile, made even more volatile with the significant entry of foreign investors in the wake of the ratings upgrade, currency strength, and some success stories like the rise of business process outsourcing and the potentials of the gaming industry, a sub-sector of tourism.

Enthusiasm, exuberance, and sometimes feeling down are also all seen in sports. Is it too far-fetched to see a connection between basketball and market sentiment? Sports and the markets are not strange bedfellows.

If the above mentioned “Pacquiao Rally” first, and so far only, mentioned in this corner is attributed to a win in Las Vegas by our national boxer (the recent loss may have had a delayed effect though no one seemed to have tracked the correlation) — can the ongoing college basketball contest, now entering its interesting stages, be relevant to the investment market?

For sure, the market volume may dip if on a Thursday, an important must-win game is scheduled. With the extended trading hours, a 2 p.m. game can run smack into the schedule of such a contest. Majority stockholders of big market cap companies have been known to move their board meetings around scheduled games. This is not at all bizarre as Jack Nicholson does not take any shooting days that conflicts with a Lakers game. Of course, he is an actor and entitled to such quirks. But aren’t corporate types also subjected to a bit of irrationality?

Basketball and investment have some things in common. I will only mention two to make the point.

“Passing the ball” is an occurrence common to both basketball and the market. In the former, it is called an assist and toted up as a statistic for the player who passes with perfect timing for a shot to be made by his team mate. In investments, passing is just as common. A rotten stock can be hyped up by someone who has a lot of it and then passed off to other clueless investors looking for a fast buck. This follows the principle of the “bigger fool” theory. One may be a fool but can pass on a dud to a bigger fool.

A “long shot” in basketball merits a bonus point and counted as three points instead of two, if it goes in of course. In investment, a long shot refers to a company with no operations but somehow rising in price based on fumes of hope. The frenzy from the buying drives up the price for a few days until it settles down closer to the 52-week lows as the herd moves on to something else.

For us, market sentiment is so fragile. Some criticize foreign funds for a lack of loyalty and being too ready to rush to the exits when sentiment turns, as in Europe and China. If they shift funds to our shores, we should welcome them into our tiny equity market. It is these funds, after all, that have put us back on the financial radar of international investors. And we are still quite a long way from being in the overweight position in their portfolio.

If the quotable quote of the quarter is that “we are no longer a joke”, then so be it. Anyway, money has never been a laughing matter. People are always in the mood to make more of it.

It’s more fun in the Philippines when for a while at least six weeks ago we were the best performing equity market in the world.