Philequity Corner (November 30, 2020)
By Antonio R. Samson

Emotions and investments

Do emotions play a role in determining choices or the price one pays for assets like art works, stocks, talents, and companies?

One way to look at the role of ego in price determination is to observe an art auction. Certain bidders go to irrational price levels for an artist (usually a collected name with high recognition among the cognoscenti) which the bidder "has to bid at all cost". Even art auctions have gone virtual in this time of the new normal.

Art investment is one way to understand the ego's effect on purchase price since value in this case has little correlation to the cost of the product (like paint, canvass, artist's time, and frame). Buying art is 70% emotions. Art is definitely not in the basket of goods for determining the consumer price index and inflation.

Emotional investment resides in "gut feel" that can go against all rational and analytical indicators. If a tycoon feels he "has to have a company (and its controlling stocks) at all cost", the acquisition team must fall in line. Accountants who do not get swept up by emotions book the difference between the value of a business and its actual purchase price under the category of "goodwill". This is quickly wiped out in the IPO price on the first day.

The aggregate version of using emotions to make financial decisions is captured by "market sentiment", which analysts use to explain price fluctuations that statistics and financial ratios alone cannot account for. (Throw away the PE ratio.) Investor mood is described as bearish, bullish, or cautiously optimistic, which can also be called "hopeful hesitation", when people are not paying attention and staying in the sidelines, maybe sipping café latté. (Cash is king. Stay liquid.)

Sentiment is not entirely psychological as it is also driven by statistics on growth, inflation, exchange rate, and faith in the next president of the biggest economy, in addition to insider info, corporate rumors, *feng shui*, the possibility of the new vaccine, and the weather.

Many investors are still smarting from "panic selling" when they dumped all their equity position at a loss after hearing the phrase "pandemic effect" mentioned too many times on virtual meetings and webinars, usually by supposed political experts from academe.

How many times have we recently heard the doomsday scenarios of bad loans, empty malls, and closing restaurants as signs of consumer weakness (consumption being over 70% of GDP) and plunging economic numbers, including inflation?

The panic seller of five months ago seeing the rally in the last few weeks of the stocks she dumped will try to catch this same stock "at market". The resultant panic buying turns her into an emotional investor. Usually too, she waited too long to see if the rally had legs.

She exhibits a kind of rising panic as the social circuit once again features money talk. She knows she should stay in the sidelines and not invite braggarts who bring charts of their stock market gains to her next Zoom meeting with old classmates. Like Ulysses, she feels she should tie herself to the mast and put wax on her ears when sirens sing their seductive tunes and lure her once more to cast herself to the investment rocks.

While emotion, mood, and the last person you talk with play a big part in determining market sentiment, the emotional investor is at the head of the parade in a moody economy.

The Philippines as a country is seldom covered as a business story. Unlike Thailand which has had weeks of street fighting and still retained its business angle, ours is not a country covered for its business robustness, even when our stock market (at least a week and a half ago) was the best-performing in the world. Mature economies like the US, Europe, and China are noted by analysts for their trade and budget numbers, almost zero interest rates that will be retained, and the jubilation over a new (and hopefully more boring) leader.

While some attack “hot money” for its too ready rush to the exits when sentiment turns, we need to welcome them for bringing attention, and funds, into our tiny equity market.

Belief in a stock or even the whole PSE index can turn into a self-fulfilling prophecy if the emotional investor has a deep enough pocket to back up his mood…with the entry of the vaccine.

Nov25’20