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This book is to encourage every Filipino to profit from stocks and forge their way to financial freedom.

Marvin Germo, RFP, ECE

Marvin Germo is a stock market trader and investor. He is also a financial consultant, a Business Mirror columnist, a financial resource person for TV & radio, and a keynote speaker both here and abroad.

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ISBN 978-971-95359-3-5

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Book cover design, illustrations and layout: Joel V. Reyes
Cover photos: Mic Que and Edward Neglincia
Editors: Joel V. Reyes, Regine Rafael, and Joey Goh

Printed in the Philippines. First edition, August 2013.
Second edition, August 2014.

Published by:
YOUnique Publishing
3912-B Sociego Street, Sta. Mesa, Manila
Philippines

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Rich Alvarez, PBA Player

"I am writing this book as a Filipino investor loving one's country", Marvin states in this book. I think that says it all. My only frustration is that this book didn't exist years ago!"

Edric Mendoza, TV Host ANC On the Money

"I believe this book will help you gain insight and wisdom into stocks and investments. I greatly appreciate the zeal and enthusiasim of Marvin Germo, the love he has for the Philippines and genuine concern he has for people. He desires for people to increase in a knowledge that will benefit them financially. He does not hard sell when he speaks, he seeks to instruct and impart a wisdom and insight that enlarges a person's understanding of the hows and whys of investing. I believe you will be blessed as Marvin helps you progress with confidence concerning investing and your future."

Paul Chase, Senior Pastor,
Alabang New Life Christian Center

"Marvin is the only person i know who makes something so complicated like stocks simple and understandable to every Juan. This book is a must for every Filipino serious in getting into the stock market."

Dennis Sy, author of Rich for Life,
editor-in-chief of Act Like a Man

"A very solid foundation not just about stocks or investment but what really matters most! It definitely gives encouragement that financial freedom can be achieved!"

Rosemarie Rafael, CEO, Airspeed International

"If you are new to the Philippine stock market, or have been trading in stocks for some time, this book is not just a great read, it's a MUST read!"

Henry Ong, Director
Registered Financial Planners Philippines

"What Marvin has is a passion to expose more Filipinos to the world of investing in the financial markets and the role it takes in one's financial well-being. With his progressive mind, tireless body, and strong faith in God and in people, Marvin has so far inspired thousands of Filipinos to find in their hearts a space to be financially responsible, and this book is him saying, 'I want to inspire a million more.'"

Aaron Say, CIA, CSR, CPA,
Financial Literacy Advocate, BSP

"Marvin Germo skillfully takes on the challenge of breaking the glass ceilings of the stock market by infusing personal experience with optimism and a sense of pride for country—a very rare but richly intoxicating combination! STOCK SMARTS promises clarity and focus at every turn of a page, leaving us raring to invest smart for the long haul. A very exciting read!"

Michelle Orosa-Ople, Broadcast Journalist,
Radio Host, Financial Freedom Advocate

"The stock market is a subject frequently misunderstood. If you want to understand stocks, and be a smart investor, Stock Smarts will not only give you the know-how, it will also awaken the investor in you. No matter how complicated the stock market is, Marvin is a master of making the complicated simple... as simple as shopping in a supermarket."

Jayson Lo, Keynote Speaker and Author of YOUnique!

"This book summarizes what is in Marvin's heart, not to mention his brilliant mind. He makes stocks and investing simple and exciting. He uses his God given talent and determination to help others."

Marilen Faustino Montenegro, TV host, print & ramp model, and design consultant

"Remarkable, awe-inspiring, witty, and written like a true-blue believer in how Pinoys can potentially be strong and resilient investors and/or traders in a competitive financial market. Stock Smarts will guide you through a world of investment possibilities, challenges, and opportunities. And set you off to an exciting, fulfilling, and hopefully, a life-long endeavor of learning and earning through the stock market. Set in perfect timing, Stock Smarts is your start-up kit to this journey. The best is yet to come, and indeed, the future is looking bright for us Pinoy investors."

DJ Chloe, Office Radio 94.7

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ACKNOWLEDGEMENTS

To my Lord and Savior Jesus Christ – I am who I am because of who you are in my life

To my wife, Yvonne – I love you. I'm blessed to have the #bestwifeever

To my family – Thank you for all the love and support throughout the years.

To my super talented editors, Regine, Joel, and Joey – Thank you for making this book work!

To my best selling author friends – Ninong Randell, Jayson, and Yeng. Thank you for all the advice on how to make a book!

To Pastor Joey & Tita Ut, Pastor Bob & Mary, and Pastor Allan - Thank you for getting me started and unleashing my real passion!

To Pastor Paul & Sis. Shoddy, Pastor Ets & Mara, Mond & Leigh, Pastors Jocel & Mylene. – Thank you for sharing Jesus night in and night out!

To Henry Ong and RFP – Thank you for all the support!

To all my friends in New Life, and Revealed Unlimited – Thank you... This book is for our generation.

To my amazing Printer – Roy Amurao thank you for adding your expertise to make this book possible

To all my clients – Thank you for believing in me!

To every Filipino aspiring for financial freedom – Thank you for inspiring me to make this book. This book is for you.

FOREWORD

I have read many finance and investments books written by international and local authors. I have also read a few books about the stock market. However, I have never read a book as engaging as Marvin's book, Stock Smarts.

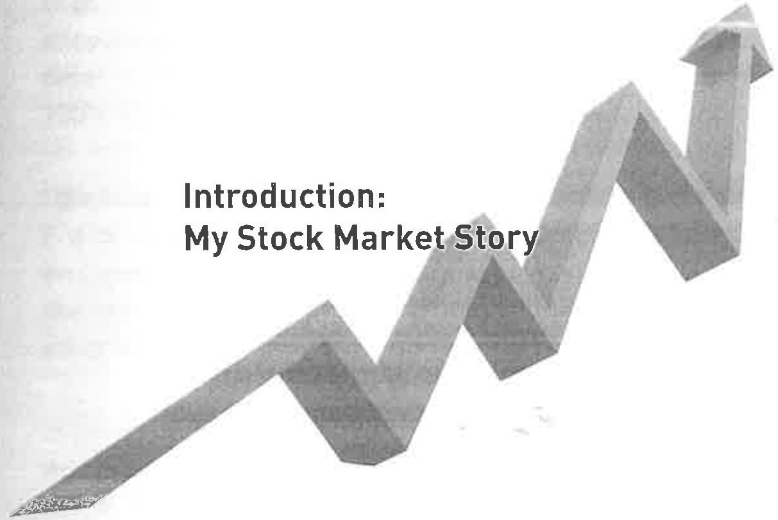
Filipinos have been afraid of investing and they have stayed away from investing in the stock market for far too long. It's about time we learn that investing in the stock market, when done properly, can really help us achieve many of our goals in life.

This book has achieved what many other stock market books failed to do – teach the right foundations on stock market investments; engage the reader with practical and yet insightful information; and ultimately inspire many of us.

Read this book; put into action what you learn and you will achieve many of your financial goals in life sooner than later. This book will now be part of my reference material for my many engagements.

Randell Tiongson
Author of No Nonsense Personal Finance, columnist, trainer and radio show host

Introduction: My Stock Market Story



My investment story did not start with me buying shares of stock at the age of 11 like Warren Buffet, or with me shorting and going against the market like one of my idols, George Soros. My story came from family adversity and trying to bounce back from it. It is a story of how God gives chances to people who do not deserve and can never earn His Grace. I do hope that this simple message will be an encouragement for many to go out and reach for their dreams of financial freedom. If God did it for me, I am 100% sure He will do it for every Filipino!

I grew up in a normal middle class family where early on I was raised with the mindset to become a good employee, to study hard, climb the corporate ladder of success, and at the same time help people and live with integrity.

I saw my dad as a role model: He was upper management in one of the biggest pharmaceutical companies in the world, he had the perks, the salary, the travel benefits, and so much more in between. Because of that, I grew up thinking that getting a good position with a good salary and benefits would have me set for life. I thought that if I had studied hard enough and got into a stable multinational company, my financial life would be good and the fun would last forever!

Or so I thought...

A change in global direction forced my dad to opt for early retirement bringing in millions for him. Prior to that, he had no established savings and investments, which forced him to use his retirement money to start businesses to supplement our operational expenses.

Among his primary businesses, he started a sanitary napkin distributorship business and a gas station in the south of Manila. Because of his background as an employee, he was not familiar with the dynamics of going into business. To make a long story short, the napkin business did not take off and his partner in the gas station misled him, causing his businesses to fail. My dad saw all the fruits of his hard corporate work go down the drain, and at 50 years old, with two kids and a wife to support, he had to start all over again.

That was a turning point in my life. It showed me that employment income, if not used wisely, will not last your lifetime. That caused me to believe that it's really not about how much you make, but how much you save. Make that money work hard for you!

I desperately tried to make sense of the situation and wanted to help out in whatever means I could. Being a good father, my dad just wanted me to finish my studies and be the best I could be at that season of my life.

Years passed and I graduated from college and passed the board exam. During that time, I had just signed a contract to work for my first company, so I prepared well and studied hard. I read several

books on business and finance and even heard a message in our church about saving for a rainy day. I learned that an emergency fund was important to hedge me from any contingencies that may happen in the future.

I saw what happened to my dad; he had no short-term savings to supplement drastic changes in his life. I started to study and made computations based on his life. What if my dad saved at least 10% of his income regularly from the time he started working to the time he retired? After computing everything, the numbers struck me: If my dad just saved regularly without even investing, the amount he would have accumulated over the years would have been so awesome that it would not have been necessary for him to go into business after getting the retirement lump sum.

It's always about saving little by little and making small things grow into big things. That's why I don't believe in "get rich quick" schemes and I cry inside when I see people with no savings go into the lottery. It eats me up inside when I see people come up to me who are massively in debt!

That stirred a desire in me to save my money, invest it, and retire as early as possible! When I was about to start work as an entry level employee, I strived to be faithful with each peso that came my way. I started to budget my salary two months before my first paycheck arrived. I brought "baon" to work, I carpooled with my neighbors, and I decided not to go out on "gimmicks".

I chose not to buy any laptops or upgrade my phone, or anything that would depreciate in value. I volunteered for every over time opportunity and for any task that would lead to promotion. I started small entrepreneurial ventures here and there. I got promoted and pirated, and my salary quadrupled in two years.

In those two years my focus financially was on only 3 things—give to my church, save money regularly, and put money into studying via books, schools, and seminars.

My money grew until I had a solid emergency fund (I already had small business ventures back then while working for an IT company). After the emergency fund, I got into insurance, and went into managed funds. I was watching my finances everyday like clockwork and I was acting like a trader. The next logical thing for me to do was to go into stocks. But before I jumped right in I had to check if all my bases were covered—financial planning wise, and knowledge and skills wise. I started as an investor, keeping my money in stocks for the long term, but I found myself loving trading much more. And just to encourage everyone, the returns in trading and investing for the long term are both amazing! Now, I allot at least 30% of my stock portfolio for investing and the remaining 70% for trading. Through the years, I have also dabbled in bonds and money market investing for liquidity purposes.

One key thing that I have always maintained was that I have never withdrawn any of the investments that I put in. I believe that the larger the principal I put in, the

stronger the potential for it to earn. That is why I just keep adding and adding into it. I'm a firm believer of delayed gratification: I'd rather save what I have now and enjoy it later!

Now I am no longer in the IT industry, but am a private trader with the heart to be financially free as early as possible. My goal is to retire as soon as I can so I can just focus on the things that I am most passionate about. But it doesn't stop there; my heart is to help more and more Filipinos move from debt to life, from poverty to prosperity, and from lack to the more than enough.

This book goes out to every Filipino who has a dream to be financially free; to every Filipino who wants to make something of himself; and to every Filipino who wants to evolve from just being a normal employee into someone who can make their money work hard for them. This goes out to the very hard working Pinoy both here and abroad.

I really believe it's time for us to learn how to earn in the market!

For the past four years we have seen our local stock market move up and up, breaking record upon record, pushing our stock market to places it has never been before! Oh yes, ladies and gentlemen, our stock market has captured the world's attention!

For the past four years, our market in general (as of this writing) has grown more than 280%! You can't find that in the normal savings accounts or current accounts that Filipinos consider a safe haven for their money. That increase that I'm talking about is just the average increase for the entire market. Later in the book, I will show you that there were stocks that even went up as high as 1,291% in that span of time. Meaning that if you bought a stock using PHP 100,000, left it, and went on with your life that would eventually have become PHP 1.29 Million! That didn't even require you to watch your stocks every day, but just to buy and hold it for that period of time.

As great as our country's growth was over the past few years, the sad part of the story is that most of the people who took advantage of the growth and the earnings have been foreign investors! Majority of the money invested in our market are from foreign funds. There's nothing bad with that, because I believe we also need a good mix of foreign investments here in the country. But I also believe that it's time for more Filipinos to start investing and take their place in our beloved market.

I am writing this book as a Filipino investor loving one's country. It is now time for more and more Filipinos to start investing in their own market. Invest in homegrown companies like the BPI's, the BDO's, the Jollibee's and the SM's, built by Filipinos for Filipinos. As they are earning and growing, it's high time for Filipinos to also take part of that growth as investors.

As a nation, The Philippines is now at one of the greatest turning points that its economy has ever seen. We are at the right place at the right time, riding on the back of investment rating upgrades that we have received for the first time in our history. Our country has been the best growing economy in Asia as of the first quarter of 2013. As other countries in the world continue to slow down, our economy continues to shine bright—not just in Asia, but also in the world! We have one of the best currencies in Asia and our foreign reserves are off the charts. Foreigners love our government, and the BPO sector and OFW remittances continue to be strong. Development by both the private and public sector are picking up more than ever!

My fellow countrymen, this is the moment we have all been waiting for! We are no longer the sick man of Asia; no longer are we third world. This is our time to take part in progress and this our moment to take part in our nation's growth. In a growing economy, the rich will always grow richer but it's now time for every Filipino to take part of this growth. From this economic turnaround, I pray that more and more millionaires would come out and that our middle class would widen becoming stronger than ever.

This book is dedicated to help you take part in our growing economy by investing in the stock market. This is for you to take your part in what seems to be the greatest economic turnaround this nation has ever seen.

This book's aim is to:

1. Inspire Filipinos to know what the stock market is and how we can benefit from it financially.

2. Break misconceptions about what the stock market is and what it is not.

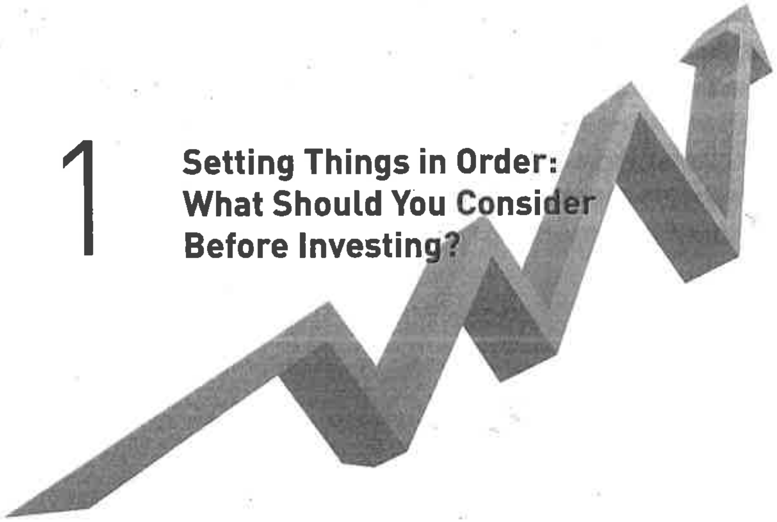
3. Show Filipinos how we can actually start investing in the stock market.

4. Teach basic principles on how each investor can earn and profit from the stock market.

It is my desire that this book would be an encouragement to many, that wherever you are in life your greatest days are ahead. I speak the best to every Filipino. Mabuhay!

This is our moment. This is our time. It's time to be Stock Smart!

1 Setting Things in Order: What Should You Consider Before Investing?



Being a financial planner at heart, I believe in creating and striking a good balance between investing in the stock market and putting money in other investments—or not even investing at all. I believe that the stock market is in a readily available position now, making it easier for anyone to invest, but I also believe that the stock market may not be for everyone.

For instance, in order to win a basketball game, it's not just the team's performance on the court that propels them to win, but also the endless hours of preparation before the game, as well as unseen factors that add up to a win. A building can only go as high as its foundation allows it to. The deeper and more solid the structure's foundation is, the higher the building can go. The same is true with investing. The deeper your foundation is, the higher your investments can go, the stronger your conviction and confidence will be, and the less susceptible you will be to making the wrong investments, especially when faced with "hot tips" and unfounded rumors.

Here are some things that potential investors like you should consider before you start investing in the stock market:

1. Set your financial goals first

What does this mean? I believe in setting goals before investing. You must always invest on a goal first before putting money in any investment. Make sure that you have a goal that you would want to meet or an important reason for putting your money in that particular investment.

Why do people lose money in the stock market? It may be because they did not align their investments with their goals. For example, a person investing buys a stock at 10 pesos per share, and 3 months later, the stock price goes down to 3 pesos per share. The normal reaction of any person would be to panic and sell their stocks, all because they placed their money in that particular stock without carefully analyzing it first.

I'm in the stock market for the long term—really long term. All the money that I have in the market now is for when my wife and I retire. So how does that influence our investing? It allows us to be more aggressive in our investments right now because we know that we are not actually going to use this money for at least 25 years. Certain dips in the short-term market also wouldn't scare us because we're looking at it from a long-term perspective. This also keeps us from being emotional with our investing, because we have preset buying and selling points, allowing us to know when to put in and take out money from the market.

Do your investing goals have to be like ours? Not at all! You can choose goals that best fit you and your needs. Here are sample goals you can have for investing:

- Retirement
- Children's educational fund
- Wedding budget
- Business capital
- Travel fund

The longer the goal is, the more advisable it would be for you to put money in the stock market. The shorter your goal is, the more advisable it would be not to put your money in the stock market. Why is this so?

Take this for example, if I was planning to get married a year from now and my total budget was 500,000 pesos, it wouldn't be wise to put my money in the stock market due to the possibility of the market crashing 3 months before the wedding. What would happen to my wedding fund? How will I pay for my bills? Would I even have enough money for the wedding to push through? What will my fiancée say once she finds out that I lost all the wedding money in failed investments?

The rule of thumb in investing is this: the longer the years you have for your goal, the more you can put in the stock market. Time is your friend. The more time you have, the better your capability to invest in the market will be.

This will help you in separating and distributing your money well. For long-term goals, you can put your money in the stock market, while for short-term goals, you can put your money in time deposits or money market instruments. Goals will help filter out and determine how you deal with your money. Whether it's for your retirement or your wedding, these goals should both be treated differently.

2. Know what you are getting into

After you have filtered out which portion of your goals will be aligned for the long-term and what you will place in the stock market, it's time to see whether the stock market is truly for you. The stock market has been known for its awesome gains, but in investing, higher gains also mean higher risks. A stock in the local market has the potential of going up 50% in one day, but also has the potential of going down 50%. I've seen stocks go down to more than half its value in less than a week, but I have also seen stocks double its value in less than a week.

As investors, you can lose money if you panic in the middle of the game. People who have stocks that have lost a certain amount, should avoid crumbling to the pressure of immediately selling at a loss. My heart really goes out to people who sell because of fear, as they have lost the potential for earning not because they made the wrong investment, but because they may be investing in something that isn't for them. And with that, I have seen them become discouraged and stop investing altogether, just because they feel the gravity of their loss.

If you cannot handle the emotions from the stock market swinging positive to negative, it is best that you stay away from it. You can consult an independent registered financial planner (RFP) to help you determine your risk tolerances. As a tip, get a planner who is independent, so you know that you are paying for their service and advice and not the financial product they are selling. Your planner should always be giving you unbiased advice.

Personally, my biggest rule of thumb is to stay away from an investment if it doesn't give me peace of mind. If I can't sleep well at night and I'm constantly thinking about my investment going down a percentage, then it isn't the one for me. My investment should be a blessing to me, not a curse. It should be something that is bringing more rest to me, not stress. It should be working for me, not me working for it.

As an investor, you need to know what you're getting into so that your emotions do not rule you. In my case, I pour all my emotions onto my wife so that when it comes to trading and investing, I just use pure logic and systems to make my buy and sell decisions.

3. Avoid debt

Before even starting to invest, it is best to have no debt at all. A housing loan is acceptable since few people have the cash to pay for a house. All things being equal, it would be good to have no personal consumer loans—especially credit card debt. As of late 2012, our stock market has been trading at unprecedented historical levels, and we have hit around a 32% increase. Compare this with the fact that when you only pay the minimum per month on your credit cards, you are losing more than 42% per year in interest payments alone. (3.5% × 12 months, with the actual debt increasing because of compounding interest). People who invest and earn 32% but only pay the minimum on their credit cards, shelling out 42% annually, actually lose money (32% – 42% = –10%) despite the awesome gains they are getting in the market today, and I did not even use compounding interest in computing for this.

Another reason is that we do not know what the interest rates will be on a yearly basis. The sooner we pay off our debt, the more protected we are from any drastic shifts in the market. Debt makes the investor a slave to the lender and keep them in shackles, preventing them from fulfilling their financial destiny. This is why it is best to pay off debts before investing into the market.

4. Keep your emergency fund intact

An emergency fund is a bank account or money set aside that will be used for unforeseen crises. Those that can be classified as emergencies are the following:

- Job loss
- Illness in the family
- Accidents

- Situations that call for immediate action or would severely affect your day-to-day living

A sale in the mall or a seat sale in your favorite airline carrier does not count as an emergency.

An emergency fund is very helpful because it can give you the leeway to leave your investments untouched should something bad happen to the market. I've had some clients who've lost money because they were forced to sell at a loss because of the immediate need to pay for an emergency. Emergencies can happen when you least expect it, and the most responsible thing to do is to prepare for it and create a buffer should this ever occur. This allows you to progress with your financial goals without touching your investment out of desperation.

A good baseline for an emergency fund is at least three months' worth of your monthly needs if you are aggressive, and six months' worth of your monthly needs if you are conservative. You must add up all your monthly expenses, minus the movies, coffee trips, weekend getaways, and all other things that are considered as "wants." The total you get is the basis of your emergency fund.

For an aggressive person who isn't the breadwinner and spends 20,000 pesos a month on needs, the emergency fund should be:

20,000 x 3 = 60,000 pesos

For someone who is a bit more conservative, is the breadwinner of the family, or has kids, the contingency fund should be at least six months worth, at around this amount:

20,000 x 6 = 120,000 pesos

Again, this is not a specific rule but more of a guideline. You must compute accordingly based on your needs and financial situation.

5. Invest only what's extra

It goes back to financial planning. What you should put into the stock market is money that you are willing to part with or money that you aren't willing to touch for a long period of time. A pitfall of some investors is that they rely on stock market investing to fund their day-to-day spending. While that works for some people and many have become successful by doing it, it adds a bigger risk because you would need to deliver earnings on a regular basis.

The safer, saner, and more relaxed way of earning in the stock market is not touching your earnings and just letting it go, grow, and glow for you.

6. Diversify, Diversify, Diversify

I can never stop talking about this because it just simply works. It means that you should not put all your eggs in one basket. By doing this, you are distributing your

wealth into different investments with varying risks and returns.

This is precisely what I did when I started. I already had a good amount stored up in my savings and balanced funds before I even started investing in the stock market. How did this help me? It gave me the confidence to know that if something went wrong with my stocks, I still had my other investments and I wouldn't be dried out.

Depending on how far you are in life, your risk tolerances, goals, levels of cash, and other financial factors, diversification is something that you should do when investing.

Diversification also means that you should allocate more money into investments that you feel you can tolerate the amount of risk from: if you are a conservative investor, you should put more into less volatile investments; and if you are an aggressive investor, vice versa. However, do you have to put everything in stocks, even if you think you can tolerate putting all your money in stocks? Not at all! You can split your stocks more—this includes putting money in banks, mutual funds, so on and so forth (**Figures 1** and **2**).

Over the long term, both configurations would earn and still beat inflation. You would still have enough of a buffer, as you have some money in banks and bonds that have less risk when compared to stocks and mutual funds.

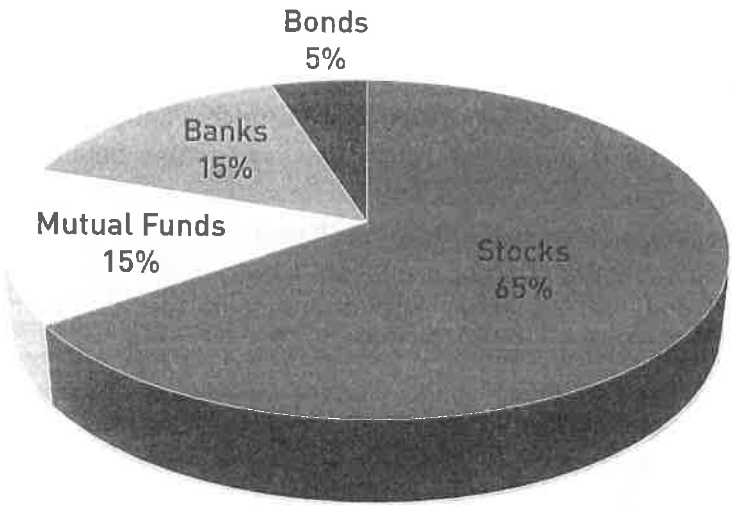


Figure 1. Sample configuration of an aggressive investor

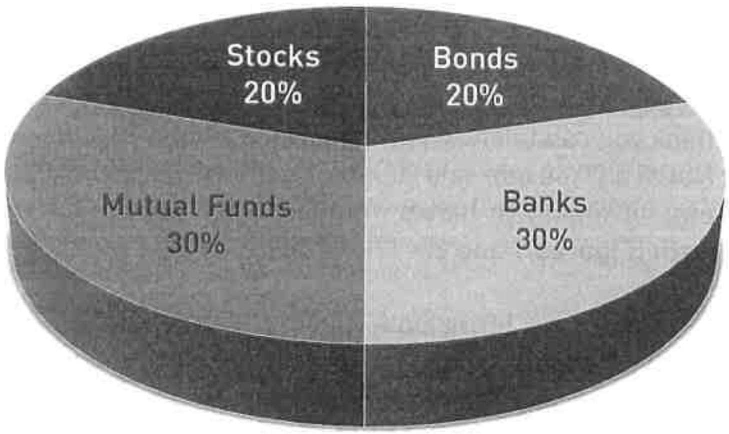


Figure 2. Sample configuration of a conservative investor

7. Come in knowing that you are blessed and favored

I always say this in my seminars and to all my personal clients: your investments are not the source of your income but are just channels. Your investments are a response to who you are and what you already know inside. Because Jesus is your blessing, you can come out confident and invest with boldness. Your investing is not just based on your own abilities and strengths but on God's favor in your life! This thought alone gives me the strength to invest. At the end of the day, knowing that I have a Father in Heaven that will back me up no matter what happens in my life is also what pushes me to do more.

2 Misconceptions: What are the Common Myths about the Market?

I grew up with a very employee-based mindset culture—focusing mostly on climbing the ladder of success. Creating my own ladder by establishing my own business or owning someone else's ladder by investing money was never taught to me. Most of us were also brought up with a very consumer-driven mindset, where spending a lot, being in debt, and not having any savings are acceptable. That's why, when we are introduced to a completely foreign idea like investing, we tend to stay away from it because it's something that was never taught at home.

Personally, I think that people miss out on good investment opportunities because of the misconceptions they have regarding the stock market: When talking about stock market investing, they automatically assume that it is something with high risk and little opportunity for success. The truth is that the stock market is a safe long-term investment.

People getting scammed by get-rich-quick "investments", especially those notorious ones that have the word "guaranteed" attached to them, make me sad. I'm here to tell you that if someone says that they are giving you awesome returns and that it's "guaranteed", that is what you call a scam. What you can do, if you are offered a business or an investment product like that, is run in the opposite direction.

This chapter aims to break misconceptions about the stock market that have held people back from investing and making their money work hard for them.

Misconception #1: The stock market is gambling

Among some of the common things that I have heard in the past are:

"Marvin, how much do you bet in the stock market?"

"Marvin, I don't want to invest in the market because it's just like me putting my money in the lottery."

Statements like these make me realize that a lot of people actually believe that investing in the stock market is like gambling—similar to putting their money in a casino slot machine and hoping that they'll hit the jackpot. If that, my friend, is how you view the market, then you will surely lose your money in a hurry.

I'm here to tell you that the stock market is not like gambling. In fact, it isn't even a game of chance. The more you study it, the more you'll realize how the use of sound judgment and decision-making is very important in helping you realize your investment goals. In the succeeding chapters, I will show you how sound judgment will make you smile the entire way as your money works hard for you in the stock market.

Misconception #2: The stock market is just for the rich

Over the years, I have been passionately encouraging and telling people that the stock market is not just for the rich, the big boys, or the people who have tons of money. In fact, using some computations in the

succeeding chapters, I will show you how stock market investing is even cheaper than the weekend "gimmick" of a regular young adult. What's amazing now is that the Philippine Stock Exchange (PSE) has created ways to bring down the cost of the initial investment and make it easier for more Filipinos to invest in the stock market. There has never been a time such as this when taking part in the stock market has been so easy and affordable. Are you excited to know how cheap it is to enter the stock market? Get ready, you will learn all of that in chapter 6 of this book!

Misconception #3: The stock market is just for analysts

One of the biggest hindrances that prevent people from investing in stocks is that they get intimidated when they see analysts talk about different principles and concepts using stock market jargon. The numbers, data, and nuances of words have become a blockade, keeping them from investing and putting their money to good use. What I would like for you to understand from this book is that regardless of your profession (tourism graduate, athlete, marketing expert, sales representative, or other non-finance occupations), you can still take part in it!

Take me for example: I graduated with an engineering degree, passed the board exam, and took up IT consultancy as my chosen field when first I started out. Were my experience and skills aligned with stock market investing? Not at all! Was it scary at first? Of course! But all it takes is one step into the unfamiliar and the unknown. The sooner you take that first step to investing, the bigger your potential to make more in the market. If I can do it, so can you! In fact, I've seen hundreds and hundreds of people throughout my six years in the financial industry become successful in stock market investing. Once they started investing, the experience, the skills and the hunger to learn soon followed. You are not disqualified from earning and investing even if you're not a market analyst.

Misconception #4: I have to watch my stocks every minute

"I'm busy with work."

"I've got a business to run."

"I can't invest in the market because I can't watch my stocks every minute!"

Most people often associate investing in the stock market with what they see in the movies, assuming that investing in the market means being in the stock exchange all day, watching out for rumors or hot news, then buying the stocks based on the tips that they get. It is an often-used illustration that stock market investing involves investors watching red and green lines moving in a horizontal direction all day on large computer monitors—that by watching those red and green numbers every day, they can become successful in their trading. That is one of the biggest misconceptions that has ever surfaced in the stock market. Let the truth be

known that you can earn from the stock market without even watching your stock for a year, or even longer. It all depends on your investment goals and buying and selling strategy.

To make it simple, if you want to be in the market for 20 years, would watching your stocks every day matter? Of course it won't! In the succeeding chapters you will realize that you don't need to watch your stocks every day, especially when you learn what the stock market is and how it operates.

For myself, there are moments when I'm out all day and don't have the time to check on my stocks. Does that automatically translate into losing money? Of course not! I will give examples of people who have held their stocks for more than a year, whose returns were so great even without watching the market like a hawk.

That's what I want you to get after reading this—the goal of investing in the stock market is to let our money slave for us, not the other way around. What good would investing in the market be if it would take up the majority of our time? This book will teach you how to earn without depriving you of a social life.

Misconception #5: The stock market is a scam

In my opinion, a scam is defined as an investment that gives you a guaranteed high interest rate on a regular basis. The stock market is the very opposite of what a scam is because the returns are not guaranteed and are not given on a regular basis. The stock market, in essence, defies all the fundamental principles of what a scam is. Because of the recent investment scams over the years, I know people have been sensitive about putting their hard earned money in stocks because of the following:

1. It's something that we never saw our parents do when we were younger, so for most of us, it's something foreign. You may be the first person in your family to actually explore the possibilities of investing in stocks.

2. Unlike real estate, it is not something tangible that we can touch, see, and feel.

3. You might have been burned by an investment scam in the past where you willingly gave your money.

I'm here to tell you that the stock market is not a scam. As the chapters of this book unravel, you will find out how awesome and legitimate our exchange is. I'd like to show you a simple way to differentiate between scams and the stock market (**Table 1**).

As a rule of thumb, if you see something that is low risk and high return, run away! It is definitely a scam.

Misconception #6: The Stock Market Is Risky

Over the years I have heard this line over and over again. People from different walks of life, age groups,

Table 1. Scams vs Stocks

	Scam	Stocks
Return on investment	Guaranteed	Not Guaranteed
Interest Rate	100% higher than banks or more	None (dependent on capital appreciation or dividends)
Issuer	Unknown entity	Philippine Stock Exchange via listed companies
Tenure	Usually a new company	Longest running exchange in the history of the Philippines
Where the money is placed	No one knows or it's not regulated	Biggest corporations in the Philippines
Risk	No risk	Variable

and occupations have regarded the stock market as risky. They also say that potential investors enter at their own risk and that investments are for people who have strong hearts, or are willing to lose money.

I'm here to tell you that the stock market is not risky. Let me qualify that statement: Yes, there is a level of risk attached to it, like all other investments, and yes, the returns are not guaranteed. Saying that it's risky is creating the notion that it's already dangerous to begin with. Our job as investors is not to be afraid of the risks nor should we enter them blindly. Our duty is to manage the risk at hand and to check if this investment is something that fits you.

Here are some factors to make you realize why I see the stock market as an investment that isn't risky:

1. I am a firm believer of diversification. This means that you don't put all of your investments into one basket. You must develop a good mix of investments spread out into low-, mid-, and high-risk investments. If you are a person that cannot tolerate the ups and downs of the market, you can just put a smaller amount of money in stocks. Does this qualify as taking a risk? Not at all! It is just you managing your money well by only investing in things you can tolerate.

2. It is even riskier to put your money in a "paluwagan" or give it to a friend that wants to start a business with you. Why? Because "paluwagan" is not regulated and who is to stop them from running away with your money? The stock market is much safer because it has a lot of safety features that will protect your money as an investor. It's much safer to put your money in stocks rather than partnering with a trusted friend for business because personally, I'd rather buy a stock of Jollibee than invest money in a business where my friend is learning the ropes for the first time. Most start up companies die out after five years. When you invest in Jollibee you are putting your money into an amazing business that you know will be there for years to come.

3. There is a risk spectrum for investments that are available in the country and internationally

(see **Figure 3**). Upon looking at it, you can see that the stock market is not even considered high risk

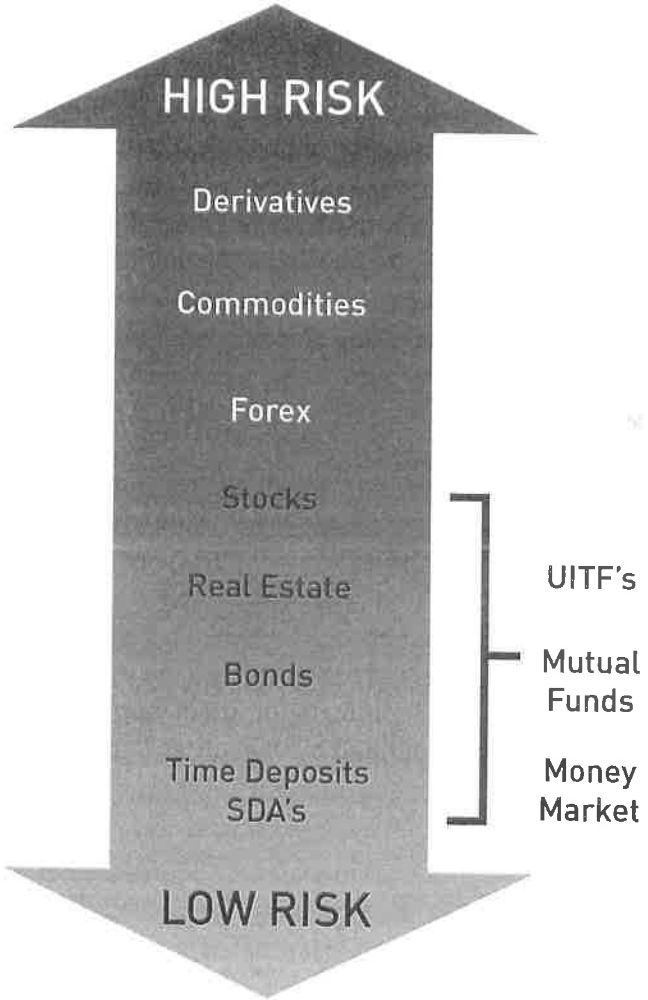


Figure 3. The Risk Spectrum

when compared to other investments. So what are you waiting for? It's time to learn more about the market!

Misconception #7: The Stock Market Is Complicated

This statement may have been true years ago. Back then, access to information wasn't as easy as it is today. Newspapers would consolidate everything, and the data would just come the next day. Today, information is readily available for the savvy investor. It's just a click away on the Internet—or you can even say it's an "iPhone" swipe away! This is very important in the stock market, as the more data or information you have, the more educated your investment choices will be.

Technology has removed much of the hindrances for the average Filipino to invest. What used to be a domain of people with numerous financial advisors has become a fair playing field, and now every Filipino has a chance to be successful in the stock market. Because of the advent of the Internet, anyone can be a successful investor from the comforts of their home or office without being surrounded by investment gurus.

3 The Amazing Stock Market: Why Does the Stock Market Beat Traditional Investments?

Amazing.

This is one word that encapsulates the greatness of how much return an investor can get by investing in the stock market. This chapter is dedicated to show the potential of how much you can get if you invest in stocks, as opposed to how much you can lose when you put your money in traditional savings.

Disclaimer:

The illustrations I will use are for buying a stock and holding it for a long period of time. In chapter 7, I will discuss other techniques that you can use in buying and selling stocks.

Illustrations and computations used are based on historical performance and not indicators of future performance. This means that a 10-year return of 20% does not mean it will stay at that same level every 10 years.

First things first, we revisit the principle I discussed in the previous chapter, which is:

> The higher the risk, the higher the reward and potential of your investment to earn money; while the lower the risk of the investment, the lower its potential to earn.

Unlike time deposits, special deposit accounts, and traditional savings and investments, the stock market does not give you a fixed and guaranteed return. However, that comes with the upside of potentially having a much bigger gain. Did you know that your stock can go as high as 50% in one day alone? That's amazing! You'll never get that return on time deposits or SDAs alone.

Secondly, we'll be focusing on regular savings accounts, time deposits, the stock market index, and some selected stocks of good companies. I know the next thought bursting in your head: why compare these investments against each other? When you ask a typical Filipino where they have invested their money, the common answer is either savings accounts or time deposits. Some would lovingly joke around saying that they have a BDO time deposit, a BPI time deposit, a Metrobank Savings Account, and another Security Bank time deposit. They are all different bank accounts, but all serve the same purpose, and having almost the same interest rate, but is it right to put everything there? Also, why is there a need to compare it with the index and other good companies? The Philippine Stock Exchange Index (PSEi) is the only index that we have here in the country. The PSEi is a group of 30 of the biggest companies listed in the Philippine Stock Exchange, and by getting the average of these companies, you will have a general idea on how the market is doing on a conventional basis.

When studying the Philippine market, the PSEi has been the gauge and the benchmark of the entire world,

so looking at its performance over time shows how the general market in the Philippines has moved.

Third, the initial investment for each of the examples I would use would be pegged at 24,000 Philippine Pesos (PHP). How did I come up with PHP 24,000? I assumed that most people can save at least PHP 2,000 per month. PHP 2,000 per month is only PHP 66.67 per day. Is PHP 66.67 easy to save per day? Of course! A normal fast food meal costs more than PHP 66.67! This book even costs more than PHP 66.67. If you have more money to spare than PHP 24,000, then by all means put more! However, this is merely an example that PHP 24,000 is an attainable amount to set aside and save in one year.

So let's begin.

Table 2 below is of a normal savings account with a very generous 0.5% interest rate per year, assuming that the rate remains constant for the next 10 years. By putting your money in the bank, your PHP 24,000 would only give you PHP 1,227 in 10 years. Yikes! It would have been better to spend the money in that 10-year duration since that money you saved would have been nearly worthless.

Am I saying that you shouldn't put all of your money in the bank? Of course not. If you make a savings accounts your primary investment and money making vehicle, you would not earn much, possibly even losing the value of your money due to inflation.

Table 2. Normal Savings Account (Assuming 0.5% interest per year)			
Year	Investment	Interest Rate	Earnings at the end of the year
1	24,000	0.50%	120
2	24,120	0.50%	121
3	24,241	0.50%	121
4	24,362	0.50%	122
5	24,484	0.50%	122
6	24,606	0.50%	123
7	24,729	0.50%	124
8	24,853	0.50%	124
9	24,977	0.50%	125
10	25,102	0.50%	126
		Total Earnings	1,227
		Total Investment after 10 years	25,227

The same holds true for one of the most used investments of every Filipino: the time deposit. **Table 3** shows that you as an investor would get PHP 5,256 worth of earnings, assuming the interest rate remains constant for 10 years. Similar to a regular savings account, earning PHP 5,256 in 10 years won't get you anywhere.

Now let's go to where the fun starts and the real earnings begin for every Filipino! **Table 4** shows the actual growth of the PSEi and the growth of the top 30 stocks in our local market for the past 10 years. If you bought and mirrored the stocks inside the index for the past 10 years, you would be able to get good returns.

Table 3. Time Deposit (Assuming 2% per year)			
Year	Investment	Interest Rate	Earnings at the end of the year
1	24,000	2.00%	480
2	24,480	2.00%	490
3	24,970	2.00%	499
4	25,469	2.00%	509
5	25,978	2.00%	520
6	26,498	2.00%	530
7	27,028	2.00%	541
8	27,568	2.00%	551
9	28,120	2.00%	562
10	28,682	2.00%	574
		Total Earnings	**5,256**
		Total Investment after 10 years	**29,256**

Based on **Table 4**, if the index was followed, your PHP 24,000 would have grown to PHP 136,463 in 10 years.That's not bad at all! Imagine how big your fund would be in 10 years if more money was invested.

If this return excites you, let's go to individual stocks and their performances.

For comparison, I picked three different companies from varying sectors: Banco De Oro (BDO) to represent the banking sector, Jollibee (JFC) to represent the consumer sector, and DMCI Holdings (DMC) to represent a holding company involved in property

Table 4. Actual PSEi Performance (Jan 2003 – Dec 2012)			
Year	Investment	1 year gain	Earnings at the end of the year
1	24,000	41.51%	9,963
2	33,963	26.35%	8,950
3	42,913	14.60%	6,265
4	49,178	40.95%	20,137
5	69,315	23.04%	15,969
6	85,284	-48.58%	-41,429
7	43,855	62.84%	27,556
8	71,411	38.49%	27,486
9	98,897	4.10%	4,051
10	102,948	32.56%	33,515
		Total Earnings	112,463
		Total Investment after 10 years	136,463

development, mining, construction, and water. These are all good strong companies with different business models and from different sectors. The keywords in the previous sentence are: good and strong. These are companies that will surely be here for years to come and will be able to withstand the winds of change, regardless of what political or economic climate may come our country's way.

When looking at Banco De Oro (BDO), varying returns per year are seen (**Table 5**). Some years dominated and brought in earnings as high as 62.49% (2009), but some years delivered negative earnings as low as –60.33%

Table 5. Actual Banco De Oro (BDO) Performance (Jan 2003 to Dec 2012)			
Year	Investment	1 year gain	Earnings at the end of the year
1	24,000	-2.77%	-665
2	23,335	57.16%	13,338
3	36,673	23.67%	8,680
4	45,353	36.78%	16,680
5	62,033	30.11%	18,677
6	80,710	-60.33%	-48,695
7	32,015	62.49%	20,007
8	52,022	50.00%	26,011
9	78,033	0.17%	133
10	78,166	37.72%	29,486
		Total Earnings	83,652
		Total Investment after 10 years	107,652

(The huge losses in 2008 were primarily caused by the global recession). Having a high return in the past doesn't remove the high risks from any investment. There will still be uncertainty on whether a stock will move up or down in the near future.

This is what we can learn from the stock price of Banco De Oro (BDO). If you buy, hold, and leave your money for a long period of time (in this case 10 years), regardless of the period that you held the stock, and even if it went through a recession, your Php 24,000 would still grow to Php 107,652! Not bad at all. This is how an investor earns passively: buying once, going on with your life, leaving your money and not watching it grow for 10 years. Imagine how much more your money would earn once you start applying the trading tips and techniques you are about to learn in the latter part of this book.

The same holds true for Jollibee (JFC), which would have grown your PHP 24,000 to PHP 132,324 after 10 years (**Table 6**). Similar to BDO and the Philippine Index, the earnings gained per year are not constant but are still amazing. Jollibee went as high as a 64.63% in year 8 but received a negative return on year 6. At the end of the day, the yields that you would get in the stock market will outperform any savings account or time deposit.

Table 6. Actual Jollibee (JFC) Performance (Jan 2003 to Dec 2012)			
Year	Investment	1 year gain	Earnings at the end of the year
1	24,000	-1.35%	-324
2	23,676	58.90%	13,946
3	37,622	44.83%	16,865
4	54,486	0.00%	0
5	54,486	21.43%	11,676
6	66,162	-10.78%	-7,135
7	59,027	18.68%	11,027
8	70,054	64.63%	45,276
9	115,330	2.36%	2,724
10	118,054	12.09%	14,270
		Total Earnings	**108,324**
		Total Investment after 10 years	**132,324**

But here's the amazing thing about the stock market: when you pick stocks that nobody cares about at first, yet the company has great potential, the stock price could suddenly blossom into something sensational. **Table 7** shows the actual performance of DMCI Holdings' stock for 10 years. If you started with PHP 24,000 it would have grown into PHP 10,560,000! That's you making yourself a millionaire while being busy holding down a day job or running your own business. That's literally money making money for you! That's you starting with a little but making your money grow into multi-millions! If that story happened to DMCI in the past, what would prevent other good companies from growing into something similar in the future?

Table 7. Actual DMCI Holdings (DMC) Performance (Jan 2003 to Dec 2012)			
Year	Investment	1 year gain	Earnings at the end of the year
1	24,000	94.00%	22,560
2	46,560	1405.15%	654,240
3	700,800	-16.44%	-115,200
4	585,600	100.00%	585,600
5	1,171,200	57.38%	672,000
6	1,843,200	-72.92%	-1,344,000
7	499,200	265.38%	1,324,800
8	1,824,000	278.95%	5,088,000
9	6,912,000	14.72%	1,017,600
10	7,929,600	33.17%	2,630,400
		Total Earnings	**10,536,000**
		Total Investment after 10 years	**10,560,000**

The returns might not be guaranteed or fixed similarly to what you would get in banks, but the potential for you to grow you money is amazing!

Table 8 is the summary of earnings for savings accounts, time deposits, the PSEi, Banco De Oro, Jollibee, and DMCI holdings. This clearly shows how the stock market as a whole or even individual stocks of amazing companies will help you make your money work really hard for you instead of you working hard for it. Imagine if you had started with PHP 150,000 with DMCI—you could already be sitting in a pond of wealth and your retirement would have been set!

The stock market will give you amazing gains over a long period of time. Putting your investments in banks will make your money worthless in years to come.

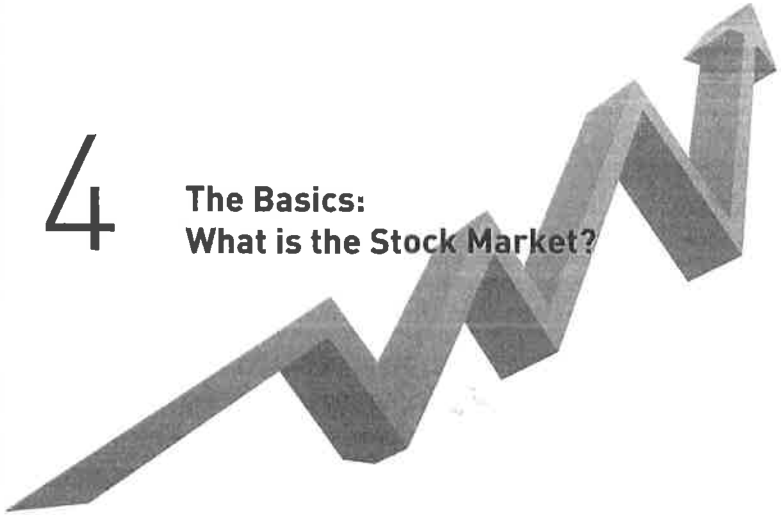
With that in mind, what are you waiting for? It's time to go on to the next chapter and learn what the stock

Table 8. Summary of Earnings

	Starting Investment	Investment after 10 years	Percent Earnings
Savings Accounts	24,000	25,227	5.11%
Time Deposit	24,000	29,256	21.90%
PSEi	24,000	136,463	468.60%
BDO	24,000	107,652	348.55%
Jollibee	24,000	132,324	451.35%
DMCI Holdings	24,000	10,560,000	43900.00%

market is all about! If those types of gains don't amaze you, I'm not sure what will. But if you're the kind of person that is excited about the potential gain from investing in the stock market, then it's time for you to proceed and learn more. Congratulations! You are officially interested in earning in the stock market!

4 The Basics: What is the Stock Market?



Over the years, I have heard many definitions of what the stock market is, what it does, and what it is not. This chapter will give you essential knowledge about the stock market, and with this solid foundation, your investing potential will be limitless!

Before we define the stock market, let's step back and go over some business basics.

There are two ways to increase capital for a business:

1. **Debt** – the company borrows money to expand and fund further projects.

   Advantage: Company gets funds without losing any portion of ownership.

   Disadvantage: Company is obligated to pay interest at regular intervals.

   Sample Investments: Bonds.

   How This Helps Investors: Investors get a low-risk investment and regular returns.

2. **Equity** – the company sells portions of ownership (shares) to prospective investors.

   Advantage: Company gets a large amount of money without any obligation to pay interest at regular intervals.

Disadvantage: Company loses a portion of its ownership to investors.

Sample Investments: Stocks

How This Helps Investors: The investors become part owners of the company and earn as the company grows.

There are 3 types of businesses:

1. **Single Proprietorship** – you are the sole owner.
2. **Partnership** – you and your partners are the owners
3. **Corporations** – you and others own shares which represent ownership of the company.

There are 2 types of corporations:

1. **Privately owned corporations** – when the owners raised the funds using their own money or in essence the company's shares are not available in the stock market.
2. **Publicly owned corporations** – shares are bought and sold in the stock market.

Why is there a Stock Market?

How do the concepts above actually relate to the stock market? Most companies start off as private

corporations, and like all good companies, they dream of expansion and growth. These companies may start borrowing money to fund their projects and expansion activities, but a company can only borrow so much. It will come to a point when more funds will be needed.

This is where the stock market comes in. The stock market allows ordinary people to buy shares of companies, giving them the opportunity to become shareholders—something that they normally can't do had those companies been privately owned. What we call an initial public offering (IPO) is the first time the shares of a privately owned company are sold to the market, which any investor can take a piece of.

How will the company benefit from selling their shares?

The company gets a large amount of money without really losing anything. Since ownership is represented by shares, the initial owners can sell small parts of it to the public and still retain control. In this way, the original owners can still make all the decisions even without 100% ownership.

As an investor, how does that benefit you?

As the company grows, your money grows too. I will discuss more about that in the next chapter where I will teach you the basics of how to earn in the stock market.

One of the best examples that I give my clients is the Puregold (PGOLD) IPO that happened during late

2011. Puregold sold 600 Million shares at PHP 12 per share, which allowed them to raise PHP 7.2 Billion in one day! Imagine earning PHP 7.2 Billion in one day without losing anything. This gives the company money to expand further, and you in turn become a part owner of Puregold. You can step into Puregold and boldly tell your friends and relatives that you are part owner of this company.

That is precisely what the stock market makes you—a part owner. And what's amazing about that is you don't have to run the company yourself, because Puregold already has a great team of managers and executives pumped and primed to take the company higher. It's just you making your money work hard for you. It's you being the master of your money rather than being its slave. This allows you to multiply yourself because, even while you sleep or do other things, your money is working hard for you as stock shares of a multibillion-peso company known as Puregold.

For a person who bought Puregold at IPO price and held it for more than a year (up to January 2013) he would have tripled his money as its stock price tripled in value in that span of time. The company that does an IPO benefits because they get to use your money for expansion, but you also benefit. Because as the company expands, they earn; as they earn, so do you. But it does not stop there.

As the company benefits, you benefit. At the end of the day, the Philippines, as a whole, also benefits.

As IPOs allow expansion to take place, more jobs will be created, and the middle class will become even bigger and stronger, thus making our nation even greater. This is all because you chose to participate! When you invest in the stock market you help bring this nation forward. I wholeheartedly believe that in no less than 20 years, our nation will be one of the financial powerhouses in Asia.

Just a tip before investing: it would be good to study the company that is going IPO. I like checking where the money from the IPO will be going. I do not like to buy into IPO's where majority of the money will be used to pay off the company's long-term debts. The key is to look for expansion and growth because that is where the profits lie. A case in point is when Puregold (PGOLD), during the year they went public, disclosed that they were aggressively expanding to open 25 stores the following year. Now the rest is history as Puregold is one of the top players in the domestic supermarket sphere.

Just Like a Public Market

In my seminars, I always mention that the stock market is like a public wet market. If you understand the concept of what a wet market is, it would not be hard to grasp what the stock market is. You may say, "Hmmm, Marvin that sounds so easy. When I watch the news and listen to all the economists talking about it, everything sounds so complicated. Is it as simple as a common market where we get our fruits and vegetables?" Yes it is! Let me break it down even further. If fruits and vegetables are exchanged for cash, the purchaser becomes the new owner of that fruit or vegetable. Trading in the stock market is similar to buying and trading in the wet market as well, but instead of fruits and vegetables, you are exchanging your money for shares in companies.

Why Do Prices Move Up and Down?

This question perplexed me as a kid: Why do prices move up and down? In the movies I've seen, why did people cheer and clap at stock exchanges when prices moved? Is there someone who dictates or mandates the price to be at a certain level at a given point in the day? Why can't they just go up forever?

To answer that, I go back to the wet market example: When you go into a market, do you only see one seller of pechay? Of course not! You'll see several stalls all lined up together selling the same thing. Typically, the pechay comes from the same farm but is being sold in different stalls. Here's the intriguing part: why are the prices of the pechay different from each other if they all look the same and are in fact the same? The answer: supply and demand or what we call buyers (demand) and sellers (supply). The higher the demand for pechay, the higher the price goes up. On the flip side, when no one wants to buy the product, owners would have to offer it at a much lower price just to make a sale. It has to get to a point where it becomes attractive to the buyers.

Let's translate that to the stock market. Have you ever wondered why the prices of great long-term companies like SM, BDO, Ayala Land (ALI), and BPI have been going up through the years? It's because of the demand that they have established. Investors see these great companies as a good avenue for their money to grow. When a lot of people realize that SM is an exceptional company, they come in and create a demand for it. The greater the demand, the greater the chances are that people would be willing to buy the stock, regardless of the price. Compare an iPhone and a Nokia cellphone. Nokias are much cheaper than iPhones, but since the demand for iPhones are so great, people are willing to buy iPhones at much higher prices—especially during their release date. At the same time, the prices of Nokia phones have been plummeting because there are more people wanting to sell it than to buy it.

Simply put, more buyers in the stock market bring the prices up, while more sellers in the market bring the prices down. It's normal for stock prices to go up, and it's also normal for stock prices to go down. Should you be scared if the price of your favorite stock goes down? No, you shouldn't. Why? Because at the end of the day, people are in the stock market to make money. So when the price of a stock goes up, it is natural for people to start taking profits or sell their position.

When this happens, the stock goes down because there are more sellers. There will come a point when majority of investors will see that particular stock as attractive at that price again. When this happens, more buyers will want to buy the stock, thus making it go up once more. If you understand this principle well, then it will help you make money in the market. Buy into a stock that has an increasing demand and let go of it once the demand has died down, as it eventually will. If you master the art of buying where there is a big demand and selling when the demand runs out, you will have very productive earnings in the stock market. This is summarized in **Table 9**.

More Buyers = Stock prices go up

More Sellers = Stock prices go down

Table 9. Buyers and Sellers

More buyers come in because:	More sellers cash out because:
Investors have extra money	Investors need the cash
The company has strong earnings	The company has weak earnings
New mergers & acquisitions	Stagnant growth or no expansion
New products or services	No new products or services
Future developments	Nothing interesting in the company's future
Changes in the economy or the environment	Negative changes in the economy or the environment
Political stability	Political instability
Speculation	Speculation
Good news or stories regarding the company	Bad news or stories Regarding the Company

What is the PSE?

At this point you should now have a basic understanding of what the stock market is and why companies and investors put in good sums of money in it. For every stock market, there should at least be one stock exchange. A stock exchange is usually a private or public corporation whose main duty is to act as the watchdog of the stock market it is governing or overseeing. There are different exchanges around the globe like the New York Stock Exchange (NYSE), NASDAQ, Hong Kong Stock Exchange (SEHK) and Tokyo Stock Exchange (TSE).

The PSE or the Philippine Stock Exchange is the only stock exchange operating here in the country. It is duly recognized by the Securities and Exchange Commission (SEC) and you can be certain that they try to uphold the noblest of standards. The PSE exists to ensure that investors like you and me are protected, and they do this by setting up different systems, procedures, and technologies to make sure that all transactions done inside the stock market are accurate, fair, complete, and timely. They are there to ensure of the following:

- The corporations that plan to go into IPO are legitimate and have functional business models

- Brokers do not run off with your money and are fair to all their clients. (As an ordinary investor, you must get the same information as what the rich conglomerates get)

Another thing about the PSE is that you can only buy companies that are listed in the Philippine Stock Exchange. Other big local or multinational companies that are not listed cannot be bought directly via the stock exchange.

There are currently more than 200 companies listed in our local exchange. As of now, this is one of the smallest in Asia. However, I believe this is about to change, as the world is now focusing on the Philippines. Both local and foreign investors want to have a piece of our market. As more investors come in, our market becomes bigger, and at the same time, our economy becomes healthier.

Do brokers make you broke?

The term "broker" is a commonly misused term and is confused with many different things in the stock market, as the concept of the market as a whole is still foreign to many people. The great thing is, as more and more people like you start learning and studying, terms like brokers, stock exchanges, and indexes will become common to everyone's vocabulary.

A brokerage firm or a trading participant is the gateway for investors like you and me to place money into the stock exchange. You cannot buy and sell shares in the stock market without a brokerage firm. A popular analogy I like to use in my seminars is this: if you were to withdraw money from your favorite bank, would you be allowed to go straight into the bank vault to get your money? Of course not! You would probably be

sent to prison if you did that! The same is true in the stock market. You cannot go directly to the bank vault (stock market) to buy shares, you would need a teller (brokerage firm) to do the transactions for you.

There are two types of brokerage firms:

Traditional brokers – transactions are normally done via a call or a text message to a Certified Securities Representative (CSR). After making the call or sending a text, the CSRs will input the buy or sell signal into their terminals to kick off the transaction.

Fees: Since there is an agent taking up the orders, the commissions for a traditional broker can go as high as 1.5% per buy or sell.

Traditional brokerage firms: Sun Securities, SB Equities, HDI Securities

Online brokers – because of the advent of the Internet and mobile technology advances like 3G, Wi-Fi, tablets, and smartphones, it has become easier for common investors like you and me to trade in the stock market from the comfort of your own home or office. Even if you are the type of person who is always moving, technology has made on-the-go trading possible. When you use an online broker, you are actually accessing an online software or mobile application that allows you to buy and sell, without actually going through an actual person.

Fees: Since everything is automated, labor costs are cut. Most commissions for online brokers are around .25% per transaction.

Online brokerage firms: BPI Trade, COL Financial, First Metro Securities and Wealth Securities.

There is no right or wrong when choosing between an online or traditional broker. What's important is that you pick a broker that fits your needs and specifications. For people who prefer to hear a comforting voice at the other end of the line who validates their choice to buy or sell, a traditional broker is recommended. For those who prefer using their tablets for research and making their trade choices, an online broker is recommended.

One thing to consider is that there is no such thing as a perfect broker. Each broker has its own strengths and weaknesses, and your job as an investor is to pick the one whose strengths you want to capitalize on. Or you may just copy the route I took: I used multiple brokers to capitalize on each of their strengths.

Another thing to remember is not to use the broker's recommendations as the golden standard. If they tell you to buy a stock, do not just blindly follow and buy. The best thing to do is to study their recommendations and make the choices on your own. If you have conviction and confidence in the stocks that you are buying and selling, you are in the best possible place to make money in the market.

How does the buying and selling work?

One basic concept in the stock market is that for a transaction or a trade to exist, there must be a willing buyer and a willing seller, but that doesn't end there. The buyer has to buy the same stock as what the seller is selling at the same price.

For example, we have one buyer who has the cash and wants to acquire Jollibee (JFC) shares and another one who has the shares but wants to swap his shares for cash. Here's a detailed step-by-step process (**Figure 4**):

Step 1a

The investor places an order through his broker (Broker A) to buy 10 shares of JFC at PHP 130 per share. This can be done through the phone or via text messaging using a traditional broker or via the Internet using an online broker.

Step 1b

At the same time, another investor has JFC shares but wants to swap his holdings for cash. He places an order through his broker (Broker B) to sell 10 shares of JFC at PHP 130 per share.

Step 2a

Broker A posts the buy order and is added to the queue of all buy orders in the system of the PSE.

Step 2b

Broker B also posts the sell order and is added to the queue of all sell orders in the system of the PSE.

Step 3

The PSE system then looks for a match for the buyer of JFC at PHP 130 pesos and the seller of JFC at PHP 130 pesos. If a match is not found, the order remains there and is left in the queue. If the trading day ends and the order placed was just good for the day, the order is automatically cancelled.

Step 4

If a match is found, the PSE fills the order and sends a confirmation to the brokers, informing them that the trade has been successfully completed. At this point the swap or trade between the cash and the shares has already taken place.

Step 5

Broker A and Broker B then informs the buyer and the seller that the trade has been successfully completed. At this point, the buyer already sees in his portfolio that he now owns 10 shares of Jollibee (JFC) and the seller sees that he has the cash.

The Stock Market

From this chapter, you have learned what the stock market is, why there is a stock market, and how you, as an investor, fits in the grand scheme of things. I hope

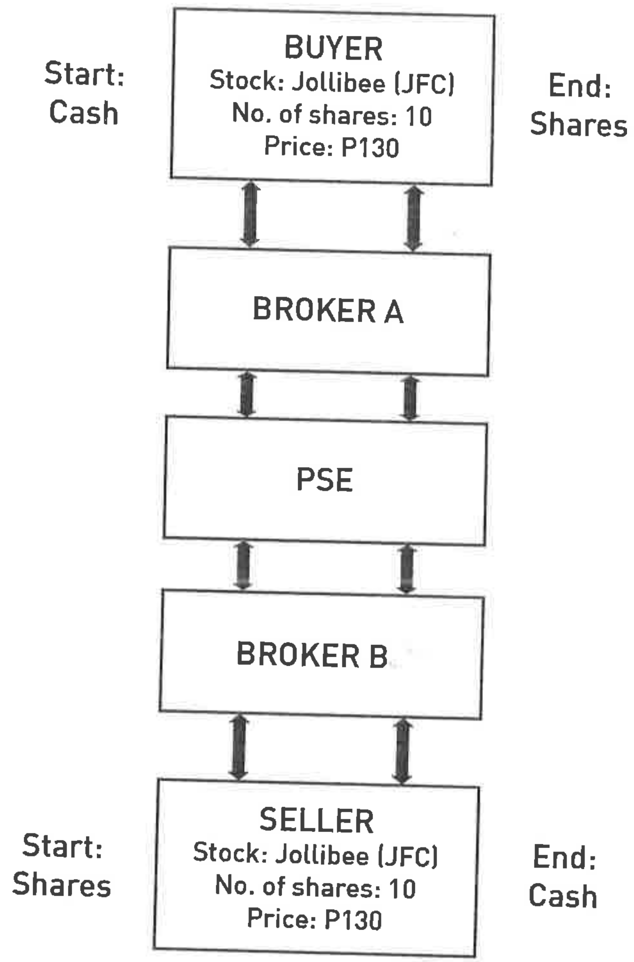
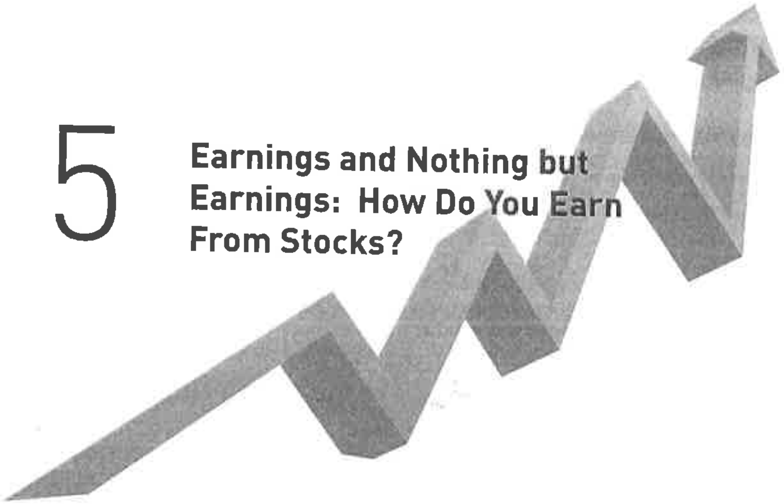


Figure 4. The Buying and Selling Process

this chapter has convinced you that the stock market is here to fuel the economy and that, when you place your money in the stock market, you are actually putting your money in companies that stood the test of time. Personally knowing that should dispel all fears that the stock market is a scam or even a game of chance, as it is a legitimate investment designed so that common investors like us can take part in the earnings and growth that our awesome economy provides.

Now that you know what the stock market is, it's time to proceed to my favorite part of investing in stocks. Earnings and nothing but earnings: How do you earn from stocks?

5 Earnings and Nothing but Earnings: How Do You Earn From Stocks?



Okay, this is the chapter that you have been waiting for. Some of you may have skipped the previous chapters to get to this part of the book, which you may think is the juiciest section. However, I really encourage you to also read the previous chapters where I discussed how great the stock market is, how it helps the economy, and how awesome the potential to earn if you invest in it.

It's now time to move into the details of how you can actually earn from investing in stocks!

There are two ways to earn in the stock market, both of which will be the central discussion of this entire chapter.

1. Capital Appreciation (buy low, sell high)

2. Dividends

Capital Appreciation (Buy Low, Sell High)

Before we discuss capital appreciation, let me talk about two fundamental concepts that most investors overlook and interchange when it comes to stock investing.

Stock Price. This is the price that buyers are willing to pay for a stock and the price that sellers want to receive if they sell their shares. This is highly dependent on supply and demand. As mentioned in the previous chapter, more people wanting to buy the stock bring prices up, while more sellers bring prices down.

Stock Value. This has nothing to do with supply and demand but has everything to do with how much the company is actually worth. This is primarily based on the assets, liabilities, and earnings of the company. A fundamental concept in stock market investing is that a good company that is earning well will increase in stock price over time.

Capital appreciation is when you buy a company's share and its stock price increases from the initial price. For example, let's say you bought Ayala Land (ALI) stocks at PHP 40 per share and held it for three months. At the end of those three months, as you look at your stock, you find out that each share is now worth PHP 44—that increase is what you call capital appreciation! It is an increase in the stock price of the stock that you've bought.

What increases is the stock price of the company, not its actual value or earnings. That a certain company's stock goes up 10% in one day does not mean that its earnings are 10% higher for that day. It just means that there are more people willing to buy the stock at a 10% higher price than that which you bought it for.

Now that your stock is up 10%, does that mean you have already earned money? Not yet!

That is what you call a paper gain, which means that, although the price of the stock you bought went up a notch, you still haven't earned anything because you have not cashed in yet (i.e., sold your shares).

There are two kinds of gains when we are talking about the stock price:

1. **Paper gain.** This is when the stock price of the stock you bought has increased, but you did not sell the stock yet or locked in profits. This employs holding on to your stock instead of selling it. By doing so you subject yourself to the following risk and reward scenario:

   Risk: Stock price might go down.

   Reward: Stock price might go even higher.

If you do not sell your stock, you risk it going lower than its current price. But there is also a possibility that it can go up. The stock's price may move every minute during the course of the day, meaning there is a chance your earnings may change, either up or down.

2. **Actual gain.** This is when you sell your stock after it has gone up in price. When you sell, it is the only time you make money in the market. If you actualize your earnings, you subject yourself to the following risk and reward scenario:

   Risk: Stock price might go even higher.

   Reward: Stock price might go down.

That is why a degree of study is also important in investing. There are a variety of tools—along with stock timing—that can help you as an investor to decide on what stocks are better to buy or to sell. The more knowledge you have, the more informed decisions you make, and the more conviction you will have in investing.

Select stocks that have experienced capital appreciation over different time frames:

These examples are for illustration purposes only and do not reflect the actual sentiment and price trend of the stock.

24-Hour investment, 6.10 % gain

Manila Water Corporation (MWC). A 24-hour gain of 6.10% is what you will get if you had bought (MWC) on March 26, 2013, and sold it the next day. The only way for time deposits to earn this same amount is if you left your money in it for three years. Talk about sleeping money and wasting your time! Granted that 6.10% may not be impressive compared to other investments, but for a one day gain, that is not bad at all. Even if you made a mistake and bought it high, and suddenly it starts to drop in the next six months, why should you be scared of holding a company that provides water to literally half of Metro Manila?

Starting Price (March 26, 2013): - PHP 37.7/share

Closing Price (March 27, 2013): - PHP 40 /share

Gain: 6.10%

6-Month Investment, 82% gain

Alliance Global Group, INC. (AGI). You will get a 6-month gain of 82% if you bought (AGI) on August 15, 2012 and sold it six months later on March 15, 2013. Again, time deposits can only gain this much if you leave your money there for 40 years. If you started saving at 20 years old and placed your money in time deposits, the only time you will be able to gain 82% is by the time you retire at 60 years old. Yikes! Also when you look at the company, AGI is a well-diversified company touching the fast food, real estate, gaming, and production industries. They are one of the biggest companies in the country. Why should you, as an investor, be scared of putting your money in a legitimate company that is actually making money and has a large footprint in the country?

Starting Price (August 15, 2012): PHP 11.06 /share

Closing Price (March 15, 2013): PHP 20.10 /share

Gain: 82 %

1-Year Investment, 96% gain

Puregold Price Club, INC. (PGOLD). A 1-year gain of 96% is what you will get if you bought (PGOLD) on March 30, 2012 and sold it one year later on March 27, 2013.

It would take more than 45 years to get this interest in time deposits. Puregold has also been sprouting everywhere, aggressively expanding and continuing to take the country by storm. As a supermarket chain, they sell the bare essentials of what people need on a daily basis and are strategically located where there is a lot of traffic. People need what they are selling. As long as there are consumers, they would not go out of business. Why should you be scared of putting your money in a company that caters to the spending needs of every Filipino?

Starting Price (March 30, 2012): PHP 20.40/share

Closing Price (March 27, 2013): PHP 40.05/share

Gain: 96 %

5-Year Investment, 595% gain

Aboitiz Power Corporation (AP). You will get a 5-year gain of 595% if you bought (AP) on January 2, 2008 and sold it five years later on December 27, 2012. You will never get this amount of gain in your entire lifetime if you place your money in time deposits. This is an electric generation company owned by the Aboitiz family. Why should you be scared to invest in a company that is managed by one of the biggest conglomerates in the land? As our economy continues to grow, a higher demand for electricity will be needed. Why should you be scared in placing your money in AP? The time to invest is now!

Starting Price (January 2, 2008): PHP 5.30/share

Closing Price (December 27, 2012): PHP 36.85/share

Gain: 595%

10-Year investment, 4024% gain

Universal Robina Corporation (URC). Wait a minute; I know that you are wondering if this is this a scam or not. Can a gain of this magnitude really happen in the stock market? Well, this is the actual gain of URC over a 10-year period! URC is one of the biggest brands in the Philippines, owning Cloud 9, Hunts, Granny Goose, Great Taste Coffee, Cream-O, Nissin Cup Noodles, C2 Teas, and countless more products that have become common household names. These are all staple products in homes of every Filipino. Why would you be scared to invest and buy this company? If you have money in your time deposits that you don't plan to touch in 10 years, why not put it in the stock market? It's time!

Starting Price (April 3, 2003): PHP 2.74/share

Closing Price (March 27, 2013): PHP 110.26/share

Gain: 4024%

Manila Water, Alliance Global, Puregold, Aboitiz Power, and Universal Robina Corporation are just some of the few examples of good companies that are available for you to invest in when you invest in the Philippine Stock

Exchange. I believe that these companies will stand the test of time, being that these companies are earning well and are needed and wanted by every Filipino. Investing in good companies over a long period of time is quite rewarding, because if the company is earning well, the stock price normally follows suit.

The key is to invest in good companies.

It is not true that if you buy a company and hold it forever, you will earn in the stock market. What's true is that buying a "GOOD" company and holding it forever can give you a bigger chance of earning in the market. Buying a company that is not as good compared to other companies that are earning will not do you any good even if you hold it for a long period of time. You will see all other stocks go up over the long term except yours, that is just pure agony!

Let me give you one example:

5-Year investment, 56.36% loss

Lodestar Investment Holdings Corp. (LIHC). This company has been battered down with net losses for five straight years from 2007 to 2011. During this same timeframe, a lot of blue chip companies have already been moving up with rock solid earnings while LIHC has been losing money, which reflected on its stock price.

Starting Price (December 6, 2007): PHP 2.20/share

Closing Price (December 6, 2012): PHP 0.96/share

Loss: 56.36%

5-Year investment, 91.4% loss

Paxys, Inc. (PAX). This company has shown net losses on three out of four years from 2008 to 2011. While other companies have been increasing their net profits, this company has been losing money, which has also reflected on its stock price.

Starting Price (February 22, 2007): PHP 25.00/share

Closing Price (February 21, 2012): PHP 2.15/share

Loss: 91.4%

As you can see in the previous examples, companies that are not earning money—even if held for a long period of time—will not give you the earnings that you desire. It would be best to invest in companies that you believe in, companies that you know are earning, and companies that will stand the test of time. The stock market doesn't go up in a straight line, but buying and holding good companies that are earning well can help your investment multiply in the years to come.

Here are some strategies that you may want to employ as you start your buying and selling:

Scenario 1: If your stock goes down in price

Reality: You haven't lost any money yet (paper loss).

Action: You can hold on to your stock and sell it until it hits your selling price range, actually earning yourself money.

Reason: If you are in the stock market for the long-term, momentary downward spikes should not concern you.

Scenario 2: If your stock goes up in price

Reality: You haven't earned any money yet (paper gain).

Action: You can take profits once you see your stock hit your selling range (actual gain).

Reason: Do not be in a hurry to sell. The best place to be in the market is to maximize earnings and minimize losses. Only sell once it has hit your selling range.

Dividends

As an investor, this is another way for you to earn in the stock market. This is completely different from capital appreciation as dividends have nothing to do with price action or how much buyers and sellers would want to buy a stock. The stock could be at a season where it is currently going down in price, but you can still earn and receive dividends.

Dividends are a way for the company to reward all of its shareholders. Dividends are not guaranteed but are dependent on the discretion of the directors of a company. Some companies give out dividends regularly but are never compelled to give you a fixed return. Since the goal of the company is to please its shareholders as much as possible, they would try to give dividends regularly (if they are a company that normally pays out dividends). If you as an investor are not satisfied with the dividends that the company is giving out, you can easily sell your shares and transfer it to a company that pays more dividends.

Companies try to give dividends consistently to prevent investors from selling.

I will be discussing two types of dividends as they are the most common in our local stock market:

1. **Cash Dividend**

2. **Stock Dividend**

Cash Dividends. These are given based on the earnings of the company. The concept of cash dividends is that if the company is receiving more cash than what is needed for them to expand, they can opt to reward their shareholders by paying out dividends. It is the company saying, "We don't know what to do with the extra cash, here's some of it. You might be able to use it better."

How does this work? PLDT (TEL) declared a total of PHP 222 dividends per share for the entire year of 2011. This means that they would give PHP 222 per share of dividends for every investor who holds their company's stock. If you own 100 shares of PLDT stock (TEL) that means you would be earning:

222 x 100 = PHP 22,200

Every time they declare cash dividends, you earn money. When it comes to dividends, the more shares, the more chances of winning! What I like about this is, you get recurring amounts of money regardless of PLDT's stock price being up or down. You can expect a regular return of a certain percentage based on PLDT's historical track record of paying out dividends.

Table 10 is showing the percentage of earnings that you as investor would have received if you invested in PLDT from 2008 to 2011.

Dividend yield by definition is the rate that you would earn from that stock through dividends for a given year based on its stock price.

Table 10. Cash Dividends paid out by PLDT from 2008 – 2011.

Year	Total Dividends per share	Dividend yield
2011	222	8.73%
2010	219	8.57%
2009	207	7.90%
2008	194	9.17%

It certainly beats time deposits! If you don't need the money for a long period of time, why not just put it in stocks and earn from dividends? Note that the amount of dividends given are not the same each year because dividends are not guaranteed and are based on the discretion of the board of directors. This means that for some years dividends can be higher or lower. Historical payouts do not guarantee future amounts, but it gives you a baseline of the ranges of the payouts that they give.

Here are some dividends from other companies (**Tables 11-12**):

Table 11. Globe Telecoms (GLO)

Year	Total Dividends per share	Dividend yield
2011	62	5.47%
2010	80	10%
2009	114	12.46%
2008	125	16.45%
2007	116	7.39

Table 12. GMA Network Inc. (GMA7)

Year	Total Dividends per share	Dividend yield
2011	0.45	6.82%
2010	0.7	10%
2009	0.35	4.49%
2008	0.25	7.25%

The concepts above further my claim that:

1. Stock market investing is not gambling because if you know that the company is making money and giving out cash dividends, you can expect a certain degree of returns on a yearly basis.

2. You don't have to watch for your stocks every day and quit your day job. As long as you know that dividends are paid out regularly and the company has a good track record of paying out dividends, you can be assured that you will beat time deposits.

3. By wanting to earn from dividends the risk of losing money in the stock market is minimized. You only lose money if you sell at a loss. How can you lose money if you hold on to your stock and receive dividends regularly?

Stock Dividends. These are normally given when the company wants to reward their investors without shelling out any cash. The way stock dividends work is that the board of directors approves the number of shares given to shareholders as stock dividends. The more shares you have, the more stock dividends you may receive.

If the company declares a 50% stock dividend and you have 100 shares, 50% of 100 shares is 50 shares. Your stocks would increase from 100 to150 after the dividends are paid out to you.

Table 13 is an example of a stock dividend paid out by the stock of Philippine Stock Exchange (PSE):

That means if you qualified for the cash dividend in 2011, you already would have doubled your shares! Did you have to watch your stock everyday to be able to have it double? Not at all!

How does this make you wealthier as an investor?

1. You have the option to sell the stock dividends anytime and cash in.

2. You have more shares, which means that the next time a cash dividend is declared, you get more cash.

Just like cash dividends, stock dividends are not guaranteed and solely depend on the discretion of the board of directors. If you are a passive investor this is also an awesome way for you to increase the value of your portfolio.

Table 13. Stock dividend of PSE

Year	Stock Dividend
2011	100%
2010	none
2009	none
2008	100%
2007	none

Important dates to remember for dividends:

1. **Ex-date.** This is the date when investors can sell their shares but still receive the dividends.

PLDT declared an ex-date on March 14, 2013. That means if you owned PLDT shares on March 13, 2013 and sold your shares the next day, you would still be entitled to receive dividends.

Investors buy shares nearing the ex-date so that they receive the dividends and then sell it again when they see fit. This allows them to earn from dividends without holding the stock for the entire year.

2. **Pay-out date.** This is the date when investors receive the dividends. This is normally a few weeks after the ex-date.

Using the PLDT example above, if you held PLDT shares up to the ex-date (March 13, 2013) you can expect to receive your cash dividends on the pay-out date almost a month after, April 18, 2013.

Can you receive both Cash and Stock Dividends?

Of course! Though cash and stock dividends are not given at the same time, as long as you don't sell your shares prior to the ex-date you can receive your dividends for both.

Putting it all together

As an investor you can earn from both capital appreciation and dividends. As you are holding your stock, you give yourself the possibility of incurring paper gains and the potential to receive dividends at the same time. That's why you should study stock selection, giving yourself the ability to pick a stock that fits your needs; either on capital appreciation, dividends, or both.

Here are some general guidelines to help you decide which is for you:

Capital appreciation fits you if:

1. You have more than 10 years before retirement
2. You can tolerate prices moving up and down every day

Dividend investing fits you if:

1. You are nearing retirement or are already retired.
2. You are a conservative investor.

The heart of this chapter is to teach you how to earn from the market, eliminating any fears or stigma that would prevent you from jumping into it. I hope that I've busted the perception that investing in the stock market is like the lottery—that there is a slim chance of earning or that everything is only just up to chance. My desire is for you to find a methodology of earning and that you pick a style that fits you. If you are a very conservative investor but can leave your money for more than 10 years, why not pick a good company and hold it for the long term. If you are retired, why not invest in a company that will give you higher dividends compared to what you would get in a time deposit? Now that you know how to earn in the stock market, it's now time to learn how to start investing.

Are you ready for more?

6 New Beginnings: How Do I Start?

Whether it's on TV, radio, or during meetings with personal finance clients, I am always asked these two questions:

How do I start investing in stocks?

How much can I earn from them?

The first step is to always educate yourself in the stock market— to feed yourself with knowledge. The more you feed, the more confident you become in buying and selling stocks, and in choosing the right stock. The stock market is full of emotion and sentiment. With more knowledge comes sound decision-making when it comes to buying and selling. Through knowledge comes conviction and confidence, which leads to greater possibilities in making money in the market. There have been times when brokers and friends were telling me to sell a particular stock. However, despite all the recommendations, my analysis was telling me to just hold on to the stock, or buy even more. By listening to my own analysis , I found that I had made the right decision in keeping the stock and buying more shares.

I would like you, the reader, to change the way you perceive stocks and develop your own conviction and create your own plan to earn from the stock market. My heart yearns for you to learn and to earn, so that you can meet your dreams of financial freedom. The stock market is a tool for you to reach this dream. Don't stop after reading this book—read other books to increase your stock trading and investing knowledge, attend financial seminars, and continue to learn!

After learning the basics and being confident knowing that the stock market is an investment that fits you, go on to the next step and open an account with a broker. The next question is: how much do you need to shell out so you can start investing in the market?

Minimum amount to start investing

The perception about the minimum amount to start investing has always been one of the biggest roadblocks that prevent people from investing in the stock market. The misconception that investing is only for the rich and sophisticated has prevented many people from dipping their feet into the market. You will be surprised at how affordable investing is for the common employee, call center agent, engineer, and everyone else in between. Many college students have attended my Stock Smarts seminars and have started investing, using only their daily allowance. If they can do it, so can you!

Minimum amount to open a brokerage account

Before placing a single peso in the stock market, it is essential to have a broker, who is the entity responsible to facilitate the buying and selling of shares. Many stock newbies always ask what the minimum amount required to open a brokerage account is and are

usually surprised when they find out the answer. Are you ready for this? It might blow your mind! I saw an online broker that requires no minimum amount for you to open a brokerage account with them—their only requirement being that you open an online account with their bank so transfers become more efficient. That's amazing! I've heard of people who have been intimidated because they assumed that they would need millions to start investing in the market. The time is now, my fellow Filipinos! There has never been a time where the stock market is more available and at a level that is affordable to everyone. This is truly our time as a nation to start investing.

If you prefer other online brokers, the minimum amount that I have seen ranges from PHP 5,000 to PHP 25,000. You may also explore traditional brokers or live brokerage firms. Normally traditional brokers have a higher initial requirement to start investing in the stock market. Think of it this way: an iPhone, iPad, Prada purse, or Hermes handbag is still more expensive than investing in the stock market. If you can buy gadgets regularly, I'm sure that investing will not be as painful.

Take note: when you open an account with a broker, none of the money that you put in will go to the broker. The entire amount that you placed into your account will be made available for you to invest. Brokers only earn by commission and that only happens when you buy and sell a stock.

Minimum amount to buy a stock

Opening an account with a broker allows you to buy stocks; however, when you buy a stock there is another minimum amount that you must take into consideration. This is called a board lot, which is the minimum multiple of shares required for you to buy a stock. You cannot buy a stock below the minimum multiple of shares.

For example: Jollibee (JFC) has a board lot of 10 shares. For you to be able to buy a stock of JFC you would need to buy its shares in multiples of 10. You cannot buy eight shares nor can you buy 14 or 29 shares of JFC. You can only buy 10, 20, 30, 40 shares, and so on. If the stock price of Jollibee is PHP 125 per share, for you to purchase JFC shares, the minimum purchasing amount would have to be:

10 × PHP 125 = PHP 1,250.

To become a shareholder or a part-owner of Jollibee, you would only need to invest PHP 1,250. That isn't expensive at all! An average family spends more than that amount when they eat out on weekends. Why not use this money to invest in one of the biggest fast food chains in the Philippines? You don't have to break the bank to buy a stock, just set aside a specific amount each month to spend in accumulating shares of Jollibee instead. If you do this for 30 years straight, what started out small will accumulate and become huge! The best time to start is now.

Disclaimer: The price of the stock changes and Jollibee will not always be PHP 125 per share. This goes for the other illustrations in this chapter. These computations are for illustration purposes only and does not include brokerage charges and other taxes. You do not need to memorize the board lots for each stock as they are listed in pse.com.ph and will also be available through your broker once an account is opened with them.

More examples

Ayala Land (ALI), one of the biggest property developers and mall operators in the country, has a minimum board lot of 100 shares. If the stock price of Ayala Land is PHP 35 per share, to purchase shares it would cost you:

100 × PHP 35 = PHP 3,500.

A very small amount of money will enable you to become a shareholder of one of the most renowned Filipino companies.

The most expensive stock as of now is PLDT (TEL), which only requires a minimum purchase of five shares. If the stock price of TEL is PHP 3,000 then the price you would have to pay to own one of the largest telecommunication companies in the Philippines would be:

5 × PHP 3000 = PHP 15,000.

This amount may be more expensive than Jollibee, but let me put it into perspective: My first cellphone in the early 2000's cost about the same as the five shares of PLDT I just mentioned. From then until today, I have replaced my cellphone with newer ones about 13 times. Instead of buying so many cellphones, if I had just used most of that money to buy shares of PLDT, I would have become a PLDT investor instead of just a customer (PLDT owns Smart Communications, a leading cellphone provider).

Considering that PLDT shares were trading at only PHP 200 each back then, my money would have increased by more than 1,000 percent, since PLDT shares were over PHP 2500 each at the end of 2012. This increase includes both capital appreciation and dividends given throughout that period.

Through this example, you will realize that PHP 15,000 for PLDT stock is relatively cheap because it has the potential to earn money instead of just being spent and depreciating over time.

The stock market is not expensive; in fact, it is positioned in a way that is available for anyone who wants to participate in it. It's time! Knowing that the stock market does not require too much cash when it comes to investing should further strengthen your conviction that the stock market is not just for the rich. It's available for you and is yours for the taking!

7 Tips And Tricks: What Should Be My First Buys?

The first six chapters were meant to give you a good and solid foundation so that you can easily understand what the stock market is. If you are convinced that it fits your profile, the stock market is a good avenue for you to make your money work hard for you.

This chapter aims to bridge the gap between understanding how the stock market works and actually investing and trading in the stock market. I believe this is one of the biggest disconnects that a lot of hopeful investors make. What do I mean by that? Academic knowledge without practice will not help you make money in the market. I've seen hundreds of clients go through our courses but do not practice and they end up forgetting the concepts six months down the road.

I do not want that to happen to you. I want you to learn and put that learning into practice. I want you to be so charged up that you start using the steps, tips, and advice that you learned from this book to trade stocks and invest in the market!

Tip #1: Open an online trial account

A lot of online brokers provide online trial accounts that simulate the experience of stock trading and investing in the market as a whole, but do not require you to use your own money yet. These trial accounts allow you to log in during trading hours, making you see what the trading console looks like, and what trading and investing in the market feels like. I suggest that you open one after reading this chapter, mainly, so that you can submerge yourself in the concepts that you have learned.

The more familiar you are with what trading in the stock market is like, the more confident you will become, and the faster your path towards actually starting and building your stock portfolio will be. Again, the more confident you are, the better you will be in earning from the market.

Tip #2: Start small

One of the most frequent questions that I get is, "Marvin, how much money should I initially put in during my first stock trade or investment?" Well, again the amount of money is relative because we all have different financial profiles and portfolios. However, one key takeaway is that you should start small.

Putting a lot of money on your first trade is not only risky but it also puts you in a position where you may be depressed should your first trade or investment go wrong. Most newbie investors are, in fact, so discouraged that they quit investing in the market after experiencing a gut-wrenching loss on their first trade.

What do I mean by starting small? Well if you have PHP 100,000 that you would like to invest and put in the market, you may use that. However, for your first trade, you should just start with PHP 5,000 and build

on that. As you start becoming more confident in your trades, increase the amount of money that you would want to trade. The more successful you are in your initial trades, the more confident you will be in adding money. From that PHP 5,000 you can go to PHP 10,000, then to PHP 20,000, then to PHP 25,000, and then to PHP 50,000 or even more—for all you know you might be even ready to trade using your whole PHP 100,000!

After you have developed the skill with your PHP 100,000, it's time to add more into that. I believe that if you have the ability to be faithful in investing minute amounts of money in the market, you will also be faithful when millions more come your way!

Again, the key is confidence. The more confident you are, the more certain your skills in trading will be!

Tip #3: Pick stocks from the PSEi

As I said in the previous chapters, the PSEi is like a snapshot of what is going on in the entire market. It features 30 of the biggest and brightest stocks in the country with a variety of prerequisites in order to make the list. If this was the NBA then the PSEi would be the All Stars of the league!

So why pick stocks inside the PSEi? Well, the PSEi houses the biggest companies that are perceived to stand the test of time. These are the likes of PLDT (TEL), Ayala Land (ALI), SM Investments (SM), Globe Telecoms (GLO), and most of the biggest companies here in the country. If you are starting out, picking from the PSEi eliminates most of the risk that may come your way. Majority of the companies are good and will continue to be profitable. If they are good and stable, this will protect you from sleepless nights, because you know you are putting your money in companies that will not fold up in the immediate future.

This was one of the mistakes that I had when I started. I tried to go for some of the stocks that were all flair and hype but had bad fundamentals. Given that they had bad fundamentals, it just took a while before those stocks started zooming down. I was trapped holding stocks that weren't any good! I was just starting out and didn't know what to do. Although I lost money by making those mistakes, I did not lose hope and started up the path to learning more about the stock market. Thank God for His' Grace and the ability to bounce back from loss!

So if you go with stocks that are in the index, you can prevent yourself from choosing bad stocks. However, stocks outside the index are not necessarily bad. PSEi stocks just give you the time and the peace of mind to start investing while you are still developing the much-needed skills that can help you filter out companies that are not fundamentally sound from those that are.

Can you go about on your investing career with just investing in companies inside the index? Absolutely! Majority of the stocks inside the index are companies you can buy and hold forever!

If you are just starting you may get the complete list of indexed stocks at www.pse.com.ph.

Tip #4: Stay away from speculative stocks

What are speculative stocks? These are stocks that investors dabble on based on hunches, rumors, hype, or the promise of above-average gains, without substantial fundamental reasons for them to go up in price. These are risky stocks that suddenly plunge and crash after all the hype and excitement has died down.

If you are starting in the market, I suggest that you stay away from stocks that are speculative in nature. What prevents stock prices from falling are their earnings and their potential to earn even more. Speculative stocks are based on very hyped-up stories of how high the stocks can possibly go. When their value and performance over the years are taken into account it is unlikely that the hyped-up price will be sustainable. The only people who might benefit from these are the ones who got in early, spread the rumors, and unloaded their stocks when everyone else started buying. Because those stocks will have little to no value, once the original buyers have already cashed in, the prices will have no chance to go back up and you will be stuck with worthless stocks or be forced to cut your losses, losing a lot of money in the process.

This is something you must avoid with all you heart, mind, soul, and strength. It is sometimes very tempting to go and be blinded by quick gains, trying to get a quick buck. I always tell my clients, "There is no such thing as a get rich quick scheme." I want you to get rich, but money is never the goal, money is just a byproduct of what you already know and believe inside. The same holds true for stock investing—the more you subject yourself to speculative stocks, the bigger the risk that you may lose your money in trading. I don't want that to happen to you.

Like what analysts jokingly say, "if you invest in penny (basura) stocks you will end up penniless!"

Tip #5: Employ a buy-and-hold strategy

As a new investor, you can use a buy-and-hold strategy to make your money earn for you in the stock market.

This means buying a stock or a group of stocks and holding it for the long term. Even if you buy a stock, say at PHP 10 per share, and the share doubles its price to PHP 20 per share in the first six months, you should have the patience not to sell so quickly and just hold. The same is true if the stock goes south six months after buying it. You should have courage to hold on to it even if you have incurred a substantial paper loss. Emotions can take a big toll on you once you see your capital decline.

A buy-and-hold strategy works under the premise that you are buying a good company with a lot of room to grow in the future—that as the company continues to grow, its stock price will follow. This is similar to the example

that I gave earlier in the book that if, for example, you bought DMCI shares (DMC) in the year 2002 while it was just below PHP 0.50 and held it for more than 10 years, you would have seen it grow exponentially to PHP 64 per share! That's what a buy-and-hold strategy can do for you, you can earn handsomely without even watching your stock regularly. On the flip side, a buy-and-hold strategy does not work if you buy stocks that don't have any value. A bad stock held over a long period of time is still a bad stock. Time does not change a bad stock. A bad company that doesn't earn over a long period of time will have a stock price that isn't going anywhere.

Here's an example of how investing PHP 164,000 in Jollibee shares for 82 months from March 2006 to December 2012 can almost triple your money:

JFC's stock price at March 2006 = PHP 36 per share.

Total number of shares bought = PHP 164,000 divided by PHP 36 per share.

PHP 164,000 / PHP 36 = 4,555 shares

If you sold your JFC shares at the end of December 2012 at PHP 102 per share they would have given you:

4,555 x PHP 102 per share = PHP 464,610

That alone is nearly tripling your money in almost seven years! Imagine how much more you can earn if you held those stocks for 10 or even 20 years! After all, Jollibee is one of the best companies that we have in the Philippines, and as our population grows bigger, more people would be eating in Jollibee, which can only push its stock price even higher.

Here are some good points to remember when checking if a buy-and-hold strategy will work for you:

1. You are starting with a relatively large amount of money.

2. Your time horizon for investing is really long—the longer, the better. 10 to 20 years is a good base for length, as this will shield you should recessions come in the future.

3. You are investing in a company that has a good potential to grow over a long period of time.

4. You are investing in a company that has a good management team who will preserve the company and keep it competitive for years to come.

5. You are investing in a company that you know will still be making money in spite of the economic conditions the country may have in the future.

6. You are investing in a company that is probably a monopoly or a company where competitors will have a hard time if they would like to beat the company you are investing in. These are the likes of PLDT, Meralco, Manila Water, and Metro Pacific Investments.

7. You are investing in a company that you believe in and shares the same values and conviction as you do.

8. You aren't easily affected and don't get emotional if there are sudden and volatile swings in the market.

9. Since you are holding the stock for a long period of time, you benefit not only from capital appreciation but also from the cash and stock dividends that you will receive throughout the years.

A buy-and-hold strategy works if you are a passive investor and want to park your money for the long term beating the interest rates that you can get from banks.

Tip #6: Peso-cost averaging

This is another passive way to invest your money without analyzing the best time to buy and sell your shares. On a financial-planning perspective, this is a good way to save, as it forces you to invest regular amounts of money every month. This prevents you from spending your money needlessly.

The concept of peso-cost averaging is that you pick a certain stock or a group of stocks that you would like to accumulate for the long term. This entails you to put in a specific amount of money every month, regardless of what the market conditions are. This strategy allows you to buy stocks and accumulate a certain amount of them without having to time the market and watching over them every day—unlike a buy-and-hold strategy, which is more effective if you started with a large amount of money and if the stock was priced relatively lower. Peso-cost averaging allows you to start with a small amount of money, regardless of the stock price being high or low when you start investing.

Here are some good points to consider when checking if peso-cost averaging will work for you:

1. You can start with a small amount of money, but in order for this to be effective, you need to put the same amount regularly and have the discipline to stick to your own plan.

2. Peso-cost averaging is also for the long term, as the key is accumulation of shares that will grow over a long period of time.

3. Similar to a buy-and-hold strategy, you are accumulating shares in a company that has good potential to grow over a long period of time—a company that has a good management team which will stand the test of time.

4. When you use peso-cost averaging, a down market will be more favorable for you, as this enables you to accumulate more shares. An up market means that you are buying shares at a higher price, thus giving you a lesser number of shares for the same amount of money.

This is how peso-cost averaging works. For example, based on your analysis, you would want to buy Jollibee (JFC) and you decide to save and invest PHP 2,000 per month. The premise of the study below will be from March 2006 to December 2012. A period of 82 months or almost seven years covers the 2008 recession and the bull market that followed right after it.

Assuming that you would put in PHP 2,000 per month for the entire 82-month duration, your investment would amount to:

PHP 2,000 x 82 = PHP 164,000

You would have made PHP 164, 000 over that period of time. If you had placed that money in savings accounts, it would roughly still be close to PHP 164,000 after seven years. But if you start buying stocks using peso-cost averaging, this is how it would look like (**Table 14**).

Table 14. Peso-Cost Averaging Sample

	Date	Stock Price	No. Of Shares Bought
1	6-Mar	36	56
2	6-Apr	36	56
3	6-May	35.5	56
4	6-Jun	35.5	56
5	6-Jul	31	65
6	6-Aug	33.5	60
7	6-Sep	32	63
8	6-Oct	35.5	56
9	6-Nov	39.5	51

Table 14. Continued			
	Date	Stock Price	No. Of Shares Bought
10	6-Dec	40	50
11	7-Jan	42	48
12	7-Feb	42.5	47
13	7-Mar	50	40
14	7-Apr	54.5	37
15	7-May	49.5	40
16	7-Jun	55.5	36
17	7-Jul	52.5	38
18	7-Aug	49	41
19	7-Sep	54.5	37
20	7-Oct	53	38
21	7-Nov	51	39
22	7-Dec	49.5	40
23	8-Jan	52	38
24	8-Feb	49	41
25	8-Mar	49	41
26	8-Apr	48	42
27	8-May	44	45
28	8-Jun	43.5	46
29	8-Jul	34.5	58
30	8-Aug	37	54
31	8-Sep	43.5	46
32	8-Oct	50	40
33	8-Nov	46	43
34	8-Dec	38.5	52
35	9-Jan	41.5	48

Table 14. Continued			
	Date	Stock Price	No. Of Shares Bought
36	9-Feb	39.5	51
37	9-Mar	40.5	49
38	9-Apr	43.5	46
39	9-May	46	43
40	9-Jun	48	42
41	9-Jul	49	41
42	9-Aug	50.5	40
43	9-Sep	51.5	39
44	9-Oct	49.5	40
45	9-Nov	51	39
46	9-Dec	54.5	37
47	10-Jan	55	36
48	10-Feb	52.5	38
49	10-Mar	57.5	35
50	10-Apr	59	34
51	10-May	58.5	34
52	10-Jun	60	33
53	10-Jul	70.5	28
54	10-Aug	77.5	26
55	10-Sep	78	26
56	10-Oct	92	22
57	10-Nov	88.5	23
58	10-Dec	78	26
59	11-Jan	88.9	22
60	11-Feb	80	25
61	11-Mar	87	22

Table 14. Continued			
	Date	Stock Price	No. Of Shares Bought
62	11-Apr	94	21
63	11-May	85	24
64	11-Jun	88.5	23
65	11-Jul	86.95	23
66	11-Aug	87	23
67	11-Sep	84.4	24
68	11-Oct	90.6	22
69	11-Nov	88	23
70	11-Dec	90.45	22
71	12-Jan	97.8	20
72	12-Feb	98	20
73	12-Mar	117	17
74	12-Apr	112	18
75	12-May	105	19
76	12-Jun	104	19
77	12-Jul	103.1	19
78	12-Aug	100	20
79	12-Sep	101	20
80	12-Oct	105.7	19
81	12-Nov	104.5	19
82	12-Dec	102	20
Total			2,976

Over the 82 months of you buying and accumulating JFC shares, you would have amassed a total of 2,976 shares of JFC.

If you decided to sell your shares at the end of December 2012 at PHP 102 per share, the value of your money would have increased to:

2,976 x PHP 102 per share = PHP 303,548

That alone is already an 85% gain on your money by just starting small and putting a specific amount every month.

I'd like to break down some of the figures from **Table 14**:

1. During the recession years or when the stock price was down, you were able to accumulate more shares for your PHP 2,000. When the market conditions were good, the number of shares that you accumulated were less. The good and bad years all worked together, as they allowed your shares to accumulate over that 7-year time span.

2. Even if you do not time the market and watch as stocks move every minute, the returns you get can still be spectacular!

Buy-and-hold strategy vs peso-cost averaging

From the previous example of JFC, it would seem like a buy-and-hold strategy would beat out peso-cost averaging by a mile! However, in the prior example, the lump sum used to buy JFC using a buy-and-hold strategy was done while Jollibee was really really cheap! What if you started investing when the price of JFC was relatively higher? Will a buy-and-hold strategy still beat peso-cost averaging?

Let's see! The premise now would still be using the same stock; however, we'll use the January 2011 to December 2012 timeframe instead. The reason for this is that the price of JFC on January 2011 was around PHP 88.9 per share already, which is higher than that of March 2006.

Let's compare the two methods:

Buy-and-hold strategy

JFC's stock price at January 2011 = PHP 88.9 per share

Total number of shares bought = PHP 48,000, divided by PHP 88.9 per share

PHP 48,000 / PHP 88.9 = 539 shares

If you sold those JFC shares at the end of December 2012 at PHP 102 per share, you would have gotten:

1,539 x PHP 102 per share = PHP 54,978

This would give you a total gain of 14.54% for the 2-year duration. It's not bad especially considering that it still beats regular bond investments.

Peso-cost averaging

Using the same timeframe (January 2011 to December 2012) and also putting in the same monthly amount of PHP 2,000 per month.

Table 15. Peso-Cost Averaging Sample

	Date	Stock Price	No. Of Shares Bought
1	11-Jan	88.9	22
2	11-Feb	80	25
3	11-Mar	87	22
4	11-Apr	94	21
5	11-May	85	24
6	11-Jun	88.5	23
7	11-Jul	86.95	23
8	11-Aug	87	23
9	11-Sep	84.4	24
10	11-Oct	90.6	22
11	11-Nov	88	23
12	11-Dec	90.45	22
13	12-Jan	97.8	20
14	12-Feb	98	20
15	12-Mar	117	17
16	12-Apr	112	18
17	12-May	105	19
18	12-Jun	104	19
19	12-Jul	103.1	19
20	12-Aug	100	20

Table 15. Continued			
	Date	Stock Price	No. Of Shares Bought
21	12-Sep	101	20
22	12-Oct	105.7	19
23	12-Nov	104.5	19
24	12-Dec	102	20
		Total	504

Over the 24 months of you buying and accumulating JFC shares, the total number of shares bought would be pegged at 504 shares.

If you sold your shares at the end of December 2012 at PHP 102 per share, the value of your money would have increased to:

504 x PHP 102 per share = PHP 51,408

This gives you a gain of 7.1% over the two year period.

Comparing the two:

Buy-and-hold strategy: 14.53%

Peso-cost averaging: 7.1%

The buy-and-hold strategy beats out peso-cost averaging because the assumption is that you are putting your money in a company that is earning. Companies that are earning money, like Jollibee, will have an increasing stock price for the long term.

If you employ a buy-and-hold strategy, you will be able to buy a lot of shares quickly at a relatively cheaper price. When using peso-cost averaging, the stocks that you would be buying at the latter part of the your investing would be more expensive, thus you will be able to buy less shares.

If you have a large amount of money, are putting it into a good stock, and are willing to leave your money in stocks for the long term, using the buy-and-hold strategy is the way to go for you. But if you are starting small, but willing to put money in regular intervals, peso-cost averaging is the way to go.

Both strategies have their pros and cons. The heart of this book is to expose you to the fact that both of this methodologies work and that both of these techniques, if used in the stock market, will outperform any regular savings accounts.

Tip #7: Pick companies that are making money

In fundamental analysis, you should avoid companies that are not making money. Look at financial statements (you can easily get them from your broker, the PSE website or the company's official website) to make sure that the company whose stocks you are thinking of purchasing is not incurring a net loss or have a declining net income every year. Why would you want to be part of a company that is not making money or has lost its ability to earn more each year?

This principle alone would spare you a lot of sleepless nights, especially in seasons where the market is going down or when stock prices are not going anywhere.

If the company is not making any money, the stock price will not go anywhere no matter how long you hold on to the stock.

Tip #8 If you want to trade learn technical analysis

As you start investing, don't attempt timing the market until you have developed an understanding on what technical analysis is. Technical analysis, which is what I will explain in larger detail in my future books, is one of the best tools to time the best moment to buy or sell a stock. It uses charts and market action to determine where a particular market trend is going and when the best time to buy and sell the stock would be.

Without technical analysis, it would be difficult to time stocks without any substantial basis. It would be just you trying to pick stocks from the ticker or from whatever momentum that is produced in one day of trading. I've seen it through my own experience, the experience of others, and clients that I have mentored in the past. That is not the way to go! Better start timing the market only when you are confident and when you already know what you are getting into. I don't want you to feel depressed because you bought the right stock at the wrong time or lost money because you cut your losses.

Before you start timing the market, spend time in it first. Develop a good look and feel on how it goes, how the action is day in and day out, and if you can handle the emotions should the market drop to a certain level.

My desire is not for you to win a couple of quick trades immediately but for you to be profitable in the long run. That's why it's important that you spend time learning and knowing how the market moves. Remember that when knowledge and experience meets opportunity, there's nowhere for your stock to go but up!

8

What's Next?

Sometimes the hardest part is taking the first step. It took decades—no, centuries, before man first landed on the moon, but it was only right after Neil Armstrong took that important first step that space travel became frequent.

The same is true with investing in the stock market. Jumping in and actually trying to do it is the hardest step. But once you start, it will just flow and come naturally. The fact that you are reading this book means that you already have it in your heart to start investing and use stocks to your advantage. My desire is that what you learn here won't remain unused knowledge. Start investing and become part of the growing number of Filipinos investing in the market. I'm not saying that you should invest right away and just go in blindly, regardless of financial standing. What I'm saying is that if you're in debt; take steps to get out of it. If you don't have an emergency fund, build one. Only when your finances are stable should you start investing.

What you are doing right now is a step in the right direction. You are investing, and you are investing on your most valuable asset—YOU! The more you feed yourself, the more knowledgeable you become; the wiser decisions you will make. Be empowered and have an understanding of what the stock market is, what it is not, and how you can profit from the stock market—regardless of where you are in life.

Time is on your side, start now!

People always ask me when the best time is to invest? My answer will always be—NOW! Don't let the concepts that you have learned become void. The earlier you start, the earlier you allow your money to work hard for you; the earlier you become a shareholder of the largest corporations here in the country, the closer you are to reaching your goals of financial freedom. The stock market is a tool for you to reach your financial goals. The sooner you utilize it, the more wealth building arsenals you will have at your disposal.

If you are currently in high school or in college, this is the best time for you to start investing. If you are working, single, and not a breadwinner, this is also the best time for you to start investing! Why? Because, the fewer dependents you have the fewer "needs" you have to spend on, the larger the amount of money you can invest. I encourage you to invest now so you can enjoy more later. Don't spend everything today and try to catch up later. The biggest element that you have right now is time.

Why? The more time you have on your side, the greater your chances are to recover, should you make a mistake on your stock purchases. As mentioned in the previous chapters, if you make a mistake on a certain stock, you can always hold it; that way, the only thing you lose is time. Your money stays intact even if you made a mistake. Just remember, you never lose money unless you sell. Say you bought the wrong stock now, and it

doesn't go up in the next 5 years. Should you panic? Not at all! Chances are, if you start in your 20's, by the time you reach 60 years old, that stock would have at least doubled in value! The best time for you to start is now! The more time you have, the higher your chances are to let your money work hard for you!

You may be saying, "what about me Marvin? I'm in my 40's and 50's already, or I'm retired. Can I still invest even if I wasn't able to in my earlier years?" Again, if the stock market fits your risk tolerance and strategy, then the answer is yes! However, since you have less time on your hands, you may have to be more precise and careful with your buying and selling because your margin for error will be slightly lower. Your investments should have a shorter duration compared to someone who has more than 40 years to invest in the market! Don't allow your past to hinder you from investing. What's important is that you are equipping yourself now, and there's just nowhere to go but up.

Open a trial account and start practicing

A lot of online brokers offer trial accounts for you to be able to start practicing getting a basic feel for the interface. That is what I suggest that you should do now. Get the look and feel of the market. Log in, check the stocks, simulate buying the stock, and cross check a few days to see if the simulated stock that you wanted to buy made or lost you money.

If you lost money, analyze what went wrong in your system that caused you to lose money. What's amazing in trial accounts is that you get to practice even without putting any money in yet. You can also feel the emotion and the rush from trading and investing in the market without being exposed to risk or potentially losing money in the process.

As you explore the trial account, try to practice all the things that you have learned here in this book. The more you familiarize yourself with the trading platform of your choice and its features, the better you will become in analyzing and making the right investment choice.

Once you feel confident about your trading and know the platform well, then by all means, open a real brokerage account and start your wonderful journey in stock market investing and trading!

Closing Words

I love investing. I love the fact that when I invest my money, it is working hard for me instead of me working hard for it. One of my biggest dreams and goals in life is for me to be financially free and live my everyday life with the income from my investments. That's why I always invest looking at the long term and not just at what I see over the short term because my dreams and goals are always bigger than what I want today. My stock investments are for my wife and for my descendants. I want to be a blessing to my children and to my grandchildren. I want the future generation of my family to live a better life than I did. I want them to experience better things than what I did.

My desire is that this book serves as a tool for you to reach your dreams of financial freedom. I hope that you see the stock market as something beyond gambling or beyond the realm of the rich and powerful. I hope this has broken common notions that the stock market is not available for everyone, and I do hope that this book encouraged you and convinced you to believe that wherever you are in life, you can make it and invest!

I speak the best over your finances and look forward to seeing more Filipinos investing in the stock market. I believe that it's time and that you have become a part of a great movement of Filipinos grabbing a hold of their financial future. I believe that by the Grace of God, the best is yet to come.

9

Bonus Chapter: The Best of marvingermo.com

As a thank you for making www.marvingermo.com one of the most visited investing websites in the Philippines, I have included the most-read articles from my website.

Enjoy!

Mythical Five of Stocks:
Stocks to Buy and Hold for the Long Term

As the NBA is moving strong into the playoffs, awards for the All-NBA first teams are usually given. Below are my mythical five stocks if you are a buy-and-hold type of an investor.

Just some items that I want to point out and clarify before I give my mythical five stocks:

1. I really don't do buy and hold as part of my strategy. I continually buy stocks for my long-term portfolio and not just buy "one time, big time."

2. If you want to use a buy-and-hold strategy, your timeline must be longer so your can maximize the gains from both capital appreciation and dividends.

3. If you plan to put money on a steady pace and on a monthly basis, it would be better to use peso-cost averaging.

As you know, like in basketball, offense wins games but defense wins championships, which is why the best place for you to go further over the long term is to make a good combination of stocks: Stocks that can serve as an offensive line in rapid bull markets and stocks that can serve as your defensive anchor during bad markets. The key is to create a good team that will that will be great in both offense and defense.

Here are the Mythical Five:

Center – Metro Pacific Investments (MPI): As the center is the anchor of the defense in every basketball team, MPI is one centerpiece that should be in your portfolio for years to come. It is an ultra defensive stock that will stand the test of time. The company provides everything that is essential to every Filipino—electricity, water, hospitals, and toll roads. These are the bare necessities that we, as citizens of this country, would need; I believe that no amount of recession can close this company down!

Power Forward – Ayala Corporation (AC): The power forward plays a similar role to the center as it is their responsibility to protect the post, make the rebounds, and score close to the basket. Power forwards are known for their sheer size and stability. The same is true with Ayala Corporation, one of the biggest conglomerates in the country that gives investors exposure to growth and large earning potential via its property development and mall operations courtesy of Ayala Land and the ever profitable BPI. It also has a facet of a defensive

stock, as it can give you a steady source of cash flow from Manila Water and Globe Telecoms.

Small Forward – Banco De Oro (BDO): Small forward is the most versatile position in basketball, as they are positioned in a way that allows them to score either inside or outside, rebound, run with the guards, and do almost anything that the other positions can do. The same is true with BDO, it is the biggest bank in the country, and as the economy grows, banks have the biggest exposure to almost every industry imaginable. As the economy expands, banks make the biggest money. So BDO stocks, along with your exposure to Ayala Corporation (who has BPI), can give you a good 1-2 punch of bank stocks under your arsenal.

Shooting Guard – Jollibee (JFC): Michael Jordan, Kobe Bryant, and Dwayne Wade. These are prolific scorers, who at one point or another, have taken game winning shots and have brought scoring when it counts the most. This is what we can see in Jollibee, as we see its business raking in cash every time. Jollibee continues to deliver and expand not just in the Philippines, but also the world, which is fast becoming its playground. This is a consumer story—that as Filipinos get richer and richer, you can expect more of Jollibee, Mang Inasal, Red Ribbon, Greenwich, and Chowking to flourish in the country!

Point Guard – SM Prime Holdings (SMPH): The point guard sets the pace of the offense, delivers the ball, and makes everything cohesive. That's what SMPH does. Like Jollibee, you can see an SM Mall in most major locations in the country. That trend will continue to increase as more OFW remittances come into the country and our BPO industry continues to increase. You can expect more people to spend more money! As this happens, you will see SMPH stock setting the pace to increasing your portfolio!

These are all varying stocks with different functions, stories, and sources of earnings. What's good about this is that for every season, in either a bull or a bear market, your portfolio is covered and protected. Some may perform better than others at certain times, but over the long term, these stocks will complement each other and give good returns as a whole. These are all stocks that you can hold on to while still sleeping well at night. These are companies that are earning, and are managed by professionals who have the capability to take these corporations further.

I hope that these tips help you in choosing which stocks you can confidently buy and hold for the long term. I wish you all the best and thank you for choosing the path of investing and financial freedom.

10 Reasons Why I Like to Invest in the Ayala Corporation

This article is in response to a question sent through my website. To everyone reading and getting insights from my website, thank you so much. It's an honor to be part of your day-to-day investing reads! Thank you also for sending in your questions, as it is my desire to help more Filipinos move towards financial freedom!

Marvin Says:

First of all thank you for your question. I'm happy that you have already started investing for quite some time. When most people were not yet investing, you already were! For that, congratulations! Since you have been investing for quite some time, I'm pretty sure that your stock has already appreciated immensely, especially if you have had it for more than 5 years! Plus, you have been receiving extra cash from the dividends that they release each year.

Before I give you some of the reasons why I like Ayala Corporation, here are some things to ponder about:

1. Since you held on to it already for a long period of time, what about it has changed that made you want to sell it?

2. The best place to be is to buy and sell stocks based on your analysis and not because of pressure.

3. If you have been holding Ayala Corp for so long you must have a great conviction about the company. That conviction is already innate in you; what I share here will just enhance it.

Here are my top 10 reasons why I like to invest in Ayala Corp for the long term

1. **A Company of Prestige:** Ask anyone in the country if they know what Ayala is and you will surely get an answer. A prestigious company always forms a demand and is less battered in bear markets when compared to unknown companies.

2. **Professionally Managed:** Ayala is managed by one of the best executives and managers in the country. In fact, Ayala Company bagged again the award for Best Managed Company in Asia.

3. **Diversification and Exposure:** Ayala is exposed to almost every industry and service in the country—from property development, telecoms, banking, water distribution and concession, car dealership, call centers, energy, and construction. What more can you ask for? Wherever you may be in the country, you have surely come across any of its subsidiaries.

4. **Valuations:** Its stock is still undervalued, by virtue of the sum of parts valuation method. Ayala Corporation should at least have 23% upside from its current price

5. **Technicals:** Ayala is still in an uptrend. Technical analysis confirms that there is still a good long-term demand on the stock, and it continues to be in an upward direction for the long term.

6. **Fundamentals:** It has a very strong balance sheet. Ayala Corp boasts of a very strong, liquid, and dynamic balance sheet, with tons of cash to maximize more growth opportunities in the future.

7. **Longevity:** It is solid as a rock. I can see Ayala Corporation still standing 25 years from now and for even more than that! I like what Warren Buffet said, "Buy a company you can confidently hold on to even if the stock market would close the next day." Also, I like what he said about being an investor—"The longest time to hold is forever."

8. **Growth and Protection:** The companies under Ayala Corp are either growing with the economy like—BPI, Ayala Land, and their power and construction companies—or are very defensive like Globe and Manila Water. What's great about it is that you are covered in a booming economy and also if the economy would turn sour!

9. **Premium Stock:** Like Apple or the iPhone, people already know that Ayala Corp is an expensive company P/E wise. But regardless of how expensive it is, the general market would still catch it and buy it.

10. **Life won't be the same:** Can you imagine a life without an Ayala Mall or development? Can you imagine life if the water distribution in Manila is still handled by MWSS? Can you imagine life with just a monopoly in cell phone carriers? What am I saying here is that Ayala has been part of every Filipino's life. When I think about the company in that perspective, it that gives me a larger conviction that Ayala stocks are worth holding on to for the long term. Also, it is unimaginable to see a Philippines without an Ayala company at the forefront!

Again, these are the 10 things that can help you further your conviction that Ayala Corp is a good company and worth holding on to for the long term. As you already know, I am more of a trader and I buy in and out of a stock. However, if you would want know to if Ayala stocks are worth buying and holding on to, my answer is a screaming—YES!!

Can IT Consultants Be Successful in the Philippine Stock Market?

The answer is a screaming YES!

For years, the stock market has been clouded with the stigma that only economists, analysts, brokers, or other sophisticated people can invest and make good earnings off of it. What's amazing now is that more employees, entrepreneurs, and professionals are thinking that, "Hey! I can participate and be profitable earning from stock market investing even if I have my day job or business to run."

This article is dedicated to all IT practitioners out there and also to people who are working in industries that are far from finance. This article is dedicated to show you that, if a normal professional can do it and earn well in the market, then so can you! I am featuring one of stock smarts' clients: one that I personally mentored and watched grow as he and learned the ropes of investing. Just a simple background, he felt intimidated by investing in the market due to the fact that his educational background and experience was nowhere near stock market investing is. I'm here to tell you that what used to be his weakness now has become his strength. Being an IT professional gave him analytical experience to look at charts with ease. This now helps him know the best time to buy and sell stocks. He is just like you and me, a professional going about his life—but what's amazing is that while he is working, he has his money working hard for him. If he can do it, so can you!

It's different when full-time traders like me talk about stock market investing cause that's what we do and what we monitor all the time. But I love it when more and more professionals are on their way towards financial freedom and are learning the ropes on how they can profit from the PSE.

I will never stop saying this: I dream of a day when we can see more people investing instead of just consuming—more people having investments than just placing their money in time deposits. Let this story show you that it's possible— that it can be done, and that no matter where you come from or what your background is, you can make it in life and be an investor.

Here is Mr. Ryan Figuroa sharing the top 10 tips on how IT Consultants can earn from Philippine stocks:

Enjoy!

I'm neither a seasoned investor nor an expert trader in our stock market, but allow me to share with you what I, as an employed IT professional, learned along the way.

I wasn't aware of it, but I noticed that there are IT skills that can also be applied when investing or trading in the stock market. I'll mention the roles that I've assumed over the years as an IT professional, and I'll attempt—using simplified stock lingo—to draw parallels between some of my work responsibilities and what I have

learned to do when I invest or trade. But before going into that, I'll start with some practical tips on investing or trading.

1. **Set aside pre-conceived notions or biases against the stock market**

I used to think that the stock market was only for rich people, business tycoons, or corporate executives. Later on, I learned that the average Filipino could also invest in the stock market. I had the assumption that it was complicated and math-intensive, and studying it would demand too much of my time. But I figured if I wanted to earn passive income from it, then I had to be open to learn about it. I had to shift from an employee mindset to an investor mindset. I eventually realized that what I initially thought about the stock market were simply misconceptions.

2. **Familiarize yourself with the stock market during your free time**

Before I took the plunge to invest in the stock market, I had to know and understand what I was getting into. I read articles and watched videos from the Internet. I attended seminars to educate myself on the basics of the stock market. I also asked friends who have already been investing for a number of years. Now being aware of the advantages of investing, I find time to learn even more.

3. Revisit your finances

I was already interested in investing in the stock market as early as 2007. I didn't have any debts or loans, but my savings and a substantial part of my monthly fixed income were spent for personal bills, family-related expenses, and emergencies. Still being debt-free, it was when I already had disposable income that I decided to put more money in investments than savings.

4. Highlight the purpose of your investment

From the onset, I wanted to have passive income specifically for traveling purposes in the future and to prepare for retirement. This would mean that I should invest for the mid to long haul. But I also go into trading when there are opportunities to do so. My realized gains from these short-term trading investments are then reinvested to augment my mid- to long-term investments. Having specific investment objectives keep me focused, disciplined, and committed amidst fluctuating market conditions.

5. Invest your money, not your emotions

Though I knew that investing or trading in the stock market was not a get-rich-quick scheme, I still wanted quick results when I made my first set of buy transactions. I was very impatient since I thought that I had to make up for what I considered "lost time".

I was easily discouraged and derailed when I saw price declines in my investments. On the other hand, the price increases caused me to be too excited so as to desire for profit beyond my pre-defined target. There's nothing wrong with aiming for more profit. Because no one can perfectly time the market, you might be temporarily hit with a jolt of fear, or panic, followed by regret, if the stock price suddenly drops and you weren't able to sell sooner. My head knew what I should have done in those situations, but I couldn't bring myself to actually do them because my emotions were interfering with my ability to make rational decisions. Learn how to properly respond to market volatilities instead of impulsively acting or reacting based on feelings. Hopefully, the succeeding tips would help you to invest or trade with less stress and emotion.

6. Gather information like a business analyst

A Business Analyst's responsibilities may vary from organization to organization, but major aspects of the role involve analyzing data gathered from multiple sources, filtering those that are reliable, and assessing the impact or implications of any changes in the business direction.

When I invest or trade in the stock market, I study the companies where I intend to put my money. Information can be gleaned from several sources, such as the PSE website or the company's own website. Read or watch the news. There are even online forums, blogs, and social networking sites rife with news, views, tips and gossip. Do your own research and analysis to check if they are valid. Investing also involves investigating. Invest in stocks you know.

7. Study the language like a software developer

The objective of a Software Developer is to produce the right software on time with little or no defects at all. But to be able to write and develop working code, a Software Developer has to be fluent in the programming language that will be used to build the system.

In like manner, my objective as an investor or trader is to make the right investments that will yield higher returns. But to accomplish that, I also needed to learn the language of the stock market. At first, I was stumped by the variety of fundamental and technical terms and acronyms that are commonly used in the investing community. Understanding this vocabulary helped explain the ins and outs of the stock market, and consequently, helped me execute my plan and make decisions that brought me the right results.

8. Develop a plan and execute it like a Software Test Lead does

Those who have been exposed to software testing are probably familiar with a Test Plan. This document serves as the testing team's roadmap towards successful completion of the testing activities for a project.

Likewise, an investing or trading plan guides me towards attaining my financial goals. It helps to

minimize my losses and maximize my gains. Now, what works for me may not work for you. Thus, a plan should be personalized and custom-tailored to fit one's investment objectives and risk tolerances.

I will now correlate some of the components of a Test Plan with investing or trading in the stock market.

a. Scope – Which stocks are you targeting to include in your portfolio?

   - Do you prefer fundamentally and financially sound companies (blue chips), companies that have shown some measure of profitability in the relatively short time that they have been operating (second-liners), or stocks that can potentially offer higher returns but are accompanied by higher risks (speculative stocks)?
   - Do you prefer stocks that are easily affected by general economic trends (cyclical stocks), or stocks that tend to remain stable regardless of the business cycle or the state of the economy (defensive stocks)?
   - Do you prefer stocks that give dividends?
   - Do you prefer stocks in a certain sector or industry?
   - Do you prefer a combination of the aforementioned?

b. Schedule – What is your time frame for holding a particular stock? How long do you plan to stay invested?

c. Strategy – What is your approach?

- How much will you be allocating for each type of stock?
- Will you invest a fixed amount at regular intervals, say, every pay day or every month, over a certain period of time (peso cost averaging)?
- Will you invest a sizable chunk of your money in a company that is already considered as an industry giant, and just hold on to that stock for a long period of time (buy and hold)?
- Will you buy and sell stocks within the same day (day trading)?
- What will you do if the stock's price does not show any progressive signs of movement after you buy? Will you sell the stock and move on to other performing stocks? Or will you continue holding it and just patiently wait for some positive action to take place?

d. **Assumptions** – Are we generally in an uptrend (bullish) or downtrend (bearish) market? Are the prices of the stock showing no distinct trend (sideways)?

e. **Entry Criteria** – When do you buy a stock and at what price?

f. **Suspension Criteria** – If you are accumulating a particular stock, do you stop buying if its price goes beyond your pre-defined "Buy Below Price"?

g. **Resumption Criteria** – If you are accumulating a particular stock, do you resume buying if its price dips to a certain price?

h. **Exit Criteria** – When do you sell a stock?

- What is your target? Is it a price, a percentage gain, or a date?
- What is your tolerance? How much risk are you willing to accept in terms of actual amount or actual percentage?

i. **Tools** – What fundamental factors and/or technical indicators will you use?

9. Take note of lessons you have learned like a Project Manager does

A Project Manager usually prepares a Post-mortem Report at the conclusion of a project. This document identifies what went well during the course of the project, what needs to be improved, and what actions should be taken so the team could do better on subsequent projects.

In the same way, it's also important to do a periodic post-analysis or review of your trades, and most especially, of yourself, so you learn from both your past successes and mistakes. Learn from your experiences and make the necessary adjustments or corrections in the future.

- What have you personally learned about the stock market?
- What was your actual performance against your targets (objectives, scope, schedule, gains)?
- Did you have a plan? If yes, was it effective?
- Did you deviate from your plan? If yes, was it worth it or was it reasonable to do so?
- Did your risk appetite and confidence level increase?
- What issues and challenges did you encounter?
- How did you respond to the market fluctuations?
- What could you have done differently?

10. Our ability to freely and thoughtfully plan and invest comes from knowing that God loves us and greatly delights in bringing our aspirations to fruition.

Happy investing!

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10 Tips on How to Keep Your Day Job and Still Earn from the Stock Market

Investing in the Philippine Stock Market may seem intimidating for some and may leave others with a sense that they need to watch their investment every single minute of the day. Some may think that they would need to resign and leave their day job in order for them to bank in profitable gains in the stock market. Short-term traders can make their gains in shorter trading durations while fundamental investors can also make their big bucks by investing passively without all the hype and drama.

There is no single "best approach" in investing in the market. What I would like to advocate is for people to study and learn and make decisions on their own so there would be conviction on what they plan to buy and sell and not just flow with whatever wind of doctrine comes their way. In line with that, I have invited a very good friend of mine, a very "passive investor," and a "relaxed stock market player," Aaron Say, CPA, CSR, CIA to shed light on how you can still keep your day job but still earn in our local stock exchange.

Here's what Mr. Say has to say:

For the past three years, investors in the Philippine stock market have been hearing "kaching! kaching!" as they watch their money grow before their eyes!

As we usher in a brand new year, another round of opportunity awaits stock market investors!

Although the coming years may be as tricky as its prospects are exciting, there will always be handsome profits reserved for those who are willing to roll up their sleeves, do their homework, and diligently invest their money in the stock market.

The best part is, you and I need not quit our job (day or night) to start investing in stocks and make money as the pros do!

Usually I recommend investing in Unit Investment Trust Funds (UITFs) offered by reputable banks, especially if one really has no time to study companies and monitor stock investments.

However, for those willing to devote more time and effort feeling like he or she can diligently invest in the stock market, here are a few tips on how we can still keep our job while making money in stocks:

1. **Get a reliable, no-frills online stock broker.** Make sure that your stock broker can be trusted with your money. Personally, I recommend online stock brokers because they charge less commission, provide you (on demand) with free research and other tools for trading, and you can view the stocks you have and their market value anytime you want, anywhere you are! If you prefer to have someone to speak to and bump your ideas with

before making a trade, then the traditional, over-the-phone brokers are the better fit.

2. **Make a daily schedule to brush up on the news.** Read major daily broadsheets, preferably those which you think are relatively more objective and upfront in their reporting. If money and time allows, read financial broadsheets that dedicate bulk of their space to business news. Skip the showbiz section to save time.

3. **Read opinion pages.** Try to gain insights on how other market watchers think about the stock market as a whole or about a particular company.

4. **Stop reading stock market forums.** It will just make you feel more confident or more nervous than you should be.

5. **Learn and equip yourself.** The PSE, Stock Smarts, and other training providers offer seminars for beginners. For serious investors (or those planning to be), read trading and investing books that are simple enough to understand but are comprehensive enough to be applied. Sign up for stock investing seminars to learn how real people invest and gain invaluable insights to help you invest better. Most importantly, learn from your investing successes and mistakes.

6. **Make your MS Excel your BFF.** The value of MS Excel in our investing life just can't be

overemphasized. You can use it to compute your potential and actual gains or losses, track your performance, sort the voluminous data provided by the market, calculate a company's value, etc.

7. **Take the long term view to investing.** Avoid worrying when stock prices go down, and adapt the business perspective in investing.

8. **Invest only in good companies, and buy it only at the right price.** Buying stocks of bad companies is gambling, not investing. Buy a stock only if you can profit from it—from this perspective, you may use either the "buy low, sell high" or the "buy high, sell higher" mantra.

9. **Cost averaging.** It simply works.

10. **Do what you do best.** Do your job, stay in your profession, don't leave your passion and continue your role in society.

How to Lose Money in Time Deposits and Savings Accounts

You may be perplexed with the title, thinking, "Huh? How can I lose money when I have my money invested in the bank? Isn't the bank supposed to protect my money and give me guaranteed returns? Am I not entitled to 0.8% per annum (0.067% per month) for normal savings accounts and around 3% per annum (0.25% per month) for time deposits? — All of which are subject to 20% withholding tax on the earnings."

Yes, banks give you these guaranteed returns. But the main question here is: How am I losing money? One of the big challenges in "bank-only investing" is that INFLATION takes a big beating on what you are currently saving. You may be thinking, what is INFLATION and what does it have to do with my savings? It is the rate where the Peso loses its buying power.

Take this into consideration. I call this the McSpaghetti Test. Remember years back when McSpaghetti meals cost around 29 pesos? That already included the McSpaghetti and a medium-sized soft drink. So for 100 pesos, you would be able to buy 3 McSpaghetti meals. Fast forward to 2010, McSpaghetti meals now cost 50 pesos per order, which means that for 100 pesos you would just be able to buy two meals. That's inflation. For the same amount of money you would be able to buy less.

McSpaghetti Test
at 100 pesos

Year	Price per meal	Meals bought
90's	29	3
2010	50	2

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The average inflation rate for the past few years has been playing around 5% to 7%. The higher the inflation rate, the lesser value you get for your money. That means that in a year if you place your money in a time deposit of 3%, you actually end up at a loss if the inflation rate were at 6%.

Here's a more detailed analysis. Say for an investment of 10,000 pesos, your money would look like that in the figure below in 2015.

Time Deposits vs Inflation (PHP)

Year	3% Time Deposits	6% Inflation
2010	10,000.00	10,000.00
2011	10,300.00	9,400.00
2012	10,609.00	8,836.00
2013	10,927	8,305.85
2014	11,255.05	7807.49
2015	**11,592.74**	**7339.04**

Gain thru Time Deposits: 11,592.74 – 10,000 = 1592.74
Loss thru Inflation: 10,000 – 7339.04 = 2660.96

Actual (Loss): 1592.74 – 2660.96 = (1068.22)(Loss)

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By 2015 your money would have grown to 11,592.74 pesos, but due to inflation, the money you invested would only be worth 7,339.04 pesos. In short, you would be losing 1068.22 pesos in a span of 5 years just because the inflation rate is bigger than the interest rate of time deposits.

INFLATION makes us lose in the long-term. The best approach is to diversify our finances and put portions of our savings into investments that beat inflation over the long term. We have 4 Trillion Pesos in Bank Deposits alone. It's time for the Filipino people to earn more. We can do it and it can be done! God has already blessed us, and that understanding would enable us to do things that we have never done before! The best ias yet to come!

Appendix – Online Brokers and some Traditional brokers

For those that want to start investing, here are contact information of some online and traditional brokers. Again there's no perfect broker but find one that fits you and your needs. Study each broker, check the pros and cons of each then once you have done your due diligence it's time to open an account!

AB Capital Securities Inc.
http://www.abcapitalonline.com/

Abacus Securities Corporation
https://www.abacusonline.com.ph/

Accord Capital Equities Corporation
https://www.accordcapital.ph/

Angping & Associates Securities Inc.
https://www.angpingonline.com/

BPI Securities Corporation
https://www.bpitrade.com/

COL Financial Group, Inc.
https://www.colfinancial.com

F. Yap Secuties Inc.
http://www.2tradeasia.com/

First Metro Securities Brokerage Corporation
https://www.firstmetrosec.com.ph/

HDI Secuties, Inc
info@hdisecurities.com

RCBC Securities Inc.
http://www.rcbcsec.com/

Sun Securities, Inc
sunsecuritiesinc@gmail.com

Wealth Securities, Inc.
http://www.wealthsec.com/