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YAMAN Coach

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Investing Survival Guide Under CoVid-19

by PFA

Question: This CoVid-19 is truly wreaking havoc around the world. My investments are all in the red. I would like to add more to follow the age-old advice of buying when there is blood in the streets. But I do not know when the right time is to do bottom-fishing. Can you give some tips? Asked at "Ask a Friend, Ask Efren" FREE service at www.personalfinance.ph, SMS, Viber, LinkedIn, WhatsApp and Facebook

Answer: Here are a few musically-inspired tips for surviving the current investing crisis brought on by CoVid-19 :

1. Here, there, everywhere – If you are invested already, take heart in knowing that in cases of systematic risk or risks that affect markets across the board, no investment is immune. Diversification will have minimal positive impact. But it is precisely because of this systematic risk that the fall in the value of your investment portfolio is largely not your fault. It would have been a different situation if the value of your investment portfolio was falling in an environment with no systematic risk to bring markets down.

2. We can work it out - On the flip side, it would be foolish to think that the sky is falling. History has shown that man has survived market crash after market crash, the end-result of avarice, like the Tulip Bulb Craze (1630s), South Sea Bubble (1711), Florida Real Estate Craze (1926), Great Depression (1929), Crash of 1987, Asian Financial Crisis (1997), Dotcom Bubble (2000-2002), and Global Financial Crisis (2007-2009). In between, there had also been flash crashes wherein markets or stocks would fall steeply within a few minutes and then rebound quickly.

While it can be argued that the crisis brought on by CoVid-19 is different in that the enemy is not the greed from within investors and traders but a non-discriminating virus from outside, history again shows that man eventually bounces back from major sicknesses like the Plague of Justinian (541-570), Black Plague (1346 to 1350), Fifth Cholera Pandemic (1881-1896), Modern Plague (1894-1903), Sixth Cholera Pandemic (1899-1923), 1918 Flu, Asian Flu (1957-1958), and Hong Kong Flu (1968-1969). In more recent times, data from the International Air Transport Association shows that international arrivals quickly rebounded after SARS and H1N1.

3. Long and winding road – Buying in a market when prices are dropping is like catching a falling knife, you just don't do it. You will need to be patient. Jessie Livermore, the world's greatest trader suggest that you wait not for the pivotal point but the continuation of the pivotal point that is usually supported by large volumes of trade. Technically, China, where CoVid-19 originated, needs to first reboot before the rest of the world does.

4. Fool on the hill – Don't believe in a magical recovery in your portfolio. Buckle down and do your homework. Go back to fundamental analysis to see which industries possess the resilience against the financial onslaught caused by CoVid-19 and the companies within such industries that have the potential to bounce back quickly (i.e. have high betas to the broad market index). Many online business news providers carry enough financial information on companies on which you could conduct your analysis. But focus more on forecasts rather than historical data.

5. Day tripper – When markets move up, no amount of short-term (day-) trading can outperform them. That is why you need to believe that your rebalanced investment portfolio will be best suited not necessarily to outperform the market but to meet your return objectives as tempered by your risk preference.

6. With a little help from my friends – Why not rely on those who have weathered investing crises before. These are professional fund managers who have all the time in the world to manage billions of assets using their portfolio management skills as honed by their long years of experience. You may want to invest new money with fund management houses like pooled funds and investment management accounts.

Follow the foregoing tips to get a ticket to ride the recovery wave.

Debunking the Myths of Stock Market Investing

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

(continued from Issue 4)

Myth #7 - Investing in stocks is too risky - In anything that we do in this world, we take a certain kind of risk. Well admittedly, there is a certain risk involved when investing in the stock market. However, the risk I am talking about is not the same kind of risk that most people think. If you view the stock market from a business perspective, the only risk that you have to take is the kind of risk that comes from being in business. Besides, as I have stressed before, stocks are merely fractional ownership of businesses.

All business ventures have a certain kind of acceptable and calculable risk involved. Since stocks are merely fractional ownership of business, they come with the risk that comes with operating a business. The "risk" that most people fear in stock market investing is the volatility in the stock market. The manic-depressive behavior of the market caused by fear and greed is what makes the stock market seem risky as no one can absolutely predict when the market will be at its peak or at its bottom.

The risk that most people fear in the stock market is not caused by the underlying fundamentals of the business; it is the "risky" behavior that people take in the market. People do stupid things in the stock market because of fear and greed. If you approach stock market investing from a business perspective, you will be more prone to avoid risky behavior. This way, the risk you take is only the risk that comes with operating a normal business.

Also take note that the "risky" behavior taken by other people because of fear and greed can be utilized to the advantage of those who approach the stock market from a business perspective. When asked the question on how to get rich in the stock market Warren Buffett simply replied "I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful."

Myth #8 - Investing in the stock market is best left to the professionals - Now before I am accused of bashing professional fund managers in general and before I make an enemy out of those who are in professional money management, let me just categorically say this, professional money managers who are very good at what they do. They give you a higher rate of return and have been successful at beating the market for a long period of time. However, there are only a handful of them.

It will take the ordinary layman-investor some digging to find out who the best professional money managers are, a not-so-easy job. So, is stock market investing really best left to the professionals? Is it really true that to get a higher rate of return in the market, you will have to let the professionals take care of your investments? Take note of this interesting quote by Warren Buffett "An irresistible footnote: in 1971, pension fund managers invested a record 122% of net funds available in equities – at full prices they couldn't buy enough of them. In 1974, after the bottom had fallen out, they committed a then record low of 21% to stocks." It is of no wonder that instead of entrusting your money to some "professionals," Warren Buffett gives this advice to the ordinary layman instead, "By periodically investing in an index fund, the know-nothing investor can actually outperform most investment professionals." With that quote the master investor himself proved that stock market investing isn't just for professionals. In fact, professionals get beaten at times by seemingly ordinary investors.

The point here is that, investing in stocks can be done by the ordinary layman. True that some professional managers are very good in giving you the best value for your money. But there is also truth in the fact that ordinary layman-investor can beat the professional money managers and that the statement that "the stock market is best left to the professionals" is simply a myth. (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.

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Editor's Note

Efren Ll. Cruz, RFP®
Editor-in-Chief

This CoVid-19 crisis is in many ways as bad as the Asian Financial Crisis of 1997, market-wise. But it is worse in that CoVid-19 is "leaving no stone unturned", affecting all regardless of location, race, color or faith.

When all of this is over, we will have the bragging rights of having survived one of the worst health and economic crisis in human history. Oh, what stories to tell our grandchildren!

So, study the times very well by focusing on how people, systems and economies behave. Do not succumb to nor fan the flames of panic, fear, anger or depression.

Above all, remember that even at the height of pessimism, you just need to take the "h" from height, the "o" from of and the "pe" from pessimism to see that there is always HOPE!

www.personalfinance.ph

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