ISSUE 17 | VOLUME 3 | September 15, 2022

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## Nerd-like Investing

Why don't you take a look at Elon Musk? Now, before you say that he is way out of your league as well because he is a billionaire, read on.

First, you are right. According to Wikipedia, Elon Reeves Musk has a net worth of $262 billion and is listed by Forbes as the richest person in the world. At age 51, he has the following impressive credentials: 1) founder, CEO, and Chief Engineer of SpaceX; 2) CEO and product architect of Tesla, Inc.; 3) co-founder of Neuralink, OpenAI, and Zip2; 4) founder of The Boring Company; 5) co-founder of PayPal; and 6) President of the Musk Foundation.

But strip him of all his credentials and you have a person who is but a mere nerd, a nerd who always dreamt of changing the world. Yet change the world he did. The following details are from the Bloomberg Risk Takers documentary, Elon Musk Profiled.

You could say that Elon is the real-life Tony Stark in Marvel Comics' Iron Man. At age 23, Elon started his first company, Z2, the first online city listings akin to an early version of Google maps and sold it to eBay for USD1.5 billion. Elon is one of the largest suppliers of solar panels in the US through Solar City. He boosted interest in electric cars through Tesla. With SpaceX, Elon produced the first commercially viable rocket.

How much of a nerd was Elon? When he ran out of books to read, he started reading the encyclopedia. Elon was once afraid of the dark. But he got over this fear by convincing himself that darkness was just the absence of photons in the visible wavelength. He would enroll in classes but hardly attend them. He just read books and showed up for the exams.

Elon had the ability of persuading people to buy into his grandiose dreams; dreams that would come true in a pragmatic and not in a "build it and they will come" way.

Elon believed in the following:

- The first mover advantage. He makes his dream a reality while he still has the sole franchise.
- Team. Nobody has the monopoly of ideas, talent and money to achieve success. And success normally comes in small bites.
- Failures, detractors, non-believers and competition are all par for the course. Elon nearly lost all of his money from selling his first two companies by making big bets. He was criticized by Wall Street for his bravado when he launched the first IPO of a car manufacturer since Henry Ford.

  He was literally at the bottom of the pit at one point in his life that he would wake up to find tears on his pillow. But Elon knew that with big risks also came the potential for big returns.

Elon's beliefs are nothing new. They are time-tested principles in investing. For example, he knew that you need to buy low and sell high. But you can only buy low if you are one of the first to see that an investment is cheap relative to its intrinsic value.

A person may have millions in investible funds. But even Elon relied on experts to help him execute his dreams. So, don't be afraid to take in as guides the experts like bankers, insurance people, wealth managers and financial planners.

Losses are part of investing. Yet, losses are not the rewards. They are lessons that help you achieve greater heights. Do you want larger returns? Then, be ready to take on greater risks.

You don't have to be a nerd to be as successful in investing as Elon. Just follow the basic lessons in investing and you should be "nerd-like" on your way to investing success.

Wise men say only fools rush in, or at least as the song goes. But in life, planning is indeed an invaluable activity, especially for the major things. And when it comes to goals that are impacted by money, (comprehensive) financial plans are indispensable.

Whenever we train financial advisers at our company, the Personal Finance Advisers Philippines Corporation or PFA, we always tell that they should be the "go-to-guy" of their clients when it comes to money. Literally, that means that they should be able to provide objective and well-thought of advice to their clients on anything and everything that relates to money.

But to summarize, personal finance is all about four basic things: cash, debt, risk and wealth management. In this regard, PFA coined the term **EnRich**™ CD-RW.

So, when you are looking for comprehensive financial plans, such plans should cover all of the four bases of CD-RW and in that particular order. But there is a twist with the CD-RW pillars of personal finance.

When it comes to planning, financial planners must be able to help you quantify your individual goals first and compare them to what you have to start with and what you can periodically add to your investments for the future. The financial planner will then be able to determine the return you need to make for the risk you are willing to take. If there is a mismatch, he will guide you on how to make the proper adjustments.

What you have to start with and what you can add

# A Roadmap to Financial Freedom

will have cash and debt management as part of financial planning. While debt can pull down finances, it can also boot the same finances if executed properly. That is why debt management is also of prime importance and part and parcel of the foundation in personal finance.

Then the financial planner should be able to quantify your individual goals and risk preference as guides through the maze of investments to help you find those outlets that are best suited for you to achieve the same goals. This is wealth management.

Only after your goals have been crystalized and the tools identified should the financial planner be talking about protecting your plans through risk management. For what is the point of getting insurance if there is nothing to protect.

But when it comes to execution, you should implement risk management prior to wealth management as nothing is guaranteed with investments. It stands to reason then that you should guarantee that your plans will still be implemented, even if you are called from this life early, by protecting your downside first.

As to the credentials of the financial planner, choose one who has years of experience. But even if years of experience is limited, having gone through a solid certification program on financial planning will help fill in the gaps.

Here's to planning for a better future.

## Editor's Note

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### Does Pay Yourself First Really Work?

The traditional way of budgeting is income less expenses equals savings. Financial planners have for the longest time used the catchphrase "pay yourself first." Pay yourself first turns the usual budgeting formula on its head by saying that income less savings equals expenses. And many have reacted with total skepticism. "How is that possible when expenses need to be prioritized?" people asked.

An understanding of how we price our labor will clear things up.

When we are unique in what we can provide as work for others and assuming there is substantial demand for that work, we can price our work any which way we want. So, we can theoretically live a "desired lifestyle" for the present and the future, and price ourselves to cover that kind of lifestyle. This is called cost plus pricing.

In reality, however, we are always in competition with others to provide a not so unique work output to others. This happens whether we are employed or are in business for ourselves. As such, we need to adjust our lifestyle to match what the market is willing to pay for our work. For as long as we hit that target cost of living, we should be able live comfortably in the present and have enough left (i.e. savings) for the future. This is called target cost pricing. And income - target cost = savings, because it is an equation can also be expressed as income – savings = target cost.

The disconnect happens when we live a "desired lifestyle" in a competitive work environment.

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