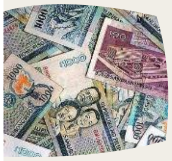

ISSUE 19 | VOLUME 2 | October 15, 2021

YAMAN Coach

EMPOWERING YOU

Scared of the Greater Fool Theory

Quoting verbatim from Investopedia, "The greater fool theory argues that prices go up because people are able to sell overpriced securities to a "greater fool," whether or not they are overvalued. That is, of course, until there are no greater fools left. Investing, according to the greater fool theory, means ignoring valuations, earnings reports, and all the other data. Ignoring the fundamentals is, of course, risky; and so people subscribing to the greater fool theory could be left holding the bag after a correction."

Related to the greater fool theory is the advice that you should only invest money that you are willing to lose in the stock market.

Nobody, and we mean nobody wants to lose anything, more so money. The thing is, there is no investment in the world but one that is fully guaranteed against loss. Not even government securities are fully guaranteed against loss because there are inflation and price risks. It could happen that interest rates on government securities are below the inflation rate while the market price of the same securities can be trading below cost if interest rates move up significantly.

So, if you invest only the money you are willing to lose, then you would not want to invest at all. And if you limit yourself to investments that cannot lose money for you, then you will not find any.

Investing only the money that you are willing to lose means that you are not really investing but are, in fact gambling. And this brings us to the greater fool theory.

To be honest, you will really be a fool if, as what Investopedia points out, you enter the stock market "ignoring valuations, earnings reports, and all the other data". You will be the embodiment of the suicidal investor following the "Daw Theory".

The Dow Theory states that a market is moving upwards if one of its indexes advances above a previous important high and is followed by a similar advance in another index. On the other hand, the "Daw Theory" in Pilipino states that, "Sabi daw maganda yung investment. (They said the investment was good.)" In other words, the "Daw" Theory is all about following unverified investing tips, most of which are offered for free.

So, how do you end up not being the greater fool when it comes to stock market investing? Here are five steps:

1. Know the returns you need to make and the risk you are willing to take. Get a financial planner to help you out with this one.
2. Determine if you are all SET to invest directly in the stock market. "S" stands for sizeable funds. "E" stands for both expertise and experience in investing. And "T" stands for the time you are able to allocate to manage your money, which is typically full time. If you are lacking in one of the S, E or T, just invest indirectly through pooled funds or investment management accounts.
3. Before investing, investigate the offer by doing your homework.
4. Diversify your portfolio to manage risks.
5. Monitor your performance periodically (but not necessarily daily especially if you are just investing indirectly).

Do the five and you will be a genius in investing in the stock market. Go ahead and invest in the stock market. But do it wisely.

And oh, by the way, that one investment in the world that is fully guaranteed is found in Luke 6:38.

One important lesson from the pandemic is that life and work can be run mostly from the home. Life being ever so convenient. Most everything can be done on the Internet and in lightning speed whether it be for work or for daily living. But there are pitfalls you must spot early on. Here are a few of them when it comes to online shopping.

1. Convenience actually wreaks havoc in personal finance because, in quickly quenching the "now na" thirst, it also makes you overlook certain things like hidden charges. We have tested this time and again and have found that some items can be purchased at lower prices from the actual, not virtual store and paying in cash even if you count the supposedly cheaper delivery charges from online shopping. This is because online companies that facilitate the transaction need to earn as well.
2. Instant gratification actually produces chemicals in your brain that reinforce the positive experience of being able to buy at the press of a button. And while there is delivery time to consider, you tend to want more what you do not have, more so if you already paid for it.
3. Instant gratification can at times turn to instant frustration when the item you bought turned out to be different from what you really wanted or needed like the wrong size of clothing or footwear, color or texture that is different from the picture, incompatible specifications, or even ending up with a fake item.

When it comes to work, there are savings in time and money from not having to commute to and from the office. But the dynamics are different when there is physical and not virtual interaction.

Is WFN TNN?

When you are up close and personal with your officemate, there is no camera frame outside of which other activities can be hidden. Communication is not just done with the spoken or written word but also with body language, which is exceedingly difficult to perceive through a computer monitor. Physical meetings also demand more attention to detail, a necessary element when commitment to activities is being solicited.

Training programs are best conducted in person. The trainer, like a professional actor, will need to pick up on the reaction of his audience to whatever he is talking about. Imagine being met with silence on the one hand or background noise on the other in online meeting platforms after sharing a groundbreaking concept or a good joke.

So, is work and live from home the new normal. We seriously doubt it. Man is a social being who needs physical interaction. The old ways will likely just be augmented with some technologically enhanced activities.

Once fully vaccinated but still practicing health and safety protocols, go outside and get some fresh air, see old friends and meet new ones, get challenged anew at your workplace, attend church service in person, and perhaps even get caught once more in traffic.

The old imperfect normal will return, but this time supercharged with the technology relied so heavily on during the lockdowns.

Editor's Note

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Options for Managed Funds

The PFA's S.E.T. rule says that you need to have Sizeable funds, Expertise / Experience, and Time to fully manage your funds to invest in the capital markets directly. If any one of the S, E or T is lacking, the best route is to have funds managed by professionals.

For the retail market, there are the pooled funds, namely: mutual funds, unit investment trust funds and single pay variable unit link life insurance policies. Opening an account can be as low as Php300. The only thing is that these are off the shelf investments that may not exactly suit the investor's needs.

For the high net worth investor, with at least Php5 million in cash to invest, there are investment management accounts (IMA) offered by trust departments of banks and trust companies. The fees tend to be lower than pooled funds. More importantly, the investment of the IMA can be tailored according to the precise needs of the investor. The investment of IMAs can also be directional on the part of the investor, on partial discretion or on full discretion on the part of the trust bank or company.

For more on managed funds, send an email to yaman@personalfinance.ph.

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