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YAMAN Coach

EMPOWERING YOU

Difficult Money Conversations – Part 1 of 3

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

In any social event, they say that the best way to not make enemies quickly is to avoid engaging in any conversation about politics or religion. And when it comes to family and friends, one of the most difficult things to talk about is money.

A survey by Wells Fargo found that 44% of Americans see personal finance as the most challenging topic to discuss with others, more so than subjects like death, politics, and religion.

Herald Cruz, counselor at the Center for Family Ministries at the Ateneo de Manila University cites issues about money as the number reason why marriages crumble and eventually fail. Money is also a major cause of quarrel among siblings as well when it comes inheritance, no matter the size of the estate.

For Filipinos, it is so hard to talk about money with family and friends because of family dynamics and culture. Filipinos place a high premium on family relationships. For fear of being labeled as greedy and compounded by the "bahala na" attitude, Filipinos tend to set aside money conversations to a "later" date.

Debt is another issue. A lot of those who borrow from families and friends suddenly become afflicted with "amnesia" and forget about the money they borrowed thinking that family and friends will not risk ruining the relationship over such amounts. On the other hand, Filipinos have a hard time saying no to families and close friends who would ask them for a loan. There is one too many "sari-sari" or variety store that has closed down because so-called good neighbors failed or took too long pay off their debts to the store.

It is also common for Filipinos especially in the provinces to spend huge amounts of money to celebrate "fiestas" even if they have to borrow to do so. The celebration is seen not only as a form of thanksgiving to patron saints but also as a status symbol. It would not be a very good look for a family to not celebrate fiestas. This "phenomenon" is not only confined to fiestas but also to other occasions such as birthdays, baptisms, "despedidas" (sendoff parties), anniversaries, passing of an exam, weddings, "pamamanhikan/pamalaye" (a Filipino betrothal practice) and the like. A lot of Filipinos find themselves in deep financial trouble or cash flow problems because of budgets that were redirected for spending on such occasions.

Traditionally, most Filipinos have the mindset that it is the wife who should be the "purse bearer." While this is indeed a good practice (considering that it is common knowledge that a lot of Filipino husbands have more "vices" than wives) this traditional setup is not always the best arrangement because Filipino husbands can be as good as their wives in personal money management. Nevertheless, a lot of Filipinos still opt to follow the traditional setup with the wife as the "purse" bearer.

In part two of this three-part series, I will discuss specific steps on how to engage in difficult money conversations with family and friends.

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Whether Weather

by PFA

Does climate have an impact on a country's wealth? Put another way, why are cold countries richer than warm countries. Currently, a lot of the developed economies lie outside the tropics. Is there a correlation between wealth and climate?

The YouTube channel Economics Explained did a regression analysis between GDP per capita and the climate of a country. They found that for every extra one degree in Celsius in a country's national temperature, GDP per capita falls by USD762. The resulting R squared is 0.09. R squared represents the proportion of the variance for a dependent variable (e.g. GDP per capita) that is explained by an independent variable (e.g. country's temperature) in a regression model.

But while there is a relationship between a country's temperature and GDP per capita, there are exceptions, notably Bahrain, Qatar, the UAE and Singapore that very hot yet very rich nations. On the other hand, there is North Korea, which a very cold and poor nation. These countries are the outliers.

More importantly though, does temperature really cause the level of wealth or is it just correlated?

In reality, all we have right now are theories on why countries with cold climate are generally richer than countries with warm climate. One such theory states that countries with harsh winters compel their citizens to work hard during the summer months. Those who did not simply ceased to exist. So, what remained are the more industrious economies. In contrast, economies in warmer climates have more time in the year to grow and harvest food and had less compelling reason to work hard over fewer months in a year.

But then again, prosperous civilizations of old like the ancient Egyptians, Mesopotamia, the Persians and the Mayans lived in warmer regions. So, why did the relationship shift to what it is now?

In ancient times, agriculture was the main driver of economies. With the advent of modern farming techniques, economies evolved and turned to industrialization.

Again, these are but theories. But what is clear is that a country's fortune can change largely from the acts of its citizens. Case in point, the outliers. In the same way, a family's finances can be improved on regardless of whether a family lives in cold weather or not. Thomas A. Edison was quoted as saying, "Opportunity is missed by most people because it is dressed in overalls and looks like work."

So, if one is willing to put in the hard work using the right framework, he can attain the wealth that so many just settle with dreaming of.

As to the framework, PFA recommends its Diamond Model. The return on any hard work (i.e. let us call it equity) is measured by the net income generated by that equity or, in terms of ratios, return on equity. But return on equity is merely a function of the product of three other ratios, net income margin, asset turnover and equity multiplier.

Without going too much into the details, net income margin represents a family's propensity to save. Asset turnover represents a family's propensity to invest. And equity multiplier represents a family's propensity to use debt to buy earning assets to further boost income. And to protect against a potential loss of income with the passing away of the breadwinner, a family needs to also have the propensity to insure.

The PFA Diamond Model is best explained in Pilipino. If a person wants the better way to achieve financial freedom, he needs to be pala-save, pala-invest, pala-utang nang tama and pala-seguro.

Editor's Note

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Contrarian Investing

The acknowledged guru on contrarian investing is Jessie Livermore, the world's greatest stock trader. Jessie Livermore had three major lessons for the investor. First, an investor must look at the pivotal points in the price of a stock or any other investment security for that matter. A reversal pivotal point is when a stock's price turns upward after falling for quite some time. That is not the price at which to buy the stock as that stock's price may reverse direction soon after and continue its downward trek. The price to buy the stock is at the level where there is a confirmation of the upward trend, what Jessie Livermore calls the continuation pivotal point.

Jessie Livermore also said that time is time, money is money. An investor does not always have to be invested in the markets. If the expectation is for the market to turn sour, the investor should take his profits or cut his losses and get out. More importantly, Jessie Livermore said that investors should start cutting losses when such losses already amount to 10% of his investment. Jessie Livermore said that investors should never fall in love with their investments because these do not know how to return that love.

Lastly, Jessie Livermore said that investors should take hold of their emotions, particularly hope, greed, ignorance and fear. These emotions would only distract the investor in executing his investing strategies.

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