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YAMAN Coach™

EMPOWERING YOU

Can Pooled Funds Make Me a Millionaire?

by PFA

Pooled funds can make you a millionaire. However, becoming a millionaire from pooled fund investing does not come instantly. Moreover, the type of pooled fund you invest in, combined with the amount you invest at the start and what you add periodically will determine how soon you reach that millionaire status.

By definition, pooled funds are investment vehicles that solicit money from people who bear the same investment objective and risk preference. So, on the one hand, a money market pooled fund will solicit funds from ultra conservative individuals seeking modest income with the least risk to their investments. On the opposite end, equity pooled funds will solicit funds from individuals who desire more of capital appreciation, which can provide much higher returns, but are also capable of taking higher risks on their investments.

Pooled funds are perfect for people who are not all “S.E.T.” to invest directly. “S” stands for the sizeable funds that you will need to be able to access near real time information and in-depth company valuation studies to make better investment decisions. “E” stands for the expertise you will need to fully comprehend that information and research reports to which you will have access. In addition, “E” also stands for experience you will need to read the proverbial tea leaves or trends in market prices. And “T” stands for the time you will need to manage your money, which is all the time. Active investing is a full-time endeavor on which many have built their career and fortune.

So, if you lack any one of the S, E or T, you will be better off having your money handled by those who manage sizeable funds, bear the expertise and experience in investing, and have all the time in the world to manage funds. And those would be pooled funds.

There is one thing that you should know about pooled funds though, especially if you will engage in periodic investing. Try as much as possible to invest before their 12 noon cut off on Mondays, Tuesdays, Wednesdays, and Thursdays. Never invest after their 12 noon cut off or on any day prior to a weekend or holiday. This is because pooled funds are on forward pricing.

In forward pricing, you will get to know how much shares or units you buy after the fund you bought is priced in the afternoon. That means that even if a fund is able to earn on the investment you made in the morning, you will not have a share in those earnings as the price in the afternoon will already be inclusive of those earnings. You will only start to earn by the next working day. This practice was adopted instead of using the previous day’s price.

If the previous day’s price were used for pooled funds, unscrupulous individuals could theoretically, on trade date minus 1, sell down the securities that a pooled fund owned just to get to buy the pooled fund at a cheaper price on trade date.

So, imagine buying a pooled fund after the 12 noon cut off. Your investment will only get to be booked the following workday morning, priced in the afternoon of that day, and start to earn two workdays later. If you buy on a Thursday afternoon or on any day prior to a weekend or holiday, you will only start to earn after the weekend or the holiday.

Be patient with pooled funds as they will get you to your millionaire status in due time. But you also need to do your fair share by continually investing.

Stay safe and healthy.

There is this story of a handyman who wanted to fix the leaking aircon in their home. The aircon's leaking had disrupted his sleep for a few days already as he needed to get up and empty the ladle that he placed underneath the aircon to catch the dripping water.

Our handyman's wife was against fixing the aircon now as he had promised to go with her to the bank. But since he noticed that his wife still needed to fix all of the documents to bring to the bank so that the transaction there would not take too long, our handyman decided to go for cleaning the aircon, promising his wife that he would be done by the time she was finished with the bank documents. His wife grudgingly agreed.

And because he had done his research on how to fix a leaking aircon, the job was done in 30 minutes, just when his wife was finishing up on the bank documents. So, from having the number 11 seemingly etched in between her eyebrows, as she too was somewhat annoyed with the aircon's leaking, the wife went to the bank with her handyman of a husband with a beaming smile.

We all need instant wins, even if they be small. Whenever we do get these wins, our brain is flooded with dopamine, the pleasure chemical. Dopamine rewards us for doing a good job and encourages us to do the same thing again. You can do a good job with investing, even with a volatile outlet like the stock market.

And the best way to achieve these instant wins is to manage a portfolio that only slowly dips into equities, in bite sizes so to speak. Just like our

Bit-size Investing

by PFA

handyman, researching companies whose stocks are listed on the stock exchange is also important as even a small exposure to stocks can turn negative. On the other hand, a gain, no matter how small, is still a win.

That is why a relatively safe bet would be to start with a blue chip company with a history of paying cash dividends. It would be best to assign a review period of no shorter than 6 months (i.e. a year would be ideal) to give time for the stock to gain earning momentum.

Hopefully, the fact that the portfolio will be skewed towards fixed income securities plus the potential cash dividends will somehow cushion the negative impact of the possible poor stock price performance.

And be wary of the tendency of newbies towards the disposition effect. With disposition effect, newbies tend to hold on to losers too long, hoping that they will still recover even if the losses are already large. On the other hand, newbies tend to sell winners too soon even if fundamentals justify the ascent in their prices. All these stem from loss aversion, a trait that has been seared into our brain from the time of the caveman.

If all this is confusing, let a financial planner guide you in creating that unique portfolio for you. Just choose one who prioritizes giving you advice.

Stay safe and healthy.

Editor's Note

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Planner vs. Advisor

In the US, there is a difference between being a financial planner and a financial advisor. As an overview, Investopedia says, "A financial planner is a professional who helps individuals and organizations create a strategy to meet long-term financial goals. Financial advisor is a broader term for those who help manage your money, including investments and other accounts."

Both a financial planner and financial advisor may carry global certifications like Registered Financial Planner, Associate Financial Planner, Registered Financial Consultant and the like.

A financial advisor can be a financial planner. However, by reason by required certifications and regulation, a financial planner is not necessarily a financial advisor.

In the Philippines, financial advisors are usually people who are both selling advice and financial products, particularly life insurance. While financial planners are not currently under any regulation except those pertaining to income taxes, financial advisors in the life insurance industry need to comply with regulations promulgated by the Insurance Commission, which primarily involves licensing. And to get the license, a financial advisor in the life insurance industry would need to pass an exam.

So, now you know.

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