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YAMAN Coach

EMPOWERING YOU

Ray Dalio's Principles Applied

by Coach John Hero A. Salvador, RFP®

I was able to watch a condensed animated presentation of Ray Dalio's book, Principles, narrated by himself. The visuals were refreshing and the content excellent. The presentation got me thinking, "What lessons here can be applied to personal finance?"

Firstly, who is Ray Dalio? Raymond Thomas Dalio is an American billionaire hedge fund manager and philanthropist who has served as co-chief investment officer of the world's largest hedge fund, Bridgewater Associates since 1985. In 2011, he self-published a 123-page volume, "Principles", that outlines his philosophy of investment and corporate management based on a lifetime of observation, analysis, and practical application through his hedge fund.

Dalio encourages people to focus on what is true for us. In personal finance, this translates to personal goals that we really need and makes us fulfilled. All too often, we get sidetracked by envy that we lose sight of what really matters to us. The current lockdown provides us an excellent opportunity to think about what really matters in navigating during our financial journey.

Dalio believes that good outcomes result from having truths as essential foundation. Having a firm financial foundation means possessing a clear understanding of our cashflow, balance sheet, and life risks. A practical exercise to precisely see how cash flows in and out of our household finances is PFA's Reality Cash Flow that was discussed in issue no. 2 of volume 2 of this e-newsletter.

Dalio's touched on the idea of time moving forward but not exactly in a neat line, much like a river that ebbs and flows. In personal finance, plans cannot be too rigid. We need to remember that our financial situation is dynamic through time and that we need to make adjustments when the situation prompts us to do so. A periodic review of our financial plans is the best to incorporate life and career changes.

But the most important point that Dalio brought up is the formula that pain, when coupled with reflection, translates to progress. He cited his near bankruptcy as the turning point not only of his career but of his life as well.

There will be setbacks in our own financial journey such as excessive debt, gambling issues, loss of income or work, health-related concerns, and others. It is perfectly fine to feel bad at first but what we need to feel bad at first. But we need to remember that setbacks are temporary, and that these can be overcome eventually. What is important for us to do is to treat these setbacks as learning experiences for us to move on towards our goals. Learning from our past mistakes will make us more prepared for similar issues in the future, if not prevent the same mistake from happening again.

Having self-awareness, dealing objectively with facts and risks, being flexible and having a contemplative view of past mistakes will help us in making our financial plans more doable. Success in personal finance is not just about having the right numbers but more importantly, having the right mindset.

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Zero: The Most Important Number in Personal Finance

by PFA

At PFA, we had always wondered why our giveaway piggy bank at training sessions was a hit; that was until we read Dan Ariely's book entitled "Predictably Irrational."

To help keep participants riveted, we would conduct small contests where we would ask trick questions on topics we covered. If a participant got it right, he would win an inexpensive plastic piggy bank. To make the contest more enticing, we put a one Peso coin in each piggy bank and called it, "Piso mula sa puso."

Invariably, participants who would not win piggy banks would approach us and "beg" for their own. Some would even offer to pay for the piggy bank. On the other hand, those who won would still come up to us and ask for another piggy bank supposedly for their other child.

At first, we thought that the demand for the piggy bank arose from the hype we would create. Then we thought it might have had something to do with the bright and varied colors. But as Dan Ariely pointed out, it was actually because the piggy banks were perceived to be free (even if the participants had to answer a question and risk being wrong).

In experiments that Ariely would conduct on the subject matter, people tended to choose higher priced, higher quality items over lower priced, lower quality ones even if both items were sold at a discount. The behavior changes drastically, however, when the lower priced, lower quality item is given for free. People tended to choose free stuff over the higher priced, higher quality items.

Come on, do not deny it. How many times have you picked up a professionally-done brochure, even if you were not that interested in it, simply because it was free? When there is a conference, there is a tendency for people to collect flyers as a "must have".

Now apply the free or zero cost concept to daily living. Do your eyes not light up and are you not stopped in your tracks when you see any of the following:

- buy one, take one;
- additional grams, FREE; and
- zero percent interest?

Marketers know that our brains are hard-wired to think that zero or free is a no-brainer; and they take full advantage of this. The problem begins when we are persuaded to buy even the things we do not need simply because they are promoted with a zero notional cost. And the common result is that we end up with less cash, and many times with higher debts.

The simple way to know whether we truly need an item is if we can find it in your budget. Now see what financial havoc you can create if you do not have a budget to begin with.

So next time you see a promotion that is seemingly free, think twice. The cash you save <u>is</u> your own.

Editor's Note

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Editor-in-Chief

Retirement Rules

Our brain has a penchant for short cuts. It is a way of conserving energy for the other parts of the body. Rules can also serve as short cuts; and there are a few of them when it comes to retirement.

One rule states that to extend the lifestyle we are enjoying now up to retirement we need to be able to spend at least 75% of our pre-retirement income during retirement. It will still be manageable if the capacity to spend goes below 75% of pre-retirement income. But if the number goes down to 40% and lower, retirement living will become a struggle.

Another rule is 20:20. For us to enjoy a 20 year retirement period, we must start saving 20 years before retirement. Basically, the length of retirement should be equal to the length of saving up for it. So, it could be 5:5, 10:10 or any other matching ratio.

But the best way to prepare for retirement is to determine the future cost of how you want to live retirement today and compare that with what you have already saved and what you can still periodically save. Doing so will help you arrive at a required investment return on your savings. The investment return will in turn tell you where you should be investing your money.

Short cuts may save you energy today. But they may fall short of what you will actually need for retirement. Take the safer longer route.

If you need help, contact one of our **YAMAN** Coaches.

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