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PFA

YAMAN Coach

EMPOWERING YOU

10 Reasons for Investing in Stocks (part 2)

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

Investing in the stock market makes you belong to a special group of people

According to the Philippine Stock Exchange, less than 1% of the entire Philippine population is directly investing in stocks. Considering this fact, I consider it a privilege that among 100 million Filipinos, I am among the few "pioneers" who braved the stock market.

Another thing to consider is the fact that the Philippine stock market is still at its infancy. Exciting new things are coming in the years to come. It has long been proposed that we link to PSE to the other stock markets in Southeast Asia. This unified trading system will allow locals to trade stocks in different jurisdictions in Southeast Asia at the click of a mouse! The unified Southeast Asian stock exchange will be among the top ten largest stock markets in the world! Now, is not exciting to invest globally! With this pending development, count yourself as among the early pioneers in global Filipino investing.

Investing in the stock market, if done correctly is considered by experts as the best investment.

In the book entitled "Stocks for the Long Run", Prof. Jeremy Seigel shows a graph proving this point. (Data was gathered from 1802 to 1997, a span of 195 years.) According to the professors, despite the stock market's volatility and fluctuations, most of the time, stocks take the lead over all other vehicles of investment. The greatest market stock crashes have become a mere blips in the chart. Hypothetically, USD1 invested and reinvested in stocks in 1802 would have grown to $7.5 million by the end of 1997!

And while the PSE does not have that much of data, it has still shown the potential for immense returns. From 1987 when the current index was reconstituted, up to 2019, the PSEi produced its highest annual return in 1993 at 155%. On the other hand, the PSEi's lowest return was posted in 2008 at minus 48%. Nevertheless, the average annual return of the PSEi is 13% with a compounded annual return of 8% for the period 1987 to 2019.

But how does investing in stocks compare to investing in real estate? While there is indeed money to be made in real estate, it is not without certain disadvantages as compared to stocks. To compare real estate with stock market investing, let me quote from famed fund money manager Peter Lynch. In his book "One Up on Wall Street", Lynch wrote that for 362 years the Indians of Manhattan had been the subject of cruel jokes because they sold the entire Manhattan Island (now part of New York City) for trinkets and beads (worth USD24) to immigrants. However, if the Indians had only invested the USD24 at 8% per annum, compounded over the next three centuries, the amount would be amount to USD30 trillion today! Even if were to reduce the rate of return to 6% per annum compounded, that would still be worth about USD56.2 Billion, which is double the value of the entire Manhattan Island at the time Lynch wrote his book. Although Peter Lynch did not refer directly to stocks, only stocks could provide such returns.

(to be continued)

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Maslow & Personal Finance

by Coach John Hero A. Salvador, RFP®

Abraham Maslow proposed a model in 1940's to provide rationalization on the nature of human needs. These needs can be categorized into three – basic (bottom), psychological (middle), and self-fulfillment (top).

It is possible to use Maslow's framework of needs in personal finance since a household's consumption and allocation of financial resources can be categorized into the same group of needs. Knowing essential needs will provide an additional guide to a household when allocating their finite financial resources.

Under basic needs are physiological and safety needs. In personal finance, physiological needs are the nondiscretionary expenses that the household needs to incur to maintain the upkeep of the household. Examples are housing loan amortization and utilities expenses. On the other hand, examples of safety needs are emergency funds and insurance coverage. The size of emergency funds is a function of the size of monthly expenses and stability of income.

Psychological needs are comprised of social belongingness and self-esteem. Social belongingness refers to a person's need to be in an interpersonal relationship or involvement in a group. Self-esteem, on the other hand, is the need of an individual to getting recognition or status and respect from others. Social belongingness can be manifested in family get togethers, weddings and travel tours. Self-esteem can be realized through getting promotions in employment and achieving success in business. When attempting to fulfill psychological needs, it is important for the household to balance the financial opportunity costs for each choice with the household's overall values, with special consideration given to the sustainability of achieving psychological fulfillment.

The third category is self-actualization or self-fulfillment. This refers to reaching the full potential of an individual. In personal finance, this is about the pursuit of goals that matters most to the individual or household. These goals should not be limited to material things, which goals may vary in level of priority from one household to another other. Examples would be winning in competitions, reading a book, and communing with nature.

More often than not, the basic and psychological needs have to be satisfied first before the self-actualization needs are addressed. But there are those who are so detached from mundane things that they can go straight to addressing self-actualization needs. In truth, Maslow never said that there was a hierarchy. He just said that all categories of needs are present in individuals, only a varying intensities.

People may have different goals in life. Nevertheless, with the proper utilization of financial resources, all will be able to achieve such goals. What is important is not to mistake the tools with which they are to achieve those goals, financial resources in particular, for the goals themselves.

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Editor's Note

Efren Ll. Cruz, RFP®
Editor-in-Chief

To build on the piece in this issue on Maslow & personal finance, we would like to retell this simple story of how to avoid mistaking the tools with which to achieve life's goals for the goals themselves.

As the story goes, a teacher asked the children in her class to blow up the balloons she brought. Once the balloons were all inflated, she asked her pupils to write their name on the balloon they were holding. And once the children were done writing their names, the teacher instructed them to gather the balloons in the center of the classroom.

The teacher then mixed up the balloons and asked the students to find their own balloon within 5 minutes. When time was up, the students were not able to find their own balloon due to the mayhem that ensued.

The teacher then instructed each student to pick up the nearest balloon and to give it to the student whose name appears on the balloon. In two minutes, the students were all holding on to their own balloon.

Then the teacher told the students that the balloons represented happiness. She went on to say that a person will not find happiness when he is only searching for his own. But if a person cares about someone else's happiness, it will ultimately help him find his own.

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