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# YAMAN Coach

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## Was 2020 Really Bad for Stock Investing thus Far?

by PFA

One view is that stocks around the world were pummeled by the pandemic and resulted in one of the worst performances in history. The opposite view is that the huge drop in prices presented an opportunity to make short-term profits on whatever rebound that may ensue.

What is clear though is that the pandemic did not lead to the first major downturn in stock prices. In fact, history is replete with major crises that sent prices tumbling. Wikipedia lists more than 50 from the Tulip mania bubble in 1637 to the Wall Street Crash of 1929 to the present CoVid-19 pandemic.

Crises are here to stay, and experienced investors know that continuous investing in both the highs and the lows of markets is the best strategy to weather such crises. The strategy is called cost-averaging.

Cost-averaging simply means that you invest a fixed currency amount periodically. When prices are high, your fixed currency amount buys fewer investments. When prices are low, your fixed currency amount buys more investments. And over time, you are likely to have a better average cost than if you

were to invest everything at the start or time the market.

Consider the PSEi in 2020. If you had invested all of Php110,000 at the start of the year, at an index level of 7,815.26, the value of your investment by the middle of November 2020 would just be Php98,101.25, leaving you with a year-to-date loss of 10.82%.

On the other hand, if you had invested Php10,000 monthly from the start of the year up to the end of October 2020, your total investments of Php110,000 would be valued at Php123,863.66, giving you a gain year-to-date gain of 12.60%. Now that is a big swing from the loss of 10.82% if you had invested just one time, big time.

Of course, people with a trader's mentality will say that they can probably outperform if they just time the market. The problem with timing the market is that the probability of hitting the right buy and sell prices is exceedingly small.

You will know when a stock price is at its highest after the fact simply because you will need the subsequent day's stock price to confirm that conclusion. By then, you

will have missed selling at that supposed high price. By the same token, you will need the subsequent day's price to confirm that indeed a certain stock price is the lowest. By then, you will have missed buying at the supposed low price.

That is why advocates of cost-averaging say that instead of trying to do the impossible, why not just do it the easy way by buying a fixed amount periodically. If your holding period is long enough (i.e. at least 5 years), chances are you will withdraw part if not all of your investments at a greater profit.

It is also said that when it comes to investment performance, 92% of the time is it generated by asset allocation, 5% of the time by security selection, 2% of the time by timing, and 1% of the time by sheer luck. That is why they say, "Time in the market is much more important than timing the market."

So, from the point of view of cost-averaging, stock investing in 2020 thus far was actually a good year for investing, as was the other years prior to it, and perhaps the many years after.

Among the many things that remind us that Christmas is around the corner, and perhaps one of the most anticipated is the 13<sup>th</sup> month pay of employees. And it is only fair to say that this extra month of pay will be of great help especially during this time of pandemic. But pandemic or not, people need to budget their 13<sup>th</sup> month pay well for enhanced financial well-being. And to do this, we need to understand why it is so easy to burn through the 13<sup>th</sup> month pay.

The three possible reasons for easily spending the 13<sup>th</sup> month pay are the: 1) small size of individual spending relative to the large total amount; 2) easy come, easy go mentality; and 3) timing of the release.

For those employees who receive their 13<sup>th</sup> month pay in one go (i.e. for others, part is released in the middle of the year and the rest in November), taking a pinch out of small amount seems harmless. Of course, without monitoring, these small amounts are capable of finishing the 13<sup>th</sup> month pay when done frequently enough.

The 13<sup>th</sup> month pay is not a bonus. It is a guaranteed pay because it is mandated by law. In contrast bonuses are variable as they are paid out on the bases of many things, two of which are the company's profitability and the individual performance of employees. Yet, employees often call the 13<sup>th</sup> month pay a bonus, a windfall that can be spent to their heart's delight.

The 13<sup>th</sup> month pay is released right before "the most wonderful time of the year." The purpose is

## The 13<sup>th</sup> Month Pay

by Coach John Hero A. Salvador, RFP®

to help employees better spread the holiday cheer. But with emotions running high, holiday spending can easily get lost in the gyrations of sales and discounts not only in malls but also online stores.

An effective way to counter these said reasons is to frame the 13<sup>th</sup> pay in a different light. The 13<sup>th</sup> month pay can be thought of as the rightful compensation for working 1,960 hours in a year (i.e. 40 hours a week by 49 weeks). Using the 13<sup>th</sup> month pay to whittle down credit card debt can also be thought of as not only emancipation from debt slavery but also earning a huge, guaranteed return of 24% p.a., the current interest rate that will be avoided (i.e. the rate is the current level regulated by the BSP for credit cards).

If the household has manageable debts, the 13<sup>th</sup> month pay can be used to beef up its emergency funds arsenal to cover both unexpected expenses and investing opportunities.

This article does not recommend doing away with buying holiday gifts. It is just a reminder that buying gifts should be within the means and that obligations are not forgotten in doing so. After all, Christmas is the time for giving.

Happy holidays.



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## Editor's Note

Efren LI. Cruz, RFP®  
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### Taking Care of the Little 1s

As children, we were taught that  $1 + 1 = 2$ . When we grew up, we learned that the equation also meant that little things do add up.

"Unfortunately, all throughout life, we take the "1s" or the little things for granted.

Truth is, collectively the "1s" can amount to a lot. For example, the cost of buying Php30 worth of hot pandesal every morning amounts Php10,950 a year. Buying Php300 of cell phone load a month is also worth Php3,600 a year.

Clearly, something must be done to manage the seemingly harmless "1s" that can wreak havoc in our budget. And we do not have to limit ourselves to cutting costs. Many times, the better solution is to increase income, which can be as simple as saving and can be as complicated as investing. Both can be potent.

For example, using a 1 HP window type aircon for just 8 hours a night instead of 10, assuming that the monthly bill is around Php5,000 will lead to yearly savings of Php2,600 (i.e. using the Meralco appliance calculator app).

So, take care of the little 1s in your life. They do add up.

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

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