ISSUE 11 | VOLUME 2 | June 15, 2021

- How to Choose a Stockbroker…..…..1

- There is Nothing Magic about Compounding…..….. 2

YAMAN Coach

EMPOWERING YOU

How to Choose a Stockbroker

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

Despite the fact that only a small percentage of our population is investing in the stock market, there has been a lot of interest in investing in stocks. Millennials are becoming more conscious about their personal finances. And since stock market investing is the "sexiest" part of personal finance, more and more people are interested in how to do it. The question on how to choose a stockbroker therefore has become as important as ever.

There are about 132 stockbrokers in the Philippines. Twenty-one of them are offering online stock brokerage services. The following suggestions might help make your choice of stockbroker less challenging.

Traditional or online – Traditional refers to doing buy and sell transactions by calling your broker, who then executes your trade request. Traditional brokers offer personalized service and the comfort that you are actually talking to someone on the phone to execute your trades. With an online broker, your trades get executed with your click of a mouse. Online brokers afford the speed with which to execute your trades and the ready access to information about the companies where you wish to invest in. The commission of traditional brokers is much higher (up to 1.5%) compared to online brokers (as low as 0.25%).

Reports and Analysis – Whether you are a hardcore fundamentalist or a savvy technician, you need information and confirmation on investments and trades. Such can be obtained by reading company reports, analysis, stock picks and technical charts. As a hardcore fundamentalist, I prefer an online broker that provides in-depth research on the fundamentals of individual stocks. The breadth, depth and usefulness of the analyses provided by my broker matters much to me. I prefer those that give comprehensive reports and analyses on individual companies and the economy as well. Those who are more concerned about technical analysis might prefer a broker that also constantly gives out stock chart analyses on individual stocks.

Under the hood, interface and other bells and whistles – Some online brokers offer sleek, fast, seamless and very user friendly platforms that are either heavy into technical or fundamental analysis. Things to consider are advanced charting tools, ease of viewing real time trading information, as well as ease of looking at key comparative data such as book value, earnings per share, dividend yield and other key financial data. There are also brokers who give you the option to invest in pooled funds and/or make automatic periodic investments in a list of their highly recommended stocks.

Ease of transfer of money – Online broker services offered by banks have the advantage of ease of transferring money. Online stock trading platforms not run by banks do not offer such convenience. Plus, it is such stockbrokers who earn from the "float" on your money and not you. With bank-run stockbrokers, you can easily zero out your cash account with the stockbroker and move the balance to the bank where it at least earns interest.

Customer service and added value – I have been investing in the stock market for more than 10 years now and I can tell you that you really will not require much interaction with your broker considering that most of them pretty much deliver what is expected. However, the added value, which is part of customer service, may spell the difference. Things like regular free seminars, access to important information for valued clients, active in engagement with clients through social media and readily available support like being able to do live chats.

In my experience not a single stockbroker checks all the boxes of investors. So, try out a stockbroker with a trade or two before committing long-term. Take advantage of the free trial offered by most online stockbrokers before you make your final choice.

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There is Nothing Magic about Compounding

by PFA

Personal finance is such a cerebral exercise that can easily turn off the most enthusiastic of savers and would be investors. Consider this definition of summer solstice by PAGASA:

“Philippine nights are at their shortest and daytimes are at their longest during the Summer Solstice, which falls on June 21 at 11:32 A.M. (Philippine Standard Time). This is the time when the Sun attains its greatest declination of +23.5 degrees and passes directly overhead at noon for all observers at latitude 23.5 degrees North, which is known as the Tropic of Cancer. This event marks the start of the apparent southward movement of the Sun in the ecliptic.”

There is a high degree of probability that only the first sentence will be retained by the reader.

Math, which is greatly relied on in personal finance, is looked at in the same way. In fact, we at PFA joke that when there was a move to take out Pilipino in the college curriculum there was a clamor to take out math instead.

Financial planners have devised ways to “ease the pain” of having to use math. One way is to associate math with something fun and mystical, hence the creation of the term the magic of compounding. And where else is the magic of compounding more evident than in the Rule of 72.

Under the Rule of 72, your investment will double in “x” number of years if you divide 72 by the absolute value of the return that you investment is giving. On the other hand, if you divide 72 by the number of years that your investment is claimed to double, you will arrive at the implicit net annual compounded return on your investment. But please note that the doubling is just math. There is nothing magical about it. Plus, the returns or time at which investments double are never guaranteed.

The brain suffers from number numbness because it finds difficulty in grasping such a complex concept in numbers. But again, it is just math, which spits out predictable results given certain inputs.

Here is another example of how math works. Let us guess your birth month and birth date. Using a simple calculator, do the following:

Enter the number 7
Multiply by the month of your birth & press “=”
Subtract 1 & press “=”
Multiply by 13 & press “=”
Add the day of your birth & press “=”
Add 3 & press “=”
Multiply by 11 & press “=”
Subtract the month of your birth & press “=”
Subtract the day of your birth & press “=”
Divide by 10 & press “=”
Add 11 & press “=”
Divide by 100 & press “=”

Did we arrive at your birth month and date? There was no magic about it. It is just math. But if it is through this “magical” framing mechanism that you can persuade yourself to practice financial planning then by all means use it and let others use it on you.

Editor’s Note

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To answer the question posed in the title, we will need to divide the historical returns of the Philippine stock market into two periods: 1958 to 1986 and 1987 to 2020. The latter period is when the Manila and Makati Stock Exchanges merged and just one index was used.

From 1958 to 1986, the annual compounded return of the Philippine Stock Exchange Composite Index (PSEi) was 1.86%. That looks small compared to the risks associated with investing in stocks. But perhaps the period 1987 to 2020 faired better. In reality, the annual compounded return of the PSEi from 1987 to 2020 was only 6.79%. Such figures imply that investing in the Philippine stock market do not offer enough risk premium.

However, if we were to compute the average of the annual returns in both periods, the years 1958 to 1986 and 1987 to 2020 produced 7.75% and 12.37%, respectively. This means that returns from investing in Philippine stocks do provide enough risk premium. However, the condition is that you will need to be an active investor, which in turn requires your full attention. If you do not have the time to focus on the stock market, you still have the option of buying into equity-invested managed funds both on the retail (e.g. mutual funds, unit investment trust funds, single pay variable unit-linked insurance policies) and high net worth or institutional level (investment management accounts).

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