

FOREIGN TRUST AND CONFIDENCE IN PHILIPPINE STOCKS USING BENFORD'S LAW

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ABSTRACT

Benford's Law (BL) was discovered separately by Simon Newcomb in 1881 and Frank Benford in 1938. The law states that naturally occurring numbers do not have an equal chance of happening. Lower digits occur more frequently than do the higher numbers. Such distribution properties extend valuable usefulness in assessing the quality of number sets. This work utilized the law to assess the foreign investors' confidence in Philippine stock market, working on the null that the volatility of net foreign buys of stocks should not depart from the BL pattern.

Employing chi-squared and ordinary least squares methods, this study found that the data set conforms to Benford's Law at 99% level of confidence, lending some evidence that the volatility of foreign buys of Philippine stocks stays at a stable level, which is interpreted as foreign investors' confidence and trust in the focal market.

KEYWORDS: Benford's Law, Volatility, Investor Confidence, Stock Market, Philippine Stock Exchange