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YAMAN Coach

EMPOWERING YOU

Silent Heaters Run Deep

by Efren Ll. Cruz, RFP®

Recently, I noticed that our shower water heater was leaking. But it was not leaking from the pipes leading to and coming from it but from the heater housing itself. Being the frustrated engineer that I am, I decided to investigate by opening the housing. What I found was shocking.

There was water splattered almost everywhere inside the housing with the leak coming from the heating element itself. I feared that the leak might lead to electrocution, having heard so many horror stories about shower heaters. But I lie; the greatest fear came from my wife complaining that we did not have hot water during the cold months. That sent shivers down my spine.

In the spirit of maintaining marital bliss, I decided to shop around for a replacement heater with our current brand since we enjoyed ours for a great many years. Unfortunately, our brand was apparently not distributed by online stores. (As we all know, online shopping during the pandemic is the way to go.) And while online buyers' comments do help, buying a proven brand does give peace of mind.

So, after taking a deep dive into online research, I narrowed it down to two brands. One was known not just for water heaters but also for other home appliances like TVs, aircons and refrigerators. The other specialized only in water heaters. The cost of the water heaters were high enough to create a black hole in one's wallet. Having no choice though, I decided to contact the specialist supplier as they had the lowest online price. Plus, we had known their brand for also a long time and were using their brand of shower heater for another bathroom. But much to my chagrin, I found out that their models did not match the layout of pipes in the bathroom that needed heater replacement.

And then I remembered that our current water heater was once repaired. I heaved a great sigh of relief when I found their number in my phone contacts after a heart-pounding search. I first asked if they could repair our water heater. But due to the age of our heater, parts were no longer available.

When I asked how much it would cost to buy a new one, I was pleasantly surprised to know that it was cheaper than the cheapest online price with service and parts warranties just as good as those of the other brands.

But I was also told that their brand of water heater is sold only by the big chain hardware stores located in malls, and not online. Knowing that one such hardware was near our house, I sprang into action as only Batman could after seeing the bat signal.

When I got to the store, the brand merchant asked how old my heater was. With smugness I replied, "Oh at least 7 years old." Then he burst my bubble and told me that their water heaters actually last much longer, at least 15 years. My water heater did not last long only because I did not install a valve for the inlet pipe. Having no inlet valve kept water pressure high inside the heating element, thus causing the seals to weaken earlier than normal.

So, what is the moral of the story? Quality does not necessarily go hand in hand with popularity. In fact, popularity sometimes will lead to higher prices without the corresponding increase in quality. We see this incongruence in many aspects of life. On the flip side, some are just not up to the task of effective brand promotion.

It therefore always pays to shop around, not just online but also through the "brick and mortar" way of using personal interaction. Technology is there only to aid and not replace our way of life.

The Alternative to Technical Charting

by PFA

A lot of stock market investing, and trading has to do with psychology. Technical charting in a way attempts to capture that psychology by analyzing historical price patterns, which deep down really reflect investor and trader psychology at particular points in time.

Technical charting provides some clues of how future stock prices may behave given past trends. An alternative to technical charting is provided by the Capital Asset Pricing Model or CAPM.

According to Investopedia, "CAPM describes the relationship between systematic risk and expected return for assets, particularly stocks. CAPM is widely used throughout finance for pricing risky securities and generating expected returns for assets given the risk of those assets and cost of capital."

That systematic risk is defined as beta. Beta represents a correlation between a broad market benchmark, like the Philippine Stock Exchange Composite Index or PSEi and the return of a particular stock or portfolio. But for beta to be useful, the correlation coefficient needs to be significant (i.e. 0.70 to just under 1.0).

Simply put, there are stocks whose returns tend to move with the returns of a benchmark. If such a relationship exists, projecting the return of the benchmark can help project the return of such stocks as well.

Please note that the premise is not that the returns of the benchmark cause the returns of a stock to move in a particular way. There is just that tendency to move together. And the tendency needs to be strong, hence the need for a significant correlation coefficient.

Beta can be based on historical or prospective movements of returns. But ultimately, just like with technical charting, a lot of psychology is taken into consideration.

PFA created a high beta portfolio comprised of just ten (10) index component stocks in 2020 and compared its performance to that of the PSEi. From a base date of March 19, 2020, the bottom of the stock market during the pandemic, the PSEi produced an absolute return of 54.42% by the end of the same year. The PFA high beta portfolio produced an absolute return of 61.41%, nearly 7 percentage points higher.

Of course, not everyone is suited for such a high beta portfolio. Moreover, the PFA high beta portfolio will work best in a market that is moving up in a strong way. But suffice it to say that using beta is a viable alternative to technical charting.

Editor's Note

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Wealth Formula

The formula in MS Excel is:

=fv(rate,nper,pmt,pv)

In layman's terms, your target future wealth or value (fv) is a function of the return you earn (rate), the length of the period over which you invest (nper), the periodic investments or payments to the fund you set aside (pmt) and the present or starting value of your investments (pv).

You actually just need three of the factors inside the parenthesis to arrive at "fv". And the general rule is that the larger the value is for one or more of the factors, the smaller it will be for the other or others.

So, given a fixed future wealth target, trying to earn a high return will do away with having to invest over a long period, adding large investments periodically and/or starting with a sizeable investment. But earning a high return also entails taking on larger risks. Returns can be throttled down by increasing the value of the other factors.

Try it out. And if you find the formula daunting, just get the help of a financial planner.

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