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This too shall pass

by PFA

The phrase “this too shall pass” is of Persian origin and reflects the temporary nature of human condition. The phrase is from a fable, which appeared in American papers as early as 1839, of a powerful king who asked his wise men to create a ring that will make him happy when he is sad. The wise men came up with a ring on which was etched Persian words that translated to the phrase “this too shall pass”. But it was a double-edged sword of sorts as the phrase also meant that the king’s happiness cannot be forever and even that too shall pass.

Under the ongoing global pandemic, the phrase “this too shall pass” is appropriate. More importantly, consider the following.

A virus, an infective agent too small to be seen by light microscopy has brought the entire world to its knees. But, in the process, it has also shown that the battle against climate change can be won, has put a pause to trade wars, has highlighted the facial mask as a symbol of living life in consideration of others, has renewed family relationships, has brought the world even closer through technology, and has deepened the Faith.

That same virus highlighted how much

people of color in the US are disadvantaged, and how it helped bring to a boil the cases of racial discrimination, which would have otherwise fallen into the dust bin of history like most other cases before them, and to galvanize not just people in the US but also around the world against such discrimination.

That same virus has also stripped the leaders of nations naked, through their response to the virus (whether right or wrong), and has shown their constituents their leaders’ true nature, which will figure prominently in their respective political careers going forward.

That same virus has brought the world together in a colossal effort heretofore unseen to find the vaccine against that virus, the cure for the diseases it causes and the financial support for economies. There are now drugs for CoVid-19. And even with the onslaught of virus variants, science has been able to catch up and counter with strengthened versions of the original vaccines against SARS CoV II.

While an analysis of past economic devastations shows that it takes years to recover, markets had already pushed up asset

prices in anticipation of a miraculous V-shaped recovery, as instantaneous as bringing in light into a dark room at the flip of a switch. But with the growing belief that the world will need to live with SARS CoV II, just like it did with the flu, economic recovery might well be U-shaped instead.

Still, that recovery will not stop forward-looking investors in positioning, perhaps more for the long haul rather than for a short-term trade. In fact, there is, at this point, a greater risk for trading than for holding.

What is clear is that the episode with the virus is shaping to be a modern day version of the flooding during the time of Noah. It is an episode of cleansing, of starting anew, of stopping the making of excuses for past excesses, of doing what is right this time. To a certain extent, we have the almost infinitesimally small virus to thank for these.

Yet what is more important than the looming recovery itself is the rainbow that will be our promise to ourselves to protect the gains to be made in the environment, in business processes, in governance, in racial equality, in international trade, in social interaction, in family relationships, and in the Faith.

Editor's Note

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Investing money you can afford to lose

I first heard this saying when I started my career in the financial services industry, "Invest in the stock market only the money that you can afford to lose." The underlying meaning is that the stock market is highly volatile with bouts of downturns. At least, if it were money that you could afford to lose that you put in the stock market, it will not be painful when the losses come.

But that saying just seems to want a sound bite to resonate, to be easily remembered. In reality, many have made their fortunes in the stock market. But there are also those who over the long-run earned modest gains.

If we were to be literal about the saying then nobody will invest in the stock market. Why? Because nobody wants to lose. Would you even want to throw a Peso coin in the trash? Also, if the saying were true, then it reduces the stock market to a mere casino where the dealer always wins.

The truth of the matter is that the stock market is a legitimate way of accelerating the growth of your assets so that you can reach your target wealth faster and/or a lot easier. But you need to follow certain procedures, chief of which is knowing what returns you need and knowing what you need to get into, always being mindful of the risks you are willing to take.

If you enter the stock market blindly, then you are indeed gambling.

Perfect post pandemic portfolio

by PFA

In terms of execution, you need to remember that prosperity begins with "S" and that is saving. But it is not enough to just have a high savings rate (net income ÷ revenues = net income margin). Savings need to be put to work in earning assets to bring in more revenues to help you realize future goals easier and faster (revenues ÷ total assets = asset turnover).

At the same time, you can also use other people's money or debt to achieve your goals provided that the returns you expect to make will be more than enough to offset the cost of the debt and the cash flow needed to repay such debt. And for as long as that debt will be used to buy earning assets and not just for mere consumption, your debts will have a multiplier effect to your equity (assets ÷ equity = equity multiplier).

Now this is amazing. If you multiply net income margin to asset turnover and to equity multiplier, you will arrive at net income over equity or return on equity. In other words, the more income you save, the more you put your savings to work in earning assets and the more you borrow to invest in earning assets, the higher will be your return on equity, your equity in your household finance.

The perfect portfolio pre- and post-pandemic will always be the combination of your savings, investments and borrowings as defined by your goals and tempered by your risk preference. And to complete that combination, secure the common denominator to savings, investments and borrowings, that of protecting your downside through insurance.

Grab the longest and most straight stick you can find. Place one end of the stick on your palm and try to balance the stick by looking at the end touching your palm. Was it difficult? Now, try to balance that stick by looking at the end that is far from you. Was it easier?

The far end of the stick represents your goals and the near end your tools. Simply put, you cannot achieve your goal by focusing on the tools.

There is an added danger to focusing on tools and that it tends to give rise to greed. I am reminded of this quote from the world's greatest trader, Jesse Livermore: "The pockets change, the suckers change, the stocks change, but Wall Street never changes, because human nature never changes."

There is a lot of talk about the new normal. And yes, things will change in a big way in the next few years. Social distancing for a social being is a thing. But life will eventually revert to the "old" normal. Why? Because human nature never changes.

And when it comes to giving financial advice, the old normal is that a financial planner worth his salt will go through a comprehensive needs analysis before he gives recommendations that are specific, measurable, achievable, relevant and time bound.

The old school yet true financial planner will quantify each of your goals, compare them with the funds you have to start with, what you can add periodically, the time you have to invest, and finally temper them with your risk preference. The end result will be a rate of return per goal that will in turn, help to determine the investment outlets into which you should get.

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