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YAMAN Coach

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Mutual Funds and UITFs 101

by Coach Genesis Kelly S. Lontoc, RFP®

In the Philippines, two popular types of pooled funds are mutual funds and unit investment trust funds. While these funds share many similarities, they also have certain differences.

A mutual fund is managed by a company and is regulated by the Securities and Exchange Commission. Opening an account must be done through a licensed representative of a mutual fund company. Although some accept lower opening amounts, the usual minimum initial investment amount is Php5,000. While there is no holding period, as investors can request for a redemption of their investments at any time, some mutual fund companies apply redemption or exist fees based on length of investing. Other fees and charges that are common with mutual funds are related to sales or entry fees, and management fees. Gains or losses are measured by changes in the fund's Net Asset Value per Share or NAVPS.

A unit investment trust fund, more commonly known as UITF, is managed by a bank or company with a Trust license and is regulated by the Bangko Sentral ng Pilipinas. Opening an account must be done through a licensed trust representative of the bank. The usual minimum investment account is around Php10,000. Just like with mutual funds, exit fees are applied to UITFs but over much short periods of investing (e.g. 90 days). UITFs are charged trust fees, the equivalent of management fees. But there is usually no entry of sales fee. Gains or losses are measured by changes in the fund's Net Asset Value Per Unit or NAVPU.

Investors have different risk tolerance levels. Risk refers to the volatility in returns during the investment horizon. For investors who are risk-averse, pooled funds that invest money in the money market and bond instruments would be recommended. For investors who have a moderate tolerance for risk, a balanced pooled fund, whereby a mix of fixed income and equity securities are invested in by the pooled fund would be recommended. For investors who have an aggressive tolerance for risk, pooled funds that invest in the stock market would be recommended. Higher risk means higher required returns.

Pooled funds have a host of advantages and disadvantages. One advantage of investing in pooled funds would be convenience. Many individuals do not have the time to actively manage investments. They can benefit from the expertise of fund managers who regularly analyze the markets. Another advantage of pooled funds would be the lower initial investment costs as compared to investing in real estate or in business. Yet another advantage would be the prospect of getting higher returns as the economy thrives.

Pooled funds do have disadvantages though. One disadvantage is that returns are not guaranteed. Returns depend on how favorable or unfavorable market conditions turn out. Another disadvantage is that there are fees and charges. Another disadvantage would be the possibility of not fully maximizing returns. If the fund managers over diversify investments, the returns are adversely affected.

Are pooled funds for everyone? Yes. However, there are certain imperatives that have to be considered. The goal has to be defined and clear. Examples of goals would be sustainable retirement or asset purchase. Liquidity is important so ample savings levels and emergency funds should be present to ensure investments would not be prematurely withdrawn. Having a heightened sense of financial literacy and doing due diligence are necessary. Studying past and current performance of funds aids in making the right decisions.

Coach Genesis Kelly S. Lontoc, RFP® is a YAMAN Coach and Associate Chair of the Department of Economics at Ateneo de Manila University. He can be reached at gemmy@personalfinance.ph.

Good Buy or Goodbye

by PFA

When does one know if the price of a stock is already good for buying or selling? That kind of questions is normally asked by people who are more for capital appreciation than for current income (i.e. earning cash dividends).

There is the adage of buy low and sell high. But how low is low and how high is high? The answer lies in the valuation of the company that the traded stock represents.

Think of it this way, when you first set out in your career, you had nothing but your equity. That equity was represented by your stock of knowledge, training and experience (if any) plus whatever monetary assets you had at that time. At the start, your equity was equal to your assets (i.e. the value of your monetary assets plus the present value of the earning potential of your stock of knowledge, training and experience).

You deployed your assets either by getting a job or going into business for yourself. You started to earn income. But being young and restless, you just consumed what income you earned, leaving nothing for savings.

It is said that man is never satisfied. And you yourself wanted to improve your lifestyle perhaps through travel, buying a car, renting a place for yourself and maybe even starting your own family. All the time, you also wanted your capacity to spend to cope with inflation.

The way you could afford the better lifestyle and keep pace with inflation was to acquire more assets to generate more income. And to buy more assets, you either borrowed or saved. What was essential was that the assets you bought generated more revenues from which you had enough left over in cash savings to afford that better lifestyle (i.e. cash dividends to yourself) while repaying your debt and reinvesting in more earning assets.

In short, growth in earnings is the key. And the same is true for companies listed on a stock exchange. That growth in earnings is captured is company valuations.

To standardize valuations, analysts use financial ratios. To be sure, there is no one ratio that can capture the valuation of a company completely. Nonetheless, some of the more commonly ratios used are price to earnings (P/E) multiple, P/E to growth or PEG, price to book, return on equity and discounted cash flow.

But it is not as simple as dividing one number by another. Ratios can be based on historical as well as forecasted numbers. While there can only be one set of historical numbers, past performance is not a guarantee of future return. On the other hand, forecasts can be as numerous and varied as the number of forecasters. Ratios may also be compared to the historical performance of a company or to others. In this case, it is important that comparisons are made only to other companies in the same sector. There is also the matter of making adjustments to account for differences in accounting policies.

In the end, the valuation per share is compared to the prevailing stock price to see if a company is a good buy or a goodbye.

Some say the best valuation of a company is its stock price because that price is based on the collective wisdom of investors and traders in the market. Just make sure that the period from which you are extracting that price is one that is not characterized by excessively bullishness or bearishness. Otherwise, the valuation may be based on the collective foolishness of the market.

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Editor's Note

Efren Ll. Cruz, RFP®
Editor-in-Chief

Debtors have Rights Too

You don't kick a man when he's down, especially when he is past due for reasons beyond his control. Surprisingly, even after the Securities and Exchange Commission (SEC) issued rules against unfair debt collection practices, many creditors still harass, and threaten their borrowers often times in violation of the Anti Cyber Bullying and Data Privacy laws.

It is a good thing that the SEC in coordination with the NBI and PNP have started to crack down on those lenders still espousing unfair debt collection tactics, which are:

- The use or threat of use of violence or other criminal means to harm the physical person, reputation, or property of any person.
- The use of threats to take any action that cannot legally be taken.
- The use of obscenities, insults, or profane language the natural consequence of which is to abuse the borrower and/or which amounts to a criminal act or offense under applicable laws.
- Disclosure or publication of the names and other personal information of borrowers who allegedly refuse to pay debts, except as may be allowed by pertinent laws and regulations.
- Communicating or threatening to communicate to any person loan information, which is known, or which should be known, to be false, including the failure to communicate that the debt is being disputed, except as may be allowed by pertinent laws and regulations.
- The use of any false representation or deceptive means the collection or attempt to collect any debt or to obtain information concerning a borrower.
- Making contact at unreasonable/inconvenient times or hours, which shall be defined as contact before 6 AM or after 10 PM, unless the account is past due for more than 15 days, or the borrower has given express consent that the said times are the only reasonable or convenient opportunities for contact. Such consent, which shall be evidenced by written, electronic or recorded means, maybe given prior to, during, or after the execution of the loan agreement.
- Notwithstanding, the borrower's consent, contacting the persons in the borrower's contact list other than those who were named as guarantors or co-makers shall also constitute unfair debt collection practice.

Visit http://www.sec.gov.ph/lending-companies-and-financing-companies/complaints/ to file a complaint.

To know more about becoming a, YAMAN Coach, contact us at:
yaman@personalfinance.ph
+63917 505-0709 • +632 7218-0141

www.personalfinance.ph

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