Philequity Corner (November 25, 2019)
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Getting in the mood for investing

Investors "staying in the sidelines" is a common observation when the market has low volume and prices are moving sideways or drifting downwards. This is also a synonym for "no developments in the trade war".

Like lovers, investors need to get in the mood to buy, sell, hold, average down, or simply staying out and raising koi or playing scrabble. Market sentiment is not entirely psychological as it is also driven by a combination of statistics on growth, inflation, and exchange rate, in addition to a brew of insider info, corporate rumors, feng shui, and the traffic.

Watching local business news with its parade of analysts going through statistics and market behavior like dentists looking for plaque or cavities can set the mood, even when none of the interviewed analysts agree with each other. Often, what the investor is looking for is somebody who agrees with him to justify the market moves he has already made.

Bad news can spook the market, although earthquakes in the South with a toppled school or two, kidnapping of two tourists, the uncovering of yet another pyramid scam, as well as the non-invitation to a meeting of a recently appointed czarina are shrugged off as vanilla crises.

The negatives are sometimes dismissed as already "discounted" in the price. This incorporation of bad news into the price of a stock theoretically makes the negative event irrelevant. Unless it is of black swan proportions, which we will not elaborate here.

Some of the mood swings in market sentiment are exhibited in the following investor behavior.

Panic Buying. This behavior, last seen in the rush to buy salted-egg potato chips by frantic home-makers, springs from the conviction that one is being left behind by the gravy train. The order to the broker is given to buy "at market" to ensure the accumulation of a fancied stock. This lack of patience leads later to buyer's remorse which we have already discussed before. The opposite of this anxiety attack is the behavior below.

Panic Selling. Many readers will turn the page on seeing this. They will feel a pang in the nether regions (where the wallet resides). This version of anguish prods the investor to dump her equity positions at a loss when hearing the phrase "trade war impasse", without bothering to ask how the country is affected. She takes the loss, which is not the same as a "stop loss" strategy since the latter refers to a pre-designated percentage drop in price as a trigger for a sell order. This one is even done by algorithms. The previous sellers eventually want to get back on the train and exhibit the same anxiety as the short seller trying to cover his position in a bull run. The panic seller seeing the steady rise of the stock she dumped will now try to catch the same stock "at market" and switch back to buying panic mode (see above).

Switching Portfolios. While fixed income securities like bonds and five-year (plus one day) time deposits keep the blood pressure steady and allow one to sleep at night, the switcher from equities does not really stop checking the PSE on her phone. (Why are all these characters female?) She does not really buy peace and tranquility but a kind of returning appetite for risk.

Staying in the sidelines. Those who fluff up their cash position are said to stay in the sidelines. Like Ulysses, this cautious investor should tie herself to the mast and put wax on her ears when the sirens sing their seductive tunes (my stock went up 5% in one day) and lure her to cast herself into the sea of risk.

Emotion, mood, and the last person you talk with play a big part in shaping market sentiment. It is a collective feeling usually displayed by experienced market players and filtering down to the individual investors. Sentiment is sometimes driven by the fear of being publicly wrong.

Ours is a moody economy. The Philippine economy is seldom covered as a business story. It is always a political one like Bangladesh, Pakistan, and recently Hong Kong. Because of foreign funds with Philippine weightings (or under-weightings), there are random economic stories of the strong peso, the over-6% GDP growth, and the six-year low in inflation rates.

Mood swings are part of the economic cycle as well as an investor's psyche. Sometimes, risk appetite can be rewarded… when it is not punished.

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