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# YAMAN Coach

EMPOWERING YOU

## Where did my Money Go?

by Coach Jay Adrian Tolentino, RFP®, AFP®

This topic is one of the things that I am passionate about. It is about my experience in bouncing back from previous financial disasters with the use of a simple tool.

When I look back at the days when I was still working for my first employer, I could say that I wasted 7 years of my life living for the moment. I never really planned for my future. All I knew was to spend on things that would make my life fun.

It all changed when I came to Dubai five years ago. I had to change my spending habits to make ends meet. I needed to be a man with a plan or else I would be buried in debt!

Budgeting is simply a process of creating a plan to understand where your money is used. And it helped me in so many ways!

Budgeting helped me understand my past spending habits. When I was building my very first budget, I had to review where I spent my money and why I never really saved anything. I realized that I spent too much on shoes, weekly night outs with friends, the latest gadgets, and other unnecessary stuff. I also realized that little expenses (if not tracked) can ruin your

budget. A small leak can indeed sink a big ship!

I finally understood the difference between needs versus wants. I found out that the things where I spent my money before no longer added value to the goals that I wanted to achieve in the future.

Budgeting made me understand and accept who I was. Budgeting helped me organize my present expenditures. It prevented me from buying excess possessions, weekly booze, and other temporal stuff. It allowed me to use my money on what are truly important - health, growth, contribution, and meaningful relationships with God and the people who add value to my life. There were days when I had to be creative or think outside the box if I wanted to stretch my budget.

Budgeting made me appreciate the things that I have, focus on my goals, and live within my means.

Budgeting helped me plan for my future. It prepared me for life's unpleasant surprises and retirement. I never had to borrow money from anyone whenever I had an emergency because I was able to put up an

emergency fund. It allowed me to invest a small portion of my income which I hope to grow in 10 to 20 years from now. It also allowed me to pay for life insurance. I do not want my future family to be my retirement fund!

Budgeting gave me peace of mind and security. Overall, budgeting allowed me to live a purposeful life. I only spend on things that are in line with what I need and where I needed to go. It helped me live in the moment, not just for the moment.

I want you to experience the same freedom in your life. Why wait for you to get a 5 or 6-figure income when you can enjoy living now! It is not about how much you earn but how much you keep and multiply.

Live life to the fullest while building your Financial Fortress! All you need is a well-planned budget!



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Below is a table on the historical returns of the PSE Composite Index (PSE CI):

Period*	Years	Effective Annual Return	Average Annual Return
1958-1986	28	1.9%	7.7%
1986-2019	33	7.1%	13.0%
1958-2019	61	4.7%	10.4%

\*the two periods from 1958- 1986 and 1986 to 2019 are the result of a change in computation of the index

If we look at the effective annual return of the PSE CI, we see that local stocks really took off only from 1986, after the peaceful People Power revolution. But even then, the effective annual return was only 7.1%. And when returns are computed over the entire history of the PSE, the result is a paltry 4.7% effective annual return.

But the above computation fails to take into consideration three things: 1) the alternative investments available (e.g. 364-day T-bill); 2) inflation rate; and 3) added return from reinvesting cash dividends.

The PSE actually came out with the PSEi Total Return Index (TRI) that computes dividends reinvested. However, the index was recomputed only as far back as 2007. So, let us do a comparison from 2007 to 2019.

Period	Inflation Rate	364-day T-bill	PSEi	
			Effective Return	Average Annual
2007-2019	3.8%	3.2%	9.4%	13.4%

## Why Invest in PH Stocks when Returns are Low?

by PFA

Now the return computations are put in better context. A necessary hurdle rate for investing would be the risk-free rate multiplied by the inflation rate multiplied by a little extra return for compensating for investing in risky assets.

It looks like investing in PH stocks, with dividends reinvested makes the cut as the PSEi TRI's return of 9.4% for 2007 to 2019 provides an extra incentive of 2.1% for the risk in investing in stocks (i.e.  $1.038 \times 1.032 \times 1.021 = 1.094$  or 9.4%).

In addition, the average of the annual returns of the PSEi is 13.4%. This means that with active portfolio management, higher returns could be had. And while proponents of index funds say that it is impossible to outperform the market, their premise is that markets are efficient. This means that no one can earn consistent above normal profits because all the news is immediately reflected in stock prices. But the Philippine stock market is near but not yet fully efficient. That is why trading in the Philippine stock market can still produce consistent above normal returns.

So, put in the proper perspective, investing in PH stocks still makes a lot of sense whether you engage in active trading or not.

## Editor's Note

Efren LI. Cruz, RFP®  
Editor-in-Chief

### TWAHCD

TWAHCD means thoughts become words, words transform into action, action leads to habit, which in turn forms character and eventually leads to one's destiny.

TWAHCD applies to everything including personal finance. Think of say wanting to be financially free. You toy with the idea for a couple of days. The thoughts become strong enough that you one day resolve to do something about your empty bank account. After expressing your goals into a strategic written down plans such as cutting back on unnecessary spending, you spring into action.

Each day is a tough challenge. But despite all the temptations to spend, you trudge on. Soon enough, your mind becomes dull to the pangs of starving yourself of earthly desires. You imbibe the habit of saving.

Saving becomes so automatic and essential to you that skipping any opportunity to do so gives you a gnawing sense of inadequacy.

Soon enough, you reach your goal, however noble it may be. But because you have developed that character of being wise in spending and saving, you cannot refuse the lure of continuing on your journey, of broadening the scope, of fulfilling your destiny of becoming financially free.

TWAHCD works even with personal finance. Try it.

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

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