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# YAMAN Coach

EMPOWERING YOU

## The Physics Behind Retirement Planning

by PFA

Have you ever wondered what keeps you upright when riding a bicycle?

A bike remains upright when it is steered. The reason for this is that the ground reaction forces balance out all the other forces the bike experiences like gravitational, inertial, or centrifugal (if in a turn), and aerodynamic (if in a crosswind). Please note, also, that the faster the bike is moving forward, the smaller the steering inputs need to be in order to balance the bike.

Applying sound personal finance is much the same as riding and balancing a bike. In life, we want to get from point A, say a situation where money is scarce, to point B where the abundance of money allows us to focus on the more important things in life. Similarly, you can use a bicycle to get from your house (point A) to a park (point B) and back.

For a safe ride, however, you need to know how to balance your bike in much the same way as you balance your finances. Things like unnecessary spending, low income, poor saving habits, wrong investments, bad advice, greed, fear, ignorance, and excessive hope can

throw us off balance much like stones, potholes, dogs, cars, and pedestrians would the cyclist. It is, therefore, critical to maintain that personal finance balance.

One way to make it easier to balance your finances is to have forward motion, just like with a bicycle. And what is the most practical way of attaining enough of this forward and sustainable motion? The answer is by investing.

Suppose you are 40 years old now, with Php50,000 a month of income on 13 months of pay per year, and you want to enjoy a 20-year retirement period upon reaching the age of 60. Let us also assume that your total retirement expenses will amount to a modest Php240,000 per year using today's Pesos. With an inflation rate of 5% p.a., the total future cost of your 20-year retirement would be just under Php14 million. If you have only Php0.5 million in savings at the present time, you would need to save roughly 95% of your annual income or over Php52,000 a month for the next 240 months to fund your retirement.

So how can you afford your retirement? Here are several ways. If your income grows by 3% p.a., you can also increase

your savings in a compounded way by the same rate. Doing this alone would already bring down your required percentage savings to 64% p.a.

If you were to invest your starting funds and periodic savings in equities with a long-term compounded return of 8% p.a. from age 40 to 49 and then to 2% p.a. from age 50 years old and older, your required percentage savings goes down further to 45% p.a.

And if you had been religious with your SSS contributions and started with the maximum salary credit of Php20,000 from employment to retirement, with your pension benefit of Php16,500, your required percentage savings goes down to 24% p.a.

Finally, if you still want to earn income for the first 10 years into retirement so that you will not lose your sanity, you will just need to earn Php165,000 in today's money to allow you to save just 10% of your income per year.

All numbers were quickly generated through the **My PF App™**.

They say that one of the fastest ways to get rich is to bet on lotto games. But please remember that with lotto, the chances of winning are so low that you would be better off just giving away your betting money.

They say that one other fast way to get rich is to go into business. It is one thing to succeed in business and it is another thing to have the capacity for taking the risk associated with business. And because risk preferences vary from individual to individual, not everyone is cut out to be in business.

Now a less thought of way to get rich, because it is slow but steady, is through saving income from employment. The trick is to invest such savings. That is why we call it “emvest”.

Critical to the “emvest” strategy is to save first even in small amounts. A little thing truly goes a long way. To prove this, take the Php3.50 challenge.

What can be bought with Php3.50 nowadays? – Not a whole lot. Perhaps it is just about the amount of change received after paying for lunch at work. But if Php3.50 is saved a day for five days in a work-week for 52 weeks in a year, a total of Php910 can be saved. Now compare that to putting Php100,000 in a savings account with a large bank for one year. The net earnings will only be Php100 (using a net savings interest rate of 0.125% p.a.).

## The Php3.50 Challenge

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In fact, it would take 9.1 times as much money or Php910,000 to match what could “effectively be earned” through the Php3.50 challenge. And all that is needed is to dig into pockets and save Php3.50 each workday for a year.

A pocket is a goldmine. But there is always a tradeoff.

But wait. Is getting rich the primary goal in life? 1 Timothy 6: 17-19 says, “Instruct those who are rich in this world’s goods that they should not be proud and should set their hopes not on money, which is untrustworthy, but on God who gives us richly all that we need for our happiness. They are to do good and be rich in good works, generous in giving and always ready to share this is the way they can amass a good capital sum for the future if they want to possess the only life that is real.”

The slow and steady way of wealth accumulation is not only viable but also effective in that it keeps our gaze on the true prize in life.

## Editor’s Note

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### Fundamental vs. Technical Analysis

Warren Buffett is the world’s richest investor. But rather than trying to mimic his investment choices, it may be better to just follow his investment lessons.

The majority of fund managers do the top down approach that starts with macroeconomic analysis and goes down to industry then company analysis.

Warren Buffett, on the other hand, looks for companies that profit regardless of what happens to economies. This is what some call the bottom up approach or kicking the tires. Some say that Buffet can afford to be different because of the size of his portfolio and his holding power. But the importance of fundamental analysis on a company level cannot be overemphasized.

To Buffett, fundamental analysis is key because it helps to identify which companies are ideal for investing in because the analysis focuses on finding those with high valuations yet low prices. Still, technical analysis assists in determining the right price to get into and exit out at.

“Strive not to be a success, but rather to be of value.”  
- Albert Einstein

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