



**Philequity Corner (February 13, 2023)**

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### **In the mood for love**

Since today is the eve of that feast for the hearts, we need to explore the emotional aspects of investments. Behavioral economists do not discount the effect of passion in decisions affecting consumption and investments. This bias is not always conscious even as it moves our purchasing decision for a new IPO.

And what about our current optimism on an economic recovery? With the announced GDP growth defying even government forecasts at 7.6% for the full year of 2022, the song “Full moon and empty arms” seems to be an invitation to look for someone to hug. What about the January inflation rate of 8.7%? Does it keep you awake at night?

Wait, we’re talking about investments here, okay?

Our guru in picking stocks, the regular byline of this corner (WS) advises that the investment decision has much to do with the trust and confidence bestowed on the owners and managers of the listed company. If you buy a stock, it must be because you have positive feelings for the ones behind the company.

Do stocks merit a premium or discount in connection with the characters behind them? Do analysts need to go beyond financial ratios, industry structure, market shares, and historical performance and delve into personal values and management styles?

There is a case to be made for paying attention to the track record and reputation of the principals behind a company. With the media coverage of business players now at par with their political and entertainment counterparts, reputation has become more of an economic issue.

One way to look at the effect of emotion and personality on prices is to observe an art auction. Certain players bid irrationally for an artwork because they “have to have that painting at whatever cost” perhaps to complete a collection. Art is a metaphor for the effect of sentiment on purchase price which may have little relation to the utility value of the item.

On the supply side, character plays a part too. Some positives drive up the premium in pricing. These include a quantifiable track record like increasing the market cap of the stock through efficiencies, a strong management line-up, or an increasing market share. A character discount may arise from fuzzy accounting, weak second-tier management, or a luxurious personal lifestyle funded by the company.

The aggregate version of character analysis is captured in “market sentiment”, an abstract, emotional factor which cannot be ignored as it affects stock prices. Market sentiment is a phrase securities analysts

use to explain price fluctuations that statistics and financial ratios cannot account for. Investor mood is described as bearish, bullish, or that in-between outlook of wait-and-see (cautious optimism) and staying in the sidelines, waiting for developments.

In our local market, characters reign. Stocks are described by their principals and lumped together as a cluster, say the “XXX” group, if that combination of letters represents a person or family. Rumors of a takeover by a favored group are enough to lift a sleepy stock into the stratosphere, then fall back in a hard landing when the deal falls through—too much legislative interest.

The impact of character in the value of the stock is a tricky one. Isn't corporate reputation now driven by word of mouth and social media? Has business now also succumbed to the tabloid treatment of news looking for scandals and missteps? Stories from intimates or those claiming to be so, fill up the brand attributes of tycoons and business leaders with random stories told of corporate characters. Are they frugal and transparent in their business dealings? Do they have offshore accounts for siphoning off working capital?

Ours is an emotional economy with only a few personalities dominating the financial space. Buying into a company through its shares can be considered a declaration of faith in its principals. This character analysis however is not static as the personalities change, or the political winds become either friendly or hostile.

Corporate affection is a dating game. What happens when values and numbers do not measure up to expectations? Well, it's time to ask for the check, and move to another table.

Falling in love with stocks should start with research and analysis, and maybe a little courage too.

*Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit [www.philequity.net](http://www.philequity.net) to learn more about Philequity's managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 8250-8700 or email [ask@philequity.net](mailto:ask@philequity.net).*