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YAMAN Coach

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Debunking the Myths of Stock Market Investing

by Coach Atty. Zigfred Diaz, RFP®, EnP, ReA, ReB, CSS, AEPP

People have a lot of misconceptions about stock market investing. Most of the time, because of these misconceptions, they end up not investing in the stock market at all thereby missing a great opportunity to take advantage of probably the greatest money-making machine man has ever invented.

Myth #1- You need lots of money to invest in stocks - This is probably the number one reason why people don't invest in stocks. They think it requires lots of money. Of course, the larger the amount you have, the better it will be since you can buy more and take advantage of opportunities. However, to start investing, a big amount is not required. The amount required for investing in stocks will vary depending on the price. Also, there is a required minimum of shares that you can purchase known as the "board lot." To know the minimum amount required to purchase a certain stock, simply multiply the board lot by the current price per share. As to what is the board lot of each a stock, you can get this information at Philippine Stock Exchange website. And believe it or not you can start purchasing even if you have only Php5,000.00 (as this is the minimum initial investment required by some online brokers)!

Myth #2 - Investing in stocks is complicated - Not really. But I have to admit, it requires some work. But the work is not complicated. People get the impression that stock market investing is complicated because they see majority of market participants reading seemingly complicated charts, discussing esoteric theories and principles and speaking in language that ordinary people cannot understand. You don't need to learn all the complicated stuff just to invest in stocks. Nevertheless, some high sounding words, principles and theories in stock market investing were developed by brilliant people and has been used in the fields of finance, economics the sciences and mathematics. Some of these theories and principles are good for investing and some of them are not. However, take note that the stock market is just too volatile and too sentiment driven to be guided by solid scientific principles. As Isaac Newton once lamented when he lost a fortune in the South Sea Bubble, "I can predict the motion of heavenly bodies, but not the madness of crowds." You don't need to learn all everything to start investing in the stock market. What you need is a basic understanding of financial statements, some business sense and some down to earth common sense.

Myth #3 - Stock market investing will make you an overnight millionaire - The best way to approach the stock market is to approach it from a business perspective. After all, buying a stock is buying a business, since a stock represents a portion of a business. If you take this view, then you understand what I mean that stock market investing does not make you an overnight millionaire. Businesses needs time to grow in value. Similarly, to get constant solid returns in the stock market, you need to wait for it to grow in value. The stock market may be the greatest money making machine invented by man. But it's a machine that takes time to work. If you want to be an overnight millionaire then the stock market is not for you. Better pack your bags and head to Vegas, where you will be the single lucky overnight millionaire, that is if you don't end up losing your shirt with thousands of other people who are also still recovering from their hangover. (To be continued . . .)

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All S.E.T. Rule in Investing

by PFA

One of the many questions facing the average investor on the street if whether he should manage his own investments or just farm it out to fund managers who are either manage assets separately or through pooled funds.

The main argument for managing one's own money is that there is savings in terms of management fees and other overhead expenses that many funds have. Apart from management fees, managed funds need to pay for VAT on the management fees, documentary stamp taxes, entry or sales fees, exit or redemption fees, regulatory fees, and business permits.

Another argument for managing one's own money is that the investor retains control of his funds and will not be subject to the whims and biases of the fund manager and investment committees of managed funds. This is not to say though that the investor himself does not have any whims and biases. But some say that if they are to suffer through whims and biases, it might as well be their own.

Also, if an investor is mature enough in investing, he can avoid the panic or over enthusiasm that unit or shareholders display whenever market jarring events occur. The ensuing actions of such unit or shareholders in managed funds tend to dilute the earnings of the funds or force the hand of fund managers is making portfolio moves that are not timely like selling good positions in a downward spiraling market just to service a flood of withdrawals. A mature investor would wait for the panic or euphoria to die down and make his move, whether it would be to average down or take profits.

On the other hand, the arguments for managed funds are that: 1) their massive size affords them the benefit of getting in depth research from reputable brokers; 2) they are manned by professionals who not only have the expertise to understand the in depth research but also the experience to appreciate the trends in the market; and 3) they have all the time to manage funds because that is all they do.

In other words, to invest directly, one would need to have the "S" or size of funds, "E" or expertise and experience to understand the inner workings of the capital markets and their underlying securities, and "T" or the time to fully manage investments. This same principle actually applies also to investing directly in a business.

So, if even just one of the S, E, or T is lacking, a person will be better off investing indirectly through managed funds. For a business, the solution would be by just being a shareholder in a business or hiring a business manager who is all SET.

Editor's Note

Efren Ll. Cruz, RFP®
Editor-in-Chief

Did you know that there is a new index that the PSE came up with? It is called the PSEi Total Return Index or PSEi TRI. This index is computed on a total return basis. This means that both price appreciation and dividends earned are included in the index computation. The PSEi TRI presents a better way of monitoring investment performance, particularly of pooled funds as both the PSEi TRI and pooled funds reinvest cash dividends that are earned. The PSEi measures only capital appreciation and tends to put pooled funds in a better light especially if a portfolio is comprised of dividend paying companies. The PSEi TRI was constructed from end 2007. From that time up to the end of 2019, the PSEi TRI produced an annual compounded return of 9.42% while the PSEi reflected an annual compounded return of only 6.62%.

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