ISSUE 4 | VOLUME 1 | FEBRUARY 29, 2020

YAMAN Coach

EMPOWERING YOU

Debunking the Myths of Stock Market Investing

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

Last time in the first part of this series, I discussed the top three myths in stock market investing and discussed that these myths are probably the reasons why people don't invest in the stock market. I will continue to discuss the next three.

Myth #4 - The stock market is manipulated - The truth is that despite strict and tight regulations, there are still stock manipulations in history in stock markets all over the world. However, such stock manipulations only refer to individual stocks and not entire markets. Also, most of these stocks are stocks of companies that seem to pop out from nowhere, had little or no history of being profitable and yet were bought simply on rumors. So, even if there are stock manipulations, this does not mean that the entire stock market is manipulated. And stock exchanges all over the world have taken action to stop the manipulation.

Myth #5 - Only people who have insider information will succeed in the stock market - Just like stock market manipulations, trading in the stock market with insider's information is a reality. It happened before and it will happen again. However, only few individuals have done this. Stock exchanges all over the world have very strict rules on insider trading. In highly industrialize nations, stock trading using insider's information has been successfully prosecuted. There are hundreds if not thousands of individuals that have been successful in their stock market investing endeavor even without insider's information. Publicly listed companies usually provide enough information and disclosures to the public on any corporate activities that will affect stock prices. So, ideally there is no need for insider's information. Warren Buffett, the world's greatest stock market investor has this to say about Insider information, "With enough inside information and a million dollars, you can go broke in a year." If Warren Buffett does not need inside information to get rich in investing in stocks, neither do you.

Myth #6 - Investing in stocks is merely a calculated gamble - To gamble is to take a risky venture or to make a risky act for possible monetary gain. Unlike in sports and other games wherein the outcome of the game is mostly controlled by the person playing the game, in gambling, most of the outcome of the game is left to pure chance or luck. There are two elements of gambling, risk and sheer chance. This is very different from what real stock market investing is. Unlike gambling, your performance in the stock market is not left to pure chance or luck. You have control over what stocks to buy and at which price. You study if a company is worth buying and make sound judgment if the management can deliver. If you approach the stock market from a business perspective, you will be engaging in a business, and being in business is never gambling. The only people gambling in the stock market are those who do not study the companies they are putting their money in. These people do not care about the ins and outs of the business that the stock represents. What they are doing is very risky indeed. They are purely relying on the sentiments of other individual investors, which is very unpredictable. For these people stocks are cards, chips, dice or pieces of the game that you play around with. The stock market for them is the world's largest casino. (To be continued...)

Coach Zig is a Cebu-based RFP and PSE-Certified Securities Specialist. He is a lawyer and licensed Environmental planner, Real Estate Broker and Appraiser. He may be reached at zig@personalfinance.ph.

I was just scrolling through the daily news last time looking for updates regarding the COVID-19, activity of Taal volcano and the NBA All-Star game when I chanced upon a news that dropped my jaw – my favorite band will play again here in the Philippines this coming April 30! I was able to see them live last October 2017 and I can definitely say that it was one of my most memorable nights. While this is truly a wonderful experience, it also has cost implications. Prior to that 2017 concert, I was saving a portion of my money for a drum set as this has been my interest since high school. However, I decided to use my savings for the concert instead. Then, it was an easy decision to make. But for the upcoming concert, buying the ticket is admittedly a tougher choice. In relation to this, let me share what I think are two important points when it comes to our financial situations:

- Financial needs and situations change in a matter of days, or months
- It is most likely that we have more things we want than what we can afford

Our goals and priorities may change in time and financial needs and situations can change in an instant. Let me reiterate the importance of having a financial plan that provides a roadmap towards goals and priorities. Our goals should be SMART (specific, measurable, attainable, relevant, and time-bound), aligned with our values and provide personal fulfillment. Also, it is important to have safety nets in place that will increase the likelihood of achieving current financial goals. Examples of safety nets of a financial plan include emergency fund and insurance policies.

I suggest that we use this mindset – for things that we can control, let's have discipline to stick to our financial plans and for things that we cannot control, let's ensure that we have ample safety nets to manage financial impact.

PFA EVENT - MARCH 7 & 14, 2020

Financial Dexterity

by Coach John Hero A. Salvador, RFP®

Discipline is an important characteristic in order to move towards achievement of our financial goals. Let me share an idea proposed in the book Your Money or Your Life by J. Dominguez and V. Robin, which I think can increase our discipline when it comes to evaluating and making financial choices. The idea is to convert your money to life-energy, which implies that when you allocate money for anything, it means that you are trading off your hours in this world for it. To do this, subtract your expenses to keep your job (expenses needed to sustain work) from take home pay and divide this by number of hours spent related to work (actual work and commuting for example). The resulting value is what they call the actual hourly wage (Pesos per hour) one is getting from their current work. Once this value is known, one can readily compute the hours being traded off for an item to be bought. For example, a calculated hourly wage of P40/hour means that one is trading off 5 hours to be able to afford a P200-item. I think this approach allows us to really align ourselves with our financial plan, to have financial discipline and to carefully consider our safety nets around it.

Sooner or later we will arrive at a financial situation where we have to make a choice. Having a flexible financial plan, discipline to stick with it and a sound decision-making process will take us closer to our financial goals. And yes, I will pass up on Dream Theater's concert this year – to focus on more important reasons and priorities.

Coach Hero is a Registered Financial Planner with a BS Chemistry degree cum laude from UP Diliman. He may be reached at hero@personalfinance.ph.

Editor's Note

Efren Ll. Cruz, RFP®
Editor-in-Chief

The annual compounded return of the PSEi from 1987 to 2019 is only 7.3% p.a. To some, this may be a bit low considering all of the risks that investors take with stocks. But do remember that the PSEi is just a measure of price movement and that the reinvestment of cash dividends is not included. The PSEi Total Return Index (TRI) is a measure of the change in index level plus the reinvestment of cash dividends. The data for the PSEi TRI goes only as far back as 2007. For the period 2007 to 2019, the PSEi TRI produced a compounded annual return of 9.42% vs. the PSEi's 6.62%. The question is, were there funds that outperformed the PSEi TRI during the same period? And the answer is YES. Two equity UITFs outperformed the PSEi TRI while one equity mutual fund's performance was close on the heels of the index.

Contact Us:
yaman@personalfinance.ph
+63917 505-0709 • +632 7218-0141

www.personalfinance.ph