Philequity Corner
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Market sentiment

Every time the lockdown status improves in terms of increased mobility, the market reacts positively, though not in the medical sense of being infected. This market improvement anticipates a more favorable investment climate. Consumption is supposed to move up as consumers go back to the malls and nudge up the biggest portion of GDP—the "C" in the trio of Consumption, Investment and Government spending.

Behavioral economists that track the purchasing decision, including stocks and other forms of investment, credit the personal dynamics of psychology in the movement of goods. For example, "impulse buying" of Hawaiian shirts and hot stocks can be driven by market sentiment and the 'heard' mentality (listening to the grapevine) or "buzz".

Even the temporary shortage of paracetamol in the pharmacies is the result of an emotional "panic buying" which is an extreme form of impulse buying—just in case I need it, can I have two boxes of that flu medicine?

The aggregate version of emotions over assets like stocks is captured by the oft-mentioned "market sentiment". This catch-all phrase was generously used by market analysts to account for the pandemic pessimism for any type of investment, except on the obvious winners that thrive on lockdowns, like internet providers and online banking.

Market sentiment is also used to explain fluctuations that Price-earnings ratios and other statistics like year-on-year growth alone cannot account for. Investor mood is described as bearish, bullish, or "what do I do now", summarized as "hopeful pessimism or cautious optimism". Staying in the sidelines and watching the confetti is also an option—cash is king.

Negative sentiment that leads the investor into dumping a stock can be triggered by an overreaction to a development that does not even affect the target company's present and future digital revenue stream, say the acquisition of its old analog frequency by a non-player in the industry.

Emotional investment is also called "gut feel". If a tycoon feels he "has to have a company (and its controlling stocks) at all cost", the acquisition team needs to fall in line. Accountants who get swept up by emotions and decide to take the plunge book the difference between the financial value of a business and its actual purchase price under the category of "goodwill" cost. This can consist of claimed market leadership or even political connections.

Belief in a stock can turn into a self-fulfilling prophecy if the emotional investor has a deep enough pocket to back up his mood and continues averaging down. Can he convince colleagues to follow suit? This way to the cliff, Gents.

Here are some suggestions in balancing sentiment with research and analysis.

Do not be too envious of other investors. It's a casino rule that players only talk about their winnings. So, those who boast about making enough money to buy the property next door from stock profits usually avoid talking about their losses. They just "move on".

Did you sell too soon or buy too late? It is unproductive to think of the millions you lost or could have made. The decision to buy or sell is always in the present, based on insight and not hindsight. Opportunity cost does not apply to missed windows that rely on the perfect information of past trades.

Only use discretionary savings for investments. Take care of living expenses first. It is not wise to dip into the household budgets for risk capital. Okay, a windfall from selling an art piece can be redirected to stocks or investment funds, like the sponsor of this corner.

Deal only with the present and the future. It's better to look through the windshield rather than the rear-view mirror. You can get into accidents by looking too long at the latter.

Use research and available statistics in evaluating an investment. Plans yet to be announced may be scrapped. Information and not just emotions should drive the investment process.

Let's learn from art collectors who buy what appeals to their aesthetic sense, not how much a piece is likely to appreciate. The true art connoisseur deals with contemporary art which can be easily authenticated by still living artists. The possibility of fakes (even when authenticated by living relatives) is avoided. Sentiment should be balanced by a reality check.

There is room for optimism in our post-pandemic investment scenario. Hope too can be contagious.