



▶ Countering Investment Insanity with Intelligence..... 1



▶ Filing for Individual Bankruptcy..... 2



YAMAN Coach

EMPOWERING YOU

Countering Investment Insanity with Intelligence

by Coach Atty. Zigfred M. Diaz, CSS, ReB, ReA, AEPP RFP®

In high school, I saw a movie wherein there were several people standing in front of giant screens shouting. A lot of them were busy talking to the phones and shouting at other people. Most of them have this small slip of paper and there were those who were writing on pieces of papers as if taking orders.

The scenario I just described to you was a movie wherein there was a stock market scene. I grew up wondering what that hullabaloo was all about.

The stock market is dictated by two things, FEAR and GREED. When there is so much fear in the market the prices goes down. People start to panic and dump stocks regardless of what price at which they bought it. When there is so much greed in the market, people go crazy over stocks. They buy without regard to the financials of the underlying business that the stock represents. They want to buy whatever is the latest stock craze. The market is driven by so much emotion that most of the time the decision most stock market players make are often irrational, illogical, and just plain dumb and stupid.

In “The Intelligent Investor” Graham gives a

market works. He writes:

“Imagine that you own a small share in a private business, which you purchased for \$1,000. One of the other owners of the business, named Mr. Market, approaches you to tell you what he thinks your share of the business is worth. And every day, he offers to either buy your share of the business for that price, or to sell you an additional share of the business for that price. Each day, however, he quotes you a different price from the day before. Sometimes the price he quotes sounds about fair. Sometimes it is high. Sometimes it is low. If you are a prudent investor or a sensible businessman, will you let Mr. Market’s daily communication determine your view of the value of a \$1,000 interest in the enterprise? Only in case you agree with him, or in case you want to trade with him. You may be happy to sell out to him when he quotes you a ridiculously high price, and equally happy to buy from him when his price is low. But the rest of the time you will be wiser to form your own ideas of the value of your holdings, based on full reports from the company about its operations and financial position.”

The point that Graham is making is that the investor is better off concentrating on the actual performance of the underlying business that a stock represent, rather than being too concerned with the wild gyrations of the market.

To show you an example of how manic depressive the market is, in the Philippine stock market, investors valued a retail grocery chain close to Php45 billion when its net income could barely even reach Php30 million within this year. On the other hand the market only valued a holding company who has a majority stake in a large grocery store chain network for only more or less Php40 billion when its income could very well exceed more than Php5 billion this year.

Benjamin Graham wisely concludes, in the short run, the market tallies up popular and unpopular firms but in the long run the market will realize the value of the companies with solid fundamentals and will soon price their stocks accordingly.



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In the Philippines, there is the Financial Rehabilitation and Insolvency Act or FRIA. Under FRIA, the filing for insolvency covering debts of individuals can be made through one of the following ways:

- 1) Suspension of payments – A restructuring of debt payments is allowed by the court provided that: a) an individual debtor who, possessing sufficient property to cover all his debts foresees the impossibility of meeting debt payments when they respectively fall due; b) the individual debtor presents a feasible restructuring program; and c) in a meeting attended by creditors holding claims amounting to at least three-fifths ($\frac{3}{5}$) or sixty percent (60%) of the liabilities of the individual debtor, the majority of the creditors approve of the restructuring program.
- 2) Voluntary liquidation – This covers any individual debtor whose properties are not sufficient to cover his liabilities, and who has debts exceeding Five Hundred Thousand Pesos (Php500,000). Should the court find the petition for voluntary liquidation sufficient in form and substance it shall, within five (5) working days issue the Liquidation Order.
- 3) Involuntary liquidation – “Any creditor or group of creditors with a claim of, or with claims aggregating at least Five Hundred Thousand Pesos (Php500,000) may file a verified petition for liquidation with the court of the province or city in which the individual debtor resides.” If the individual debtor shall default or if, after trial, the court finds merit in favor of the petitioning creditors, the court shall issue the Liquidation Order.

Of the three, the first two are initiated by the borrower. And while only involuntary liquidation is the option for creditors under FRIA, creditors may also file civil small claims cases before the Metropolitan Trial Courts, which are non-appealable

Filing for Individual Bankruptcy

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and where no lawyers are allowed to appear. The small claims cases provide a simpler, more inexpensive, and expeditious means of settling disputes on purely money claims up to Php400,000.

Please note that filing for suspension of payments or voluntary insolvency will involve much more details that are too numerous to include in here. However, the most important thing to note about filing for insolvency on the part of the borrower is that it is an expensive process that does not lead to an instant solution.

The better solution is to follow not the law of man but divine law, which says, “Settle with your opponent quickly while on the way to court with him. Otherwise your opponent will hand you over to the judge, and the judge will hand you over to the guard, and you will be thrown into prison.” (Matthew 5:25) In other words, go for an out of court settlement. Follow the divine law.

Article 3, Section 20 of the Philippine Constitution does say that, “No person shall be imprisoned for debt or non-payment of a poll tax.” However, a person can still go to jail under B.P. 22, which penalizes the making or drawing and issuance of a check without sufficient funds or credit, and R.A. 8484, which prohibits fraudulent acts committed relative to access devices like credit cards.

But, if in the process of negotiating with your creditors and the agencies that they hire, they undertake unfair collection practices, you can report them to the Bangko Sentral ng Pilipinas for the traditional lenders in the financial services industry or to the Securities and Exchange Commission for the small lenders.

Editor's Note

Efren LI. Cruz, RFP®
Editor-in-Chief

Are High Cash Dividends Good?

There has been a growth in equity-invested pooled funds coming out with the objective on focusing on high dividend yields. This basically means that only companies that pay high dividends as measured by their historical or expected dividends per share divided by their market price per share will be invested in.

An alternative measurement is the dividend payout ratio, which is total cash dividends divided by the sum of net income & non-cash expense less non-cash revenues.

Regardless of the measure, high dividend yield funds basically have the objective of current income. What the investor needs to know is that when companies pay out high levels of cash dividends, all things being equal, they are implying that future earnings growth will not be high and that the potential high capital appreciation in their prices will be low.

As we at PFA have always said, do not ask if an investment is good. Rather, ask what good an investment can do for you. High dividend yield funds are suited for investors who are also after current income. The question is, “Are you one of those investors?”

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