



Philequity Corner (June 3, 2019)

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Some like it hot

Our title comes from a 1959 movie with Marilyn Monroe (hot) and Tony Curtis and Jack Lemon. The two male band members are fleeing the mob after witnessing a hit and joining an all-girl band on a road tour. You can see all the different situations possible. The complications make this one of the best comedies ever.

Do the themes of flight and safety apply to the equity market?

Economics can come up with surprising imagery when it comes to money. One current fear or hope, depending on who you talk with, is the matter of “hot money”. This is defined as monetary flows from outside that seek temporary havens in search of high returns in the short run. Economic planners are uncomfortable with these motel-like guests that check in using probably fictitious names, get their quick reward, and then check out without staying for the breakfast buffet.

The ease (the word suggests frictionless movement) with which such funds enter and exit causes concern as they tend to inflate currency and stock values only to let them fall again in a hard crash when other investment opportunities beckon elsewhere. Critics of hot money liken such portfolio investors to those in the oldest profession (after landscape architecture). The similarity one presumes is the temporary arrangement, and okay, liquidity, offered to a transactional relationship.

Note how the metaphor gets mixed. It is after all the customer (demand side) looking for fleeting pleasure and not the service provider (supply side) that attaches to the so-called hot money. The heat therefore in this economic application is provided by the customer not the hostess (or host). Hot money has no connection to the transaction, only the hurry in its entrances and exits.

The term “hot” has overtones of desire. The expression, “having the hots” for somebody, uses the word in its slang meaning of physical attraction. As in such hot matters, the interest, as well as the interest rate, is short-term. Portfolio investments can make money for the investor. But do they create jobs outside of the researchers that recommend certain stocks and fund managers that make money (or lose it) for their clients?

If there is hot money, is there an opposite and presumably more palatable type? Is there such a thing as cool money? The hot critics prefer the longer staying funds invested in semi-conductor factories, call centers, casinos, and resort hotels. These are not really called “cool” money. Economists refer to this type of funds as Foreign Direct Investment (FDI). These amounts are used more handily to gauge the attractiveness of a country as an economic “hot spot”, though not in the sense of a troubled place that attracts foreign correspondents and the global media attention they bring but to a desirable destination of tourists or funds.

There's nothing wrong with designating certain economies, like we seem to be at certain times, as "sexy". Remember BRIC? Was there a TIP (Thailand, Indonesia and Philippines)? The imagery of having some fiscal appeal may be a fleeting thing that generates enough allure to attract hot money. That's not too bad.

The hot money is especially sensitive to global news like the US-China trade war which has no real quantifiable impact on the local economy. This war of words (or tweets) that blows hot and cold, mostly now the latter somehow sucks the life out of the whole equity market. Guess which one gets wet in the financial tsunami?

Another factor for the volatile hot money is the rise of index funds. The foreign investments in index funds, say for emerging markets, can change the weighting of countries and companies to make up the index. This weight shifting can shift out hot money if the country weight in the index is reduced.

There is too a "ripple effect" when the country somehow gets into the radar screen of first world investors. The foreign interest goes beyond the stock portfolio and spills over to Philippine art reflected in the rise of art auctions, as well as local tourist destinations.

The slogan then for the tourist industry being more fun here can shift economically—it's hotter here in the Philippines. And we're not talking about the weather. Anyway, when you're hot, you're hot...until you're not.

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