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YAMAN Coach™

EMPOWERING YOU

Collector Investor

by PFA

I like guitars. I have liked them since I was a teenager. It is just unfortunate that I did not take care of the very first guitar I bought, which was a Gibson purchased through the proceeds of stock market trading. Yes, through an aunt, I was able to trade and profit from the stock market. But I also did not nurture any interest in stock market investing and trading, not at least when I was well into my career in finance.

Back to guitars, I liked them so much that I took lessons as a teenager. Why, I even had a recital playing the jazz song "Un homme et une femme" (A Man and A Woman). I also joined my neighbor's informal band, where police were called on us for playing too loud late at night. Ah, the mischief of youth.

But as fate would have it, I would drop playing the guitar for a while for other mundane things.

When I was already earning, I developed asthma with my finances. I had to "asthma" (i.e. ask my) wife first whether I could buy toys for the big boys. At the same time, my interest in guitars was rekindled. At first, I bought a cheap Php3,000 guitar and took lessons. Alas, that was the top of the slippery slope.

I suffered from GAS or gear acquisition syndrome, as my virtuoso guitar teacher would call it. But he steered me in the right direction. He told me not to buy guitars just to be able to say I had a variety of them. He enlightened me on the quality of the specs to look for like the type of wood for the body / neck/ fretboard, tuners, binding, pickups, brand, style, strings, and, more importantly collectability. If a guitar is collectible, its value will go up over time, making that guitar ideal to OWN.

Being an obedient student, I followed his teachings, which actually paid off. Lo and behold, I was able to buy electric guitars that have already doubled in value.

Investing in stocks is no different. Remember that it is so easy to buy. What is most difficult is selling at a profit. So, before buying shares of stock, ask yourself if you really want to own the company behind them. This frame of mind will lead you to do in depth research about the company.

You can start with the company's expected return on equity and then break it down to its expected profitability (i.e. net income margin), capacity of assets to produce revenues (i.e. asset turnover) and effective use of debt (i.e. equity multiplier). These factors will eventually lead to digging deeper into other factors like quality of management, availability of skilled labor, efficiency of processes, and effectiveness of marketing strategies all backed by empowering finances.

The end result is to arrive at an intrinsic value for the company and to see if the stock market is properly pricing the firm. If the market price is too low compared to your derived intrinsic value, then the stock of the company is a buy. Conversely, if the market price is too high compared to the intrinsic value, then the stock is a sell.

So, buy a stock like you would buy a guitar. If they are both collectible, their value will rise over time. But there is one more lesson you should know about both of them and that is you should NEVER love them for they will not love you back.

Stay safe and healthy.

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Don't Reinvent the Wheel

by PFA

At our company, the Personal Finance Advisers, we espouse the alphabet of investing. The first five rules are what we call the ABCDEs of investing and they are detailed as follows.

"A" is for assessing and quantifying your financial goals and balancing them with the risks you are willing to take. You are currently looking at the tool, which is investing in stocks, to achieve your goals. If you have not yet assessed why you are investing in the first place, then we highly recommend you do so prior to any investing action. That alone will save you a lot of money and perhaps stress.

"B" is for knowing the bases for whether you should invest directly in stocks or indirectly through funds managed by professionals. A sub-rule is that you need to be all S.E.T. to invest directly. This means that you need to have: "S" or sizeable funds not just to open a brokerage account but also to be given vital information you will need to make informed decisions; "E" not only for the expertise to understand all the information you will gather but also for experience in knowing what to do in various trends of the stock market; and "T" or time to fully manage your investments. Even if you lack just one of those, you will be better off investing indirectly through professionally managed funds like mutual funds, unit investment trust funds, single pay variable unit-linked insurance and investment management accounts with Trust Departments of banks.

"C" represents the need to check and re-check the investments you wish to get into. As the SEC says, you will need to investigate before you invest. And even if you are investing through professionally managed funds, you will need to do your research on them before plunking your hard earned money.

"D" is for diversifying your portfolio to achieve the same target returns for a lower risk. Fortunately, with professionally managed funds, diversification is applied either as part of regulatory compliance or espoused in line with global best practices.

"E" is for evaluating your performance periodically to see whether you are still on track to meet your financial goals within the designated time.

And to ensure that you do not act irrationally with investing, especially when major upheavals happen like global economic and health crises, you will need to take out the FGHIs or the wrong actions and behavior that will throw a monkey wrench into your investing. These stand for fear, greed, hope, and ignorance.

Given that you are employee, it will do you a lot of good to not reinvent the wheel but just to reinvest at will periodically in managed funds so that you can focus on the goose that lays the golden egg - your job.

Editor's Note

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Taking Advantage of Crises

When crises strike, be it a pandemic, high oil prices, or runaway inflation, people are fond of learning hacks to weather such crises.

But it is really quite difficult to come up with anything impactful if the action to be taken is only after the crisis has struck. And this is no different from timing the market.

In markets that are efficient like those in the US, when news hits, the premise is that the news is immediately priced into financial securities, leaving very little room for anyone to consistently earn above normal profits. This is all the more true when crises hit. That is why the better strategy to espouse is dollar cost averaging or investing a fixed amount periodically regardless of the level of prices.

The same is true with managing personal finances. Instead of jumping to action only when the crises hit, why not prepare for them by periodically saving and investing fixed amounts, in good times and in bad.

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