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More than just feelings

Behavioral economics has already established the dictum that sentiment, emotions, even irrational convictions affect our decisions about how we spend. So, it is not always profit-maximization and data-driven rational judgments that come into play with purchasing decisions.

Does investment too get affected by feelings?

"Market sentiment" is a phrase securities analysts use to explain price fluctuations that economic statistics and financial ratios alone cannot account for. Investor mood is described as bearish, bullish, or that in-between gray area when investors are not paying attention and staying in the sidelines to "wait and see".

This investment mood is not entirely psychological as it is also driven by statistics on growth, inflation, and exchange rate, in addition to a brew of insider info, corporate rumors, feng shui, and foreign news.

Tracking business news and blogs with its parade of analysts going through statistics and foreign markets can set the mood, even when analysts do not always agree with one another. What the investor is looking for is somebody who agrees with her to justify her moves in the market. Most consumers of news and analysis go to an "echo chamber" of like-minded pundits.

This corner has often looked at the foreign scene, like the recent rate cut of the Fed in providing some directions for the local market. Such movements as net foreign buying of local stocks can feed market sentiment in a positive way.

The two-year pandemic (Was it that long ago?) dampened market sentiment as businesses closed and "working from home" became the norm. The recent euphoria after the Fed cut announcement got the market at one point to a 31-month high and may do so again.
Why are the US elections and its polls being followed so closely? The winner of that November contest can determine the fate of the rest of the world, and certainly the market sentiment of the local market in relation to foreign buying and selling.

How does sentiment manifest itself in the market? Some of these mood swings are exhibited in the certain investor behavior.

When do you buy? This behavior, last seen in the rush to stock up on toilet paper, springs from a conviction that one is being left behind by the gravy train. The order to the broker is given to buy a hot stock "at market" to ensure accumulation of a particular favorite.

When do you sell? Do you stop the loss of a failing stock and sell it? Or do you instead have a "loss aversion" and keep it in the hope of a rally. Instead, you sell a dividend-paying stock just to take profits? The seller then sees the steady rise of the stock she dumped as she now tries to catch the same stock "at market" and become a panic buyer.

Are you risk-averse? While fixed income securities like bonds and five-year (plus one day) time deposits keep the blood pressure steady and allows one to sleep at night, the switcher from equities does not really stop looking at the market or calling her broker. With the interest rate cut, this option is a little too conservative. (Why are all our characters female?) She does not really buy peace and tranquility but a kind of rising panic. There is this nagging sentiment of FOMO (Fear of missing out) when the equities market starts to rise and leave fixed-income in the dust.

Emotion, mood, and the last person you talk with play a big part in determining market sentiment. It's not always a fear of losing money, although that's a big part of it. There is too the element of being on the wrong side of the market and hearing stories of friends who made out like bandits in the surge.
Market sentiment is fragile. While some attack foreign funds for their too ready rush to the exits when sentiment turns, some welcome them for bringing attention, and funds, into the local equity market. Somehow, the country ends up in the "underweight" category for regional portfolios.

Still, market sentiment is not just an emotional outburst. It is driven by such economic data as the rebalancing of the PSEI's stock listing, the quarterly reports of inflation, unemployment, and GDP growth, as well as outside factors like the price of oil and human emotions.

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