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PhilEquity MANAGEMENT INC.

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Understanding the investor

Behavioral economics introduces psychology as the determining factor in how the consumer behaves.

Economic observers like Tim Harford (Undercover Economist 2005) and Steven Levitt and Stephen Dubner (Freakonomics 2009) illustrate the psychological drivers of economic decisions in specific economic decisions, like robbing banks only on Thursdays.

The model of the consumer as “homo economicus” who is always looking for optimizing monetary value and benefits in financial decisions with access to complete information, seems to no longer drive economic decisions.

One principle concluded from field studies by behavioral economist Richard Thaler (Misbehaving) is “mental accounting”. This principle does not consider cash as a single category. There are “buckets” with specific purposes including “European cruise” or “household expenses”. These categories cannot be mixed up. Perhaps, the holder of a big cash pool may have a bucket for “savings and investment”?

The rational investor looks at quantifiable data like price/earnings ratios, multiples over book value and market cap. Still, numbers are only part of the decision-making process. Investor behavior is also influenced by other factors like grapevine information, succession issues, family feuds and other non-quantifiable elements that make the market behave unpredictably.

These unquantifiable factors may make the market seem irrational. (Can we just stick to the numbers?) But as even the traditional economist John Maynard Keynes cautions on the seeming foolishness of the markets: “The market can stay irrational longer than you can stay solvent”. (So, stop forcing the issue on numbers.)

How does the investor’s perception of the market affect his decision on whether to keep his cash on the sideline or jump into the market with both feet? Can “investor confidence” be also driven by psychological factors?

Are there numbers that can track investor confidence? Does this phrase equate to economic moodiness, much like the biorhythm of the individual, subjected to depression and manic highs?

The recent economic indicators do not encourage exuberance. The country’s Gross International Reserves dipped a bit from $104.8 billion in June to $103.4 billion in July. GDP grew 2.3 percent year-on-year in the second quarter of 2026. It fell from 2.8 percent in the previous quarter. This is mainly due to the sharp drop in public construction. Inflation slightly declined to 6.2 percent in July from 6.4 percent in June. Meanwhile, the PHP/USD rate is hovering above the 60 level.

Do these latest economic numbers boost investor confidence?

Economics has set a way of measuring consumer distress. Created by economist Arthur Okun in the 1970s, this metric is aptly enough called the “misery index”. This is a simple combination of two already tracked economic statistics, inflation and unemployment. This measures the economic impact felt by the ordinary consumer. Still, misery is a psychological issue. This also affects overall perception of the country’s economic wellbeing, when compared to others. It feeds into investor confidence too.

Investor confidence influences the investment climate from the perspective of foreign investors. A negative perception of the economy can become like a national trait, akin to hospitality, nepotism and the “crab mentality”.

Investor perceptions can be a roller coaster ride. Such behavior as “profit-taking” (getting out of a robust market) and “bargain hunting” (buying at the dip) drives the prices of stocks. Both positive and negative outlooks take their turn.

While macroeconomic numbers on inflation, GDP growth and the exchange rate may be factors in defining the investment climate, there is also the microeconomic performance of each listed company.

Informed financial bloggers have lately joined the chorus of analysts and predictors of market behavior. This is a welcome development in promoting economic literacy and investor confidence.

As in everything, including standup comedy and when to enter or exit the market, success depends on timing. Thus, the question is when to get back in the market if one has left it and not merely fastened his seatbelt through the roller coaster ride due to outside factors like the Iran crisis.

The market needs investor confidence to include foreign buying. This boosts volume and trust in the market. Signs of improvement or even stability in the economic numbers can boost positive perception.

Belief in long-term stability of the economy is the basis for diving into the water. Investor confidence after all can be a self-fulfilling prophecy.