

# VALENS SECURITIES

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## Four Steps to Financial Freedom and The ABCD Investing Strategy

Professor Joel Litman

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Make Money

Save Money

Invest

Re-Invest

## Four Steps to Financial Freedom

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What is his second rule?



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- B. Equities over bonds
- C. Be market savvy
- D. Don’t lose money



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The very first,  
most important,  
asset to consider...

“Your job” = The money-maker

“How can you be a money-saver  
and money-investor if you are not  
first a money-maker?”

Where to put the money you have  
and the money you're making?



## Long Term Performance of Stocks, Bonds, T-Bills & Inflation 1926 - 2008\*

	100% Stocks 0% Bonds
<b>Inflation Adjusted Returns</b>	
Highest Annual Return	53.5%
Lowest Annual Return	-38.7%
Arithmetic Avg. Annual Return	8.6%
Compound Avg. Annual Return	6.4%
Total Compound Return	17,372.8%
% Positive Years	67.5%

## Long Term Performance of Stocks, Bonds, T-Bills & Inflation 1926 - 2008\*

	100% Stocks 0% Bonds	75% Stocks 25% Bonds
<b>Inflation Adjusted Returns</b>		
Highest Annual Return	53.5%	41.8%
Lowest Annual Return	-38.7%	-31.0%
Arithmetic Avg. Annual Return	8.6%	7.2%
Compound Avg. Annual Return	6.4%	5.9%
Total Compound Return	17,372.8%	11,409.1%
% Positive Years	67.5%	68.7%

## Long Term Performance of Stocks, Bonds, T-Bills & Inflation 1926 - 2008\*

	75% Stocks 25% Bonds	50% Stocks 50% Bonds
<b>Inflation Adjusted Returns</b>		
Highest Annual Return	41.8%	32.0%
Lowest Annual Return	-31.0%	-23.3%
Arithmetic Avg. Annual Return	7.2%	5.8%
Compound Avg. Annual Return	5.9%	5.0%
Total Compound Return	11,409.1%	5,779.6%
% Positive Years	68.7%	69.9%

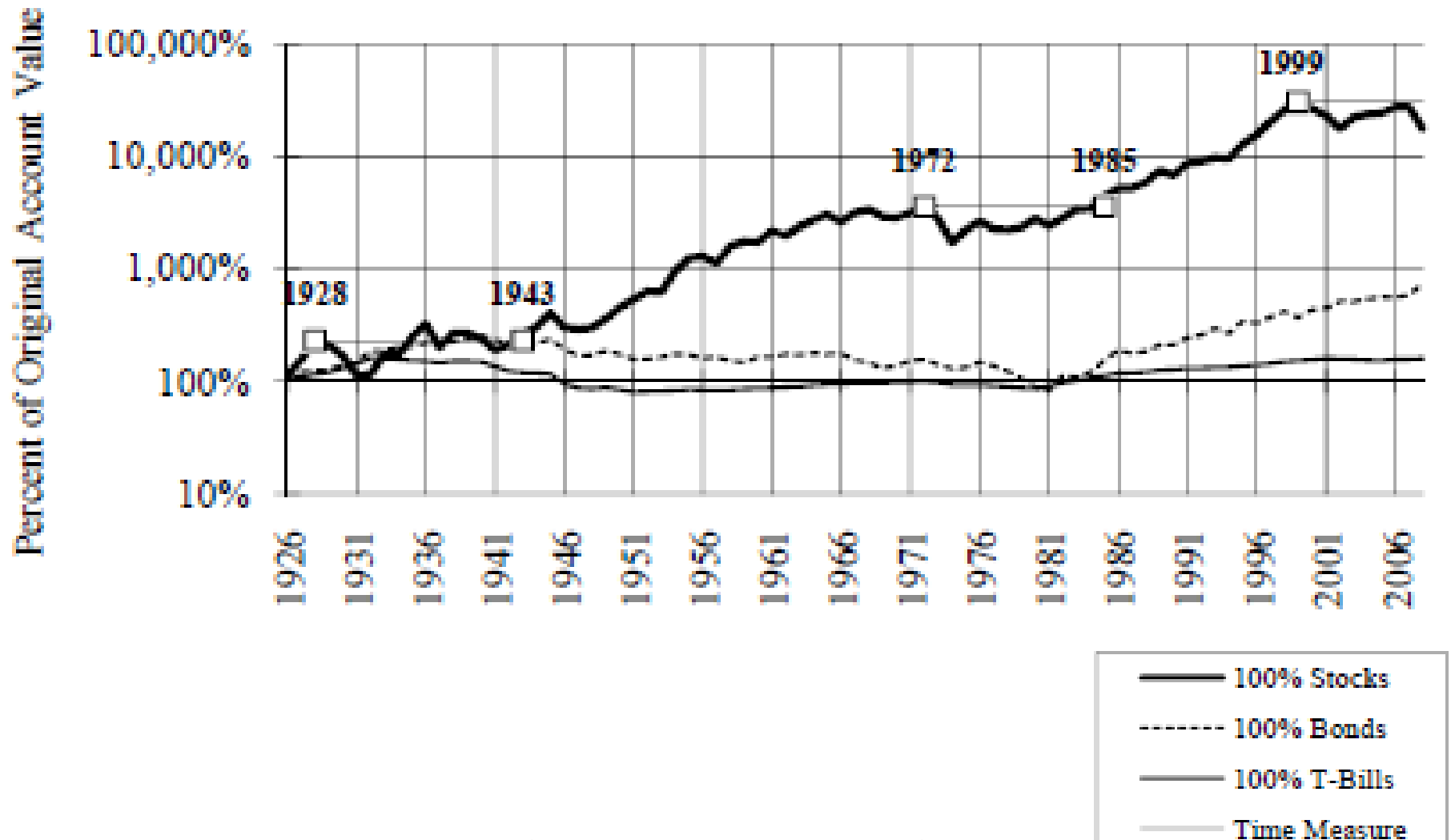
## Long Term Performance of Stocks, Bonds, T-Bills & Inflation 1926 - 2008\*

	50% Stocks 50% Bonds	0% Stocks 100% Bonds
<b>Inflation Adjusted Returns</b>		
Highest Annual Return	32.0%	36.5%
Lowest Annual Return	-23.3%	-18.3%
Arithmetic Avg. Annual Return	5.8%	3.0%
Compound Avg. Annual Return	5.0%	2.4%
Total Compound Return	5,779.6%	637.8%
% Positive Years	69.9%	61.4%

# Long Term Performance of Stocks, Bonds, T-Bills & Inflation 1926 - 2008\*

	0% Stocks 100% Bonds	100% T-Bills
<b>Inflation Adjusted Returns</b>		
Highest Annual Return	36.5%	11.3%
Lowest Annual Return	-18.3%	-17.8%
Arithmetic Avg. Annual Return	3.0%	0.7%
Compound Avg. Annual Return	2.4%	0.6%
Total Compound Return	637.8%	60.3%
% Positive Years	61.4%	65.1%

## Inflation Adjusted

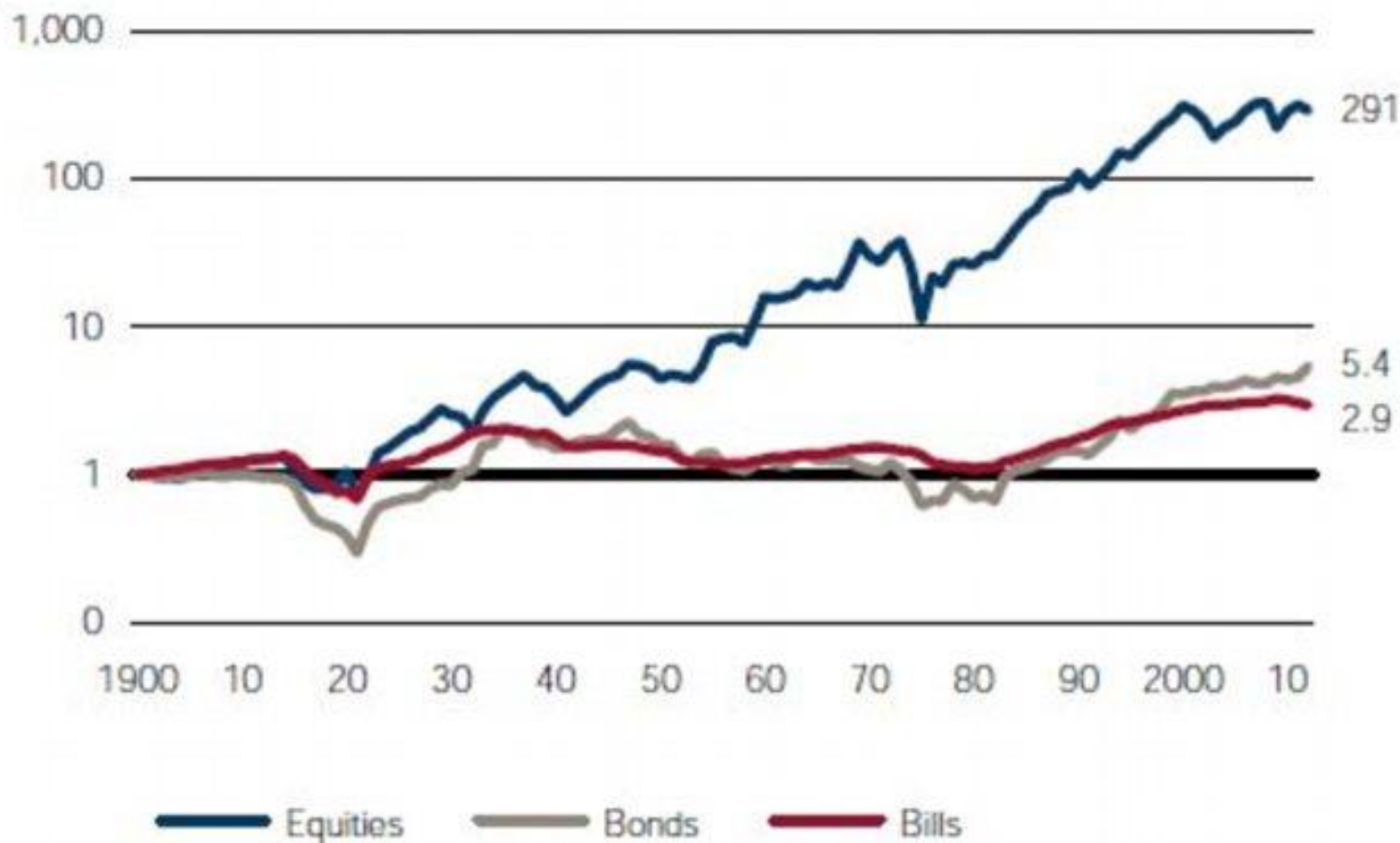


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\*Source: Martin Capital Advisors, LLP, Ibbotson & Assoc., S&P 500, 20 Treasury Bonds, 30 Day T-Bills

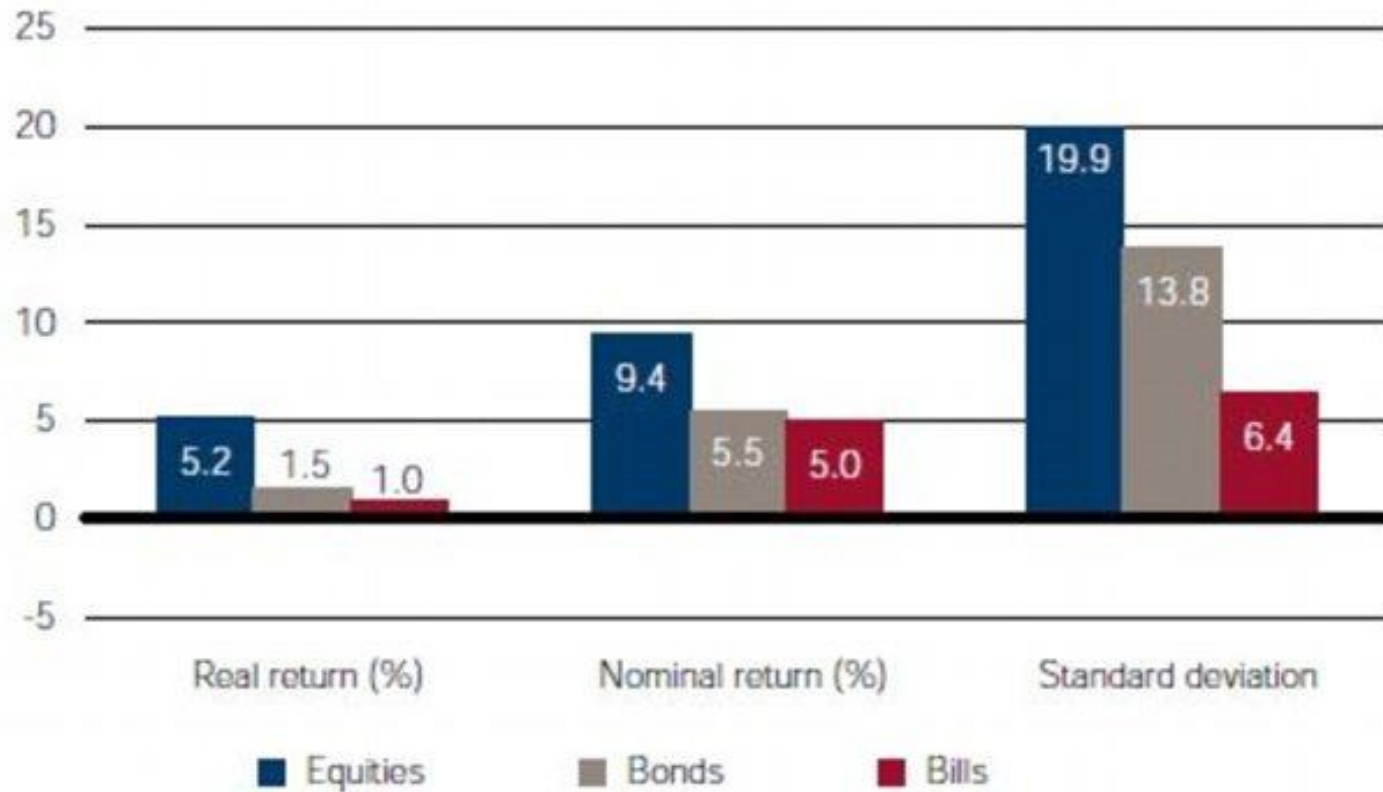


# Annualized performance from 1900 to 2011 UK



# Returns and risk of major asset classes since 1900

## UK





# FIC ABCD Investing Strategy

## ABCD NEEDS

When do you need to spend  
your money, given your life  
events and lifestyle?



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# Evaluating Asset Classes:

## Evaluating Asset Classes:

Amount of Resources (T&M):

What outperformance can you achieve?

On how much money?

With how much time and money spent?

That, versus...

## Evaluating Asset Classes:

Amount of Resources (T&M):

Level and Timing of Returns:

Volatility of Returns:

Accessibility:

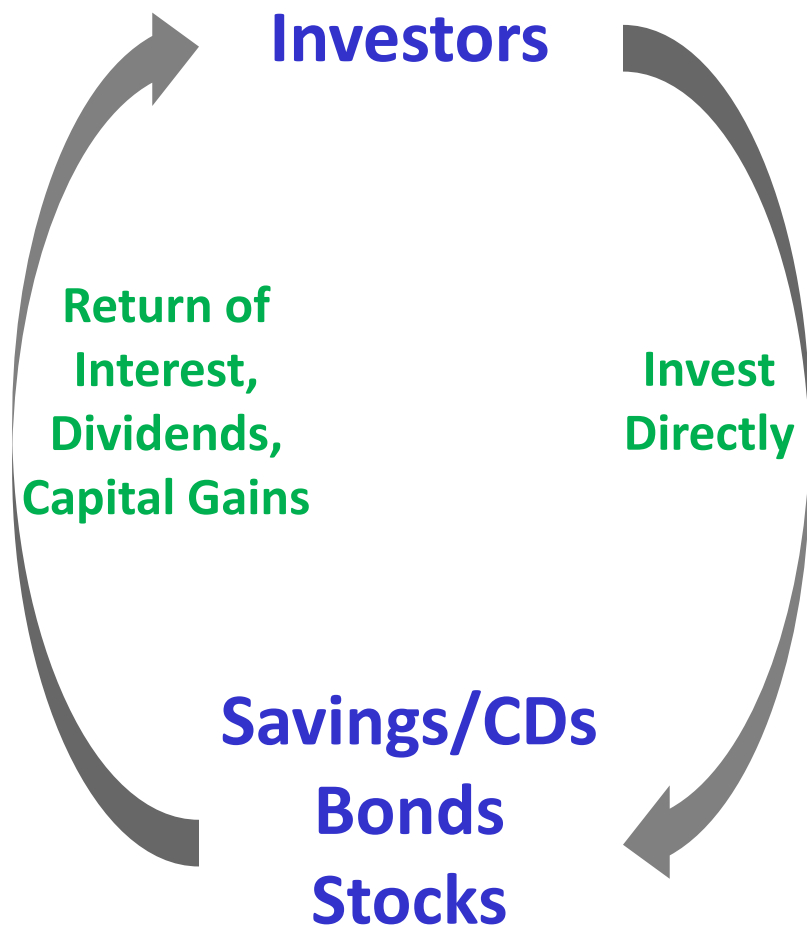
## Evaluating REAL ESTATE Assets:

Amount of Resources (T&M):

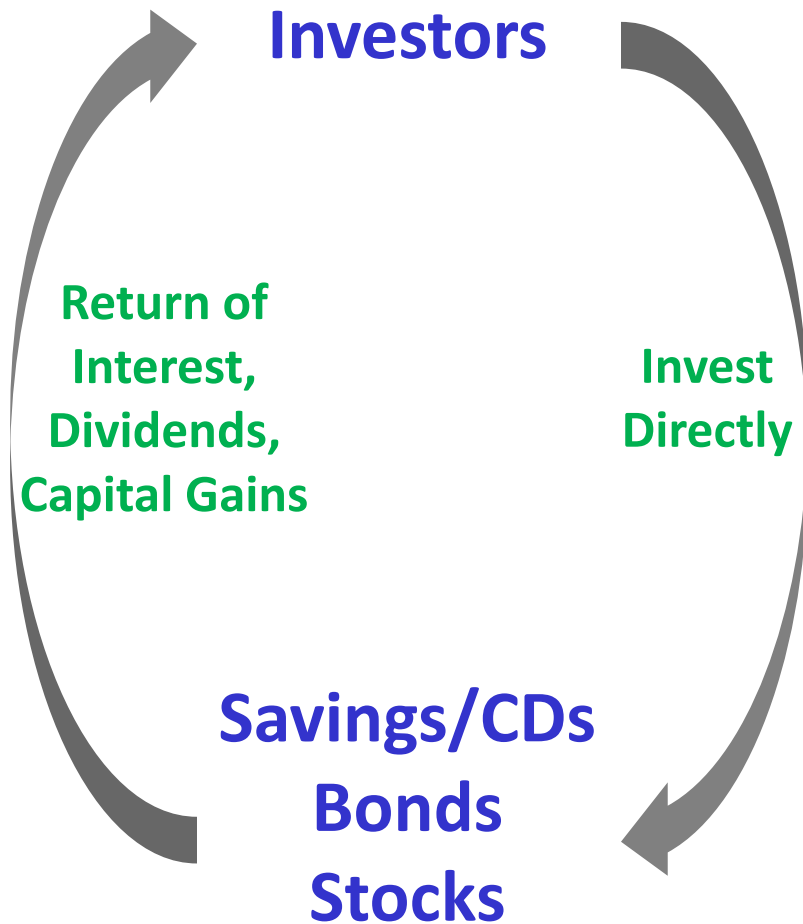
Level and Timing of Returns:

Volatility of Returns:

Accessibility:







- **Time-consuming**
- **Significant expertise**
- **Significant resources**
- **Never-ending**



## INSIDE WEALTH edited by ROBERT FRANK

WEALTH

MILLIONAIRES & BILLIONAIRES

LUXURY

PHILANTHROPY

MILLIONAIRE SURVEY

# More millionaires than ever are living in the US

Robert Frank | @robtfrank

Tuesday, 10 Mar 2015 | 6:01 AM ET



How many of the top income families in the USA  
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Over 90%

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*“When investors try to pick individual stocks, they often get into a very emotional cycle...,” buying high and selling low.*

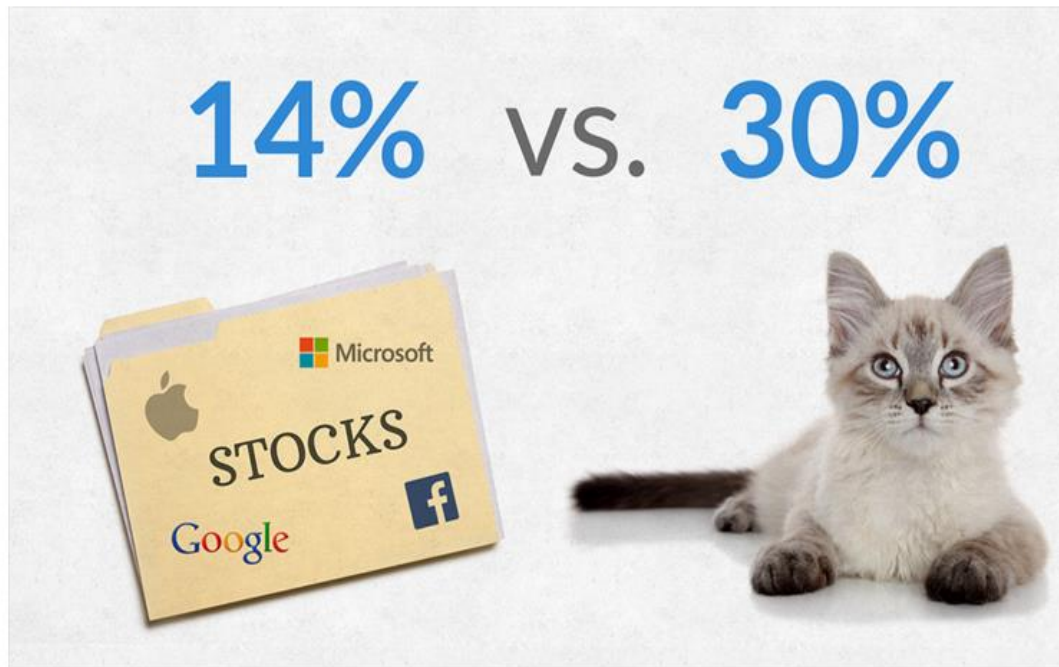
Stockswatch

# More US families own cats than stocks

by Matt Egan @mattmegan5

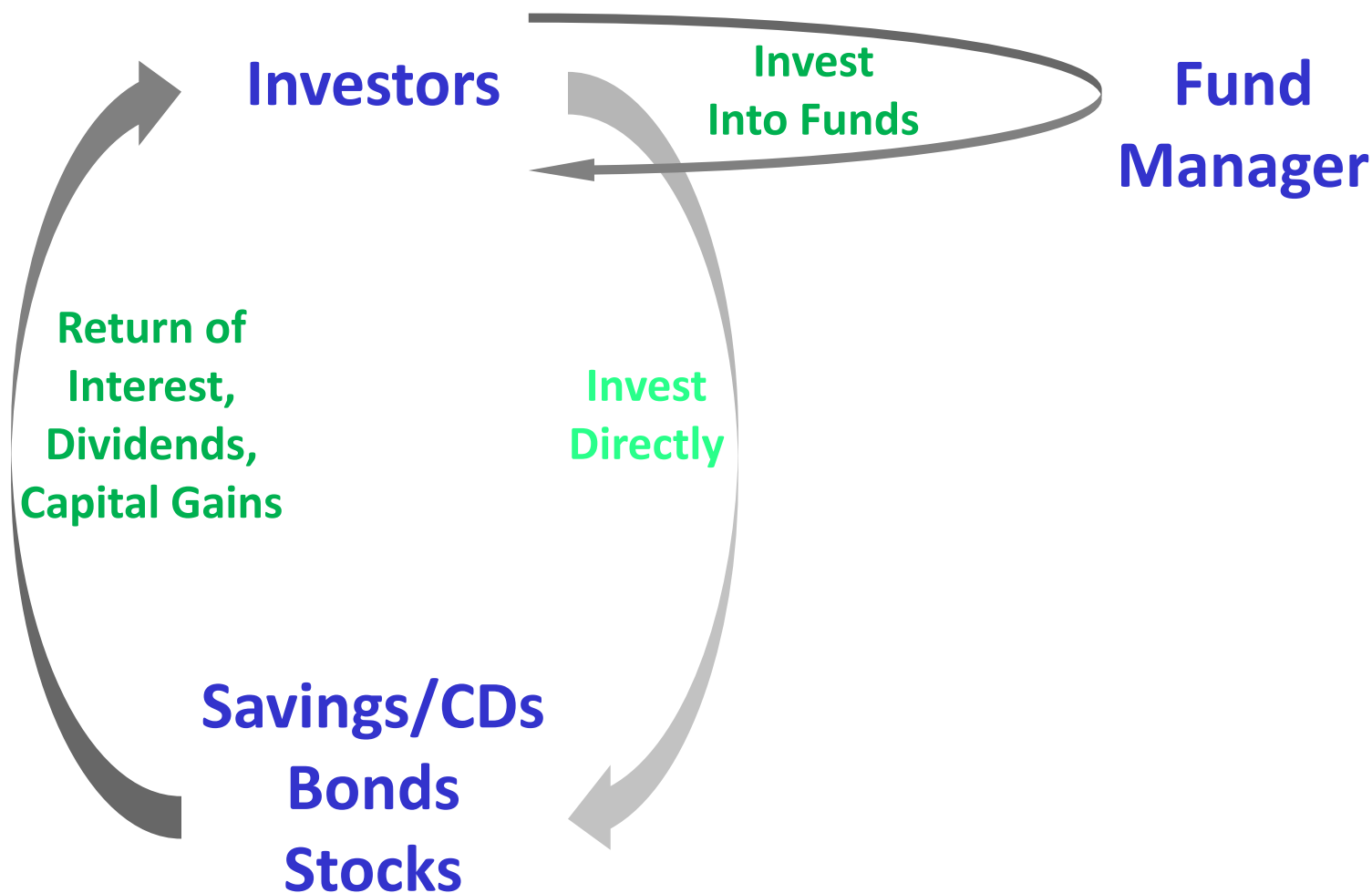
September 9, 2014: 4:09 PM ET

Recommend 3k

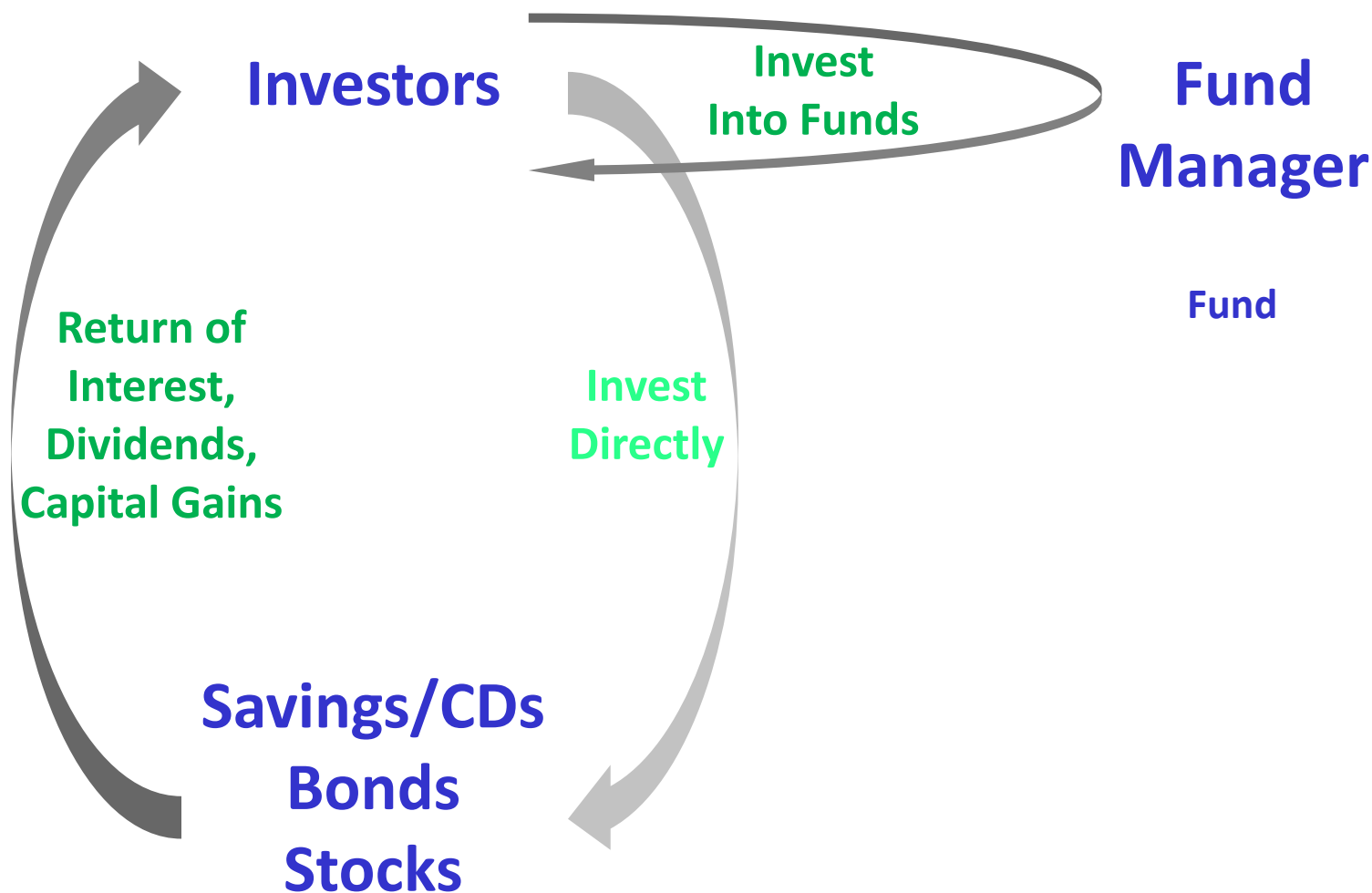


A lot more American families own cats than individual stocks.

# What is a fund – how does it work?

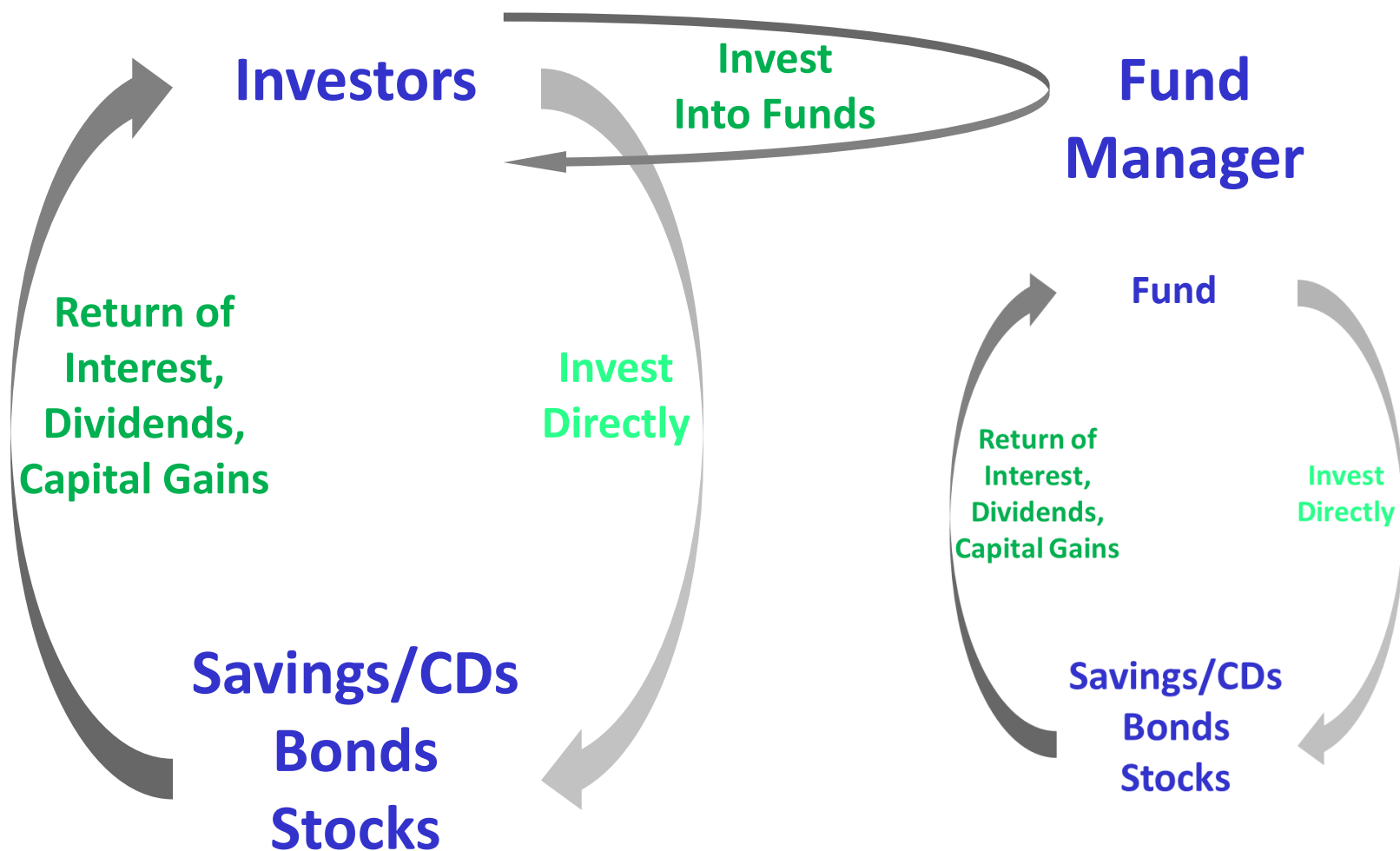


# What is a fund – how does it work?

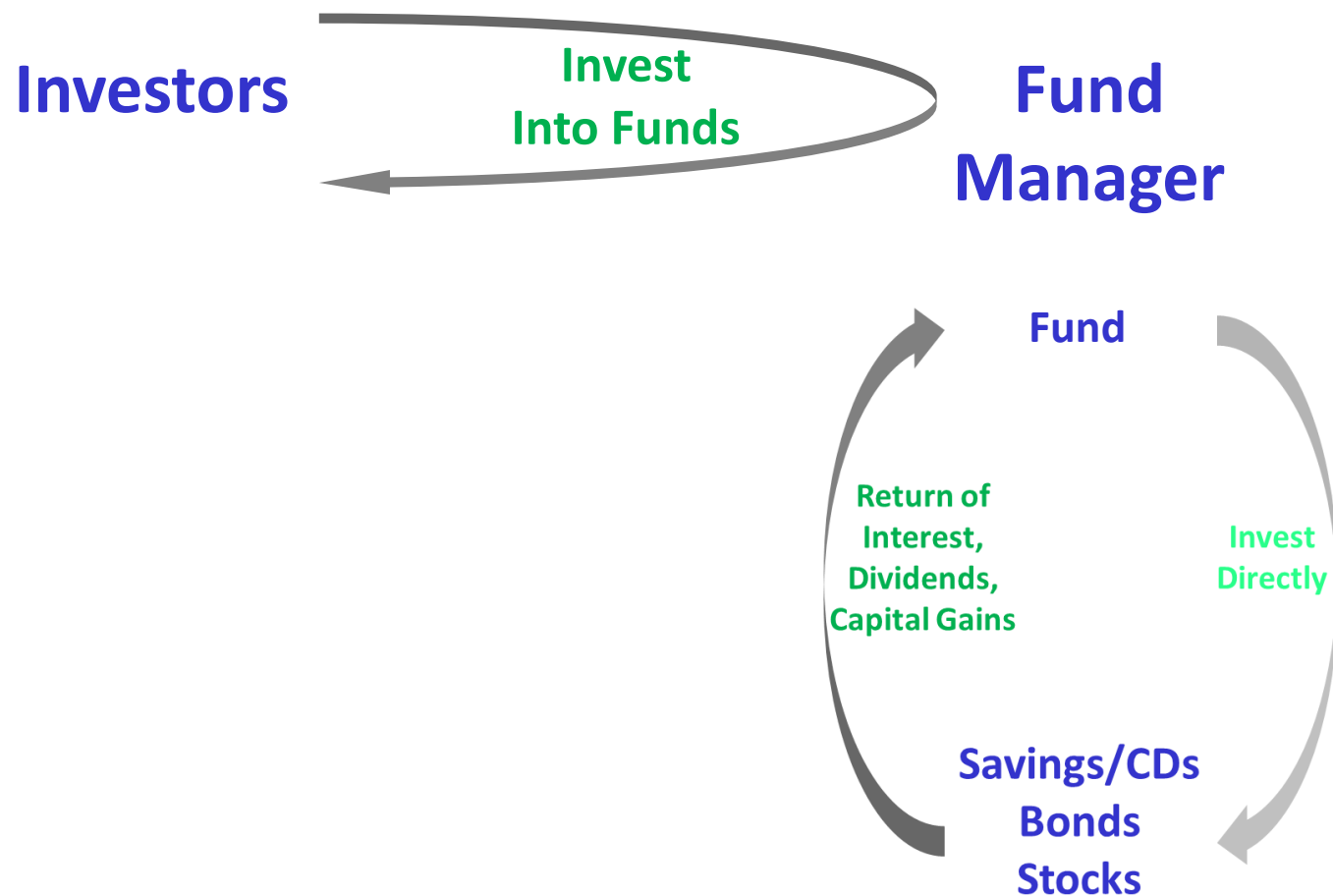




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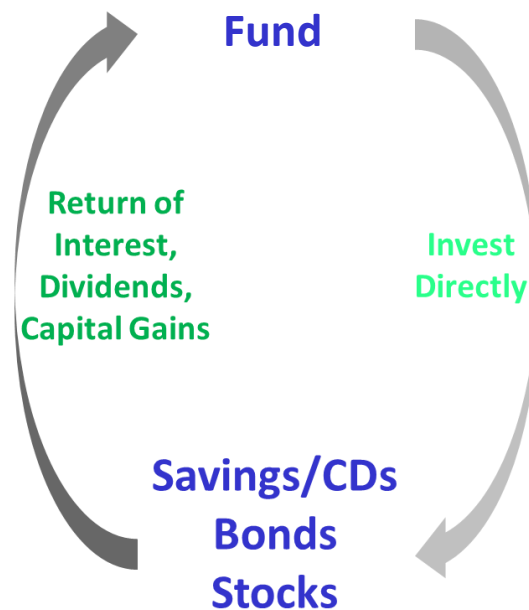
# What is a fund – how does it work?



# What is a fund – how does it work?



- Power of many
- Expertise
- Focused styles
- Re-investment



	<u>Asset type:</u>		<b>Savings Accounts</b>		<b>Bonds</b>		<b>Stocks</b>	
	<u>Return Type:</u>		Paid interest		Interest mostly, some capital gains		Some dividends, mostly capital gains	

	<u>Best year:</u>		6%		36%		54%	
	<u>Worst year:</u>		0%		-18%		-39%	
	<u>"Normal" Avg.</u>		<2%*		1-3%*		6-9%*	
	* adjusted for inflation, USA							

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	<u>Fund Type:</u>		Money Market Funds					
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<u>100,000 PHP &amp; Compound Returns</u>		After 2 Years		After 5 Years
0%		100,000		100,000
2%		104,040		110,408
5%		110,250		127,628
8%		116,640		146,933
12%		125,440		176,234

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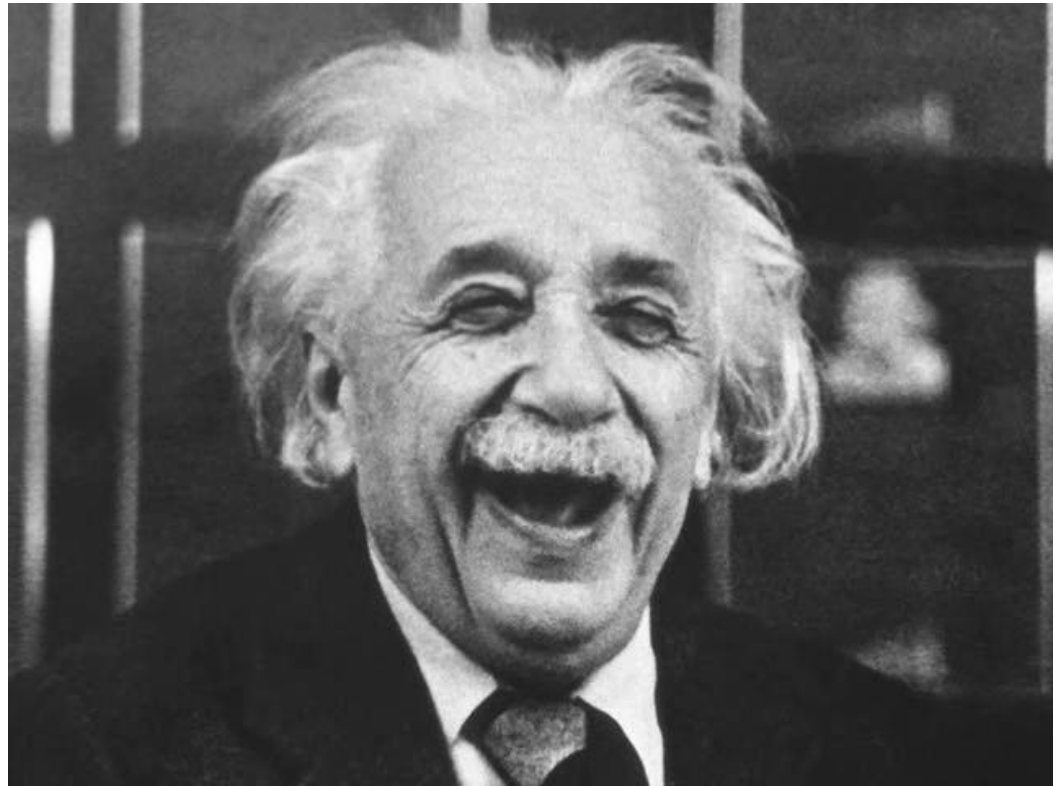
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<b>0%</b>		<b>100,000</b>		<b>100,000</b>		<b>100,000</b>		<b>100,000</b>
<b>2%</b>		<b>104,040</b>		<b>110,408</b>		<b>121,899</b>		<b>148,595</b>
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Urban myth: Albert Einstein was asked the question,  
“What is the most powerful force in the universe?”

What was his “supposed” answer?

- A. Gravity
- B.  $E = MC^2$
- C. Compound Interest
- D. Compound Fracture



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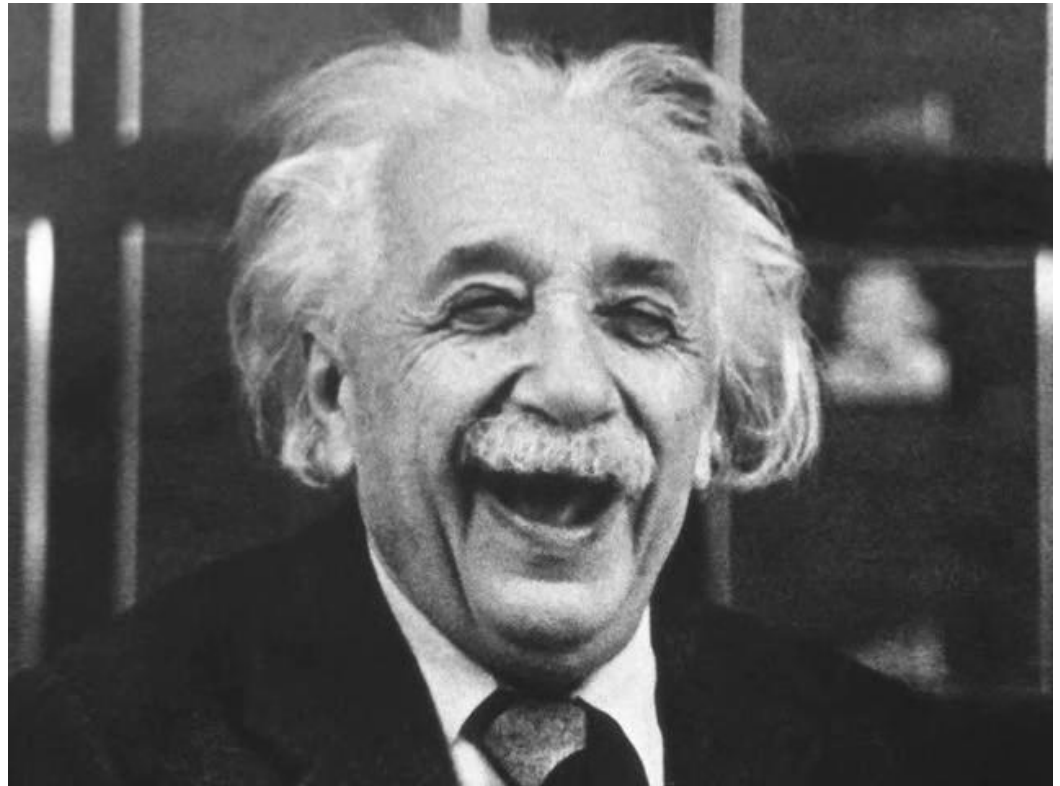
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If you had invested your money at the peak of the Asia Financial Crisis in 1997/1998, just before everything tumbled down, which asset class would have done best since that “worst” point of investing?

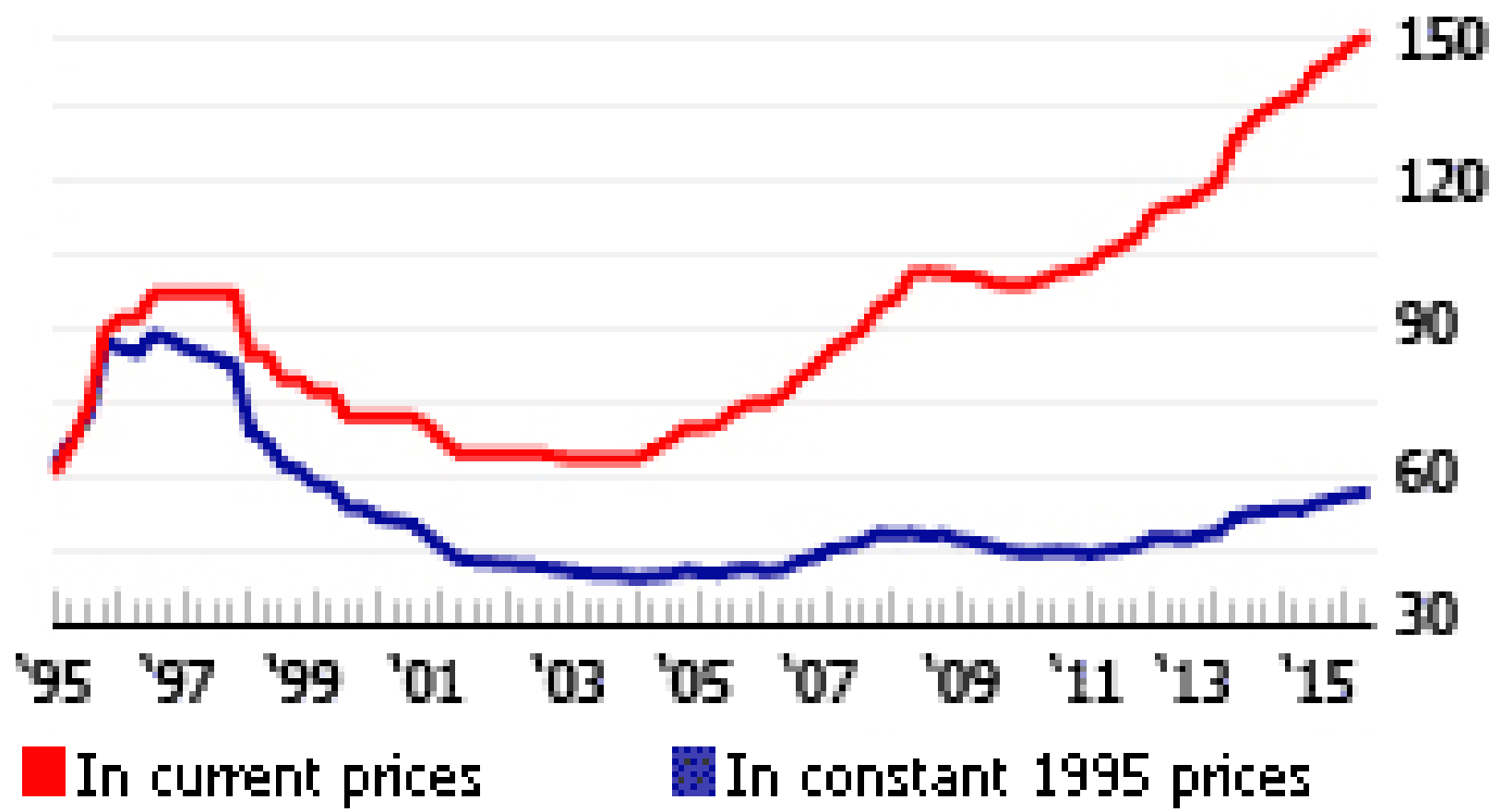
If you had invested your money at the peak of the Asia Financial Crisis in 1997/1998, just before everything tumbled down, which asset class would have done best since that “worst” point of investing?

- A. Investing in Philippine real estate
- B. Keeping your money in safe savings accounts
- C. Investing in Philippine stocks
- D. Investing in interest-paying bonds

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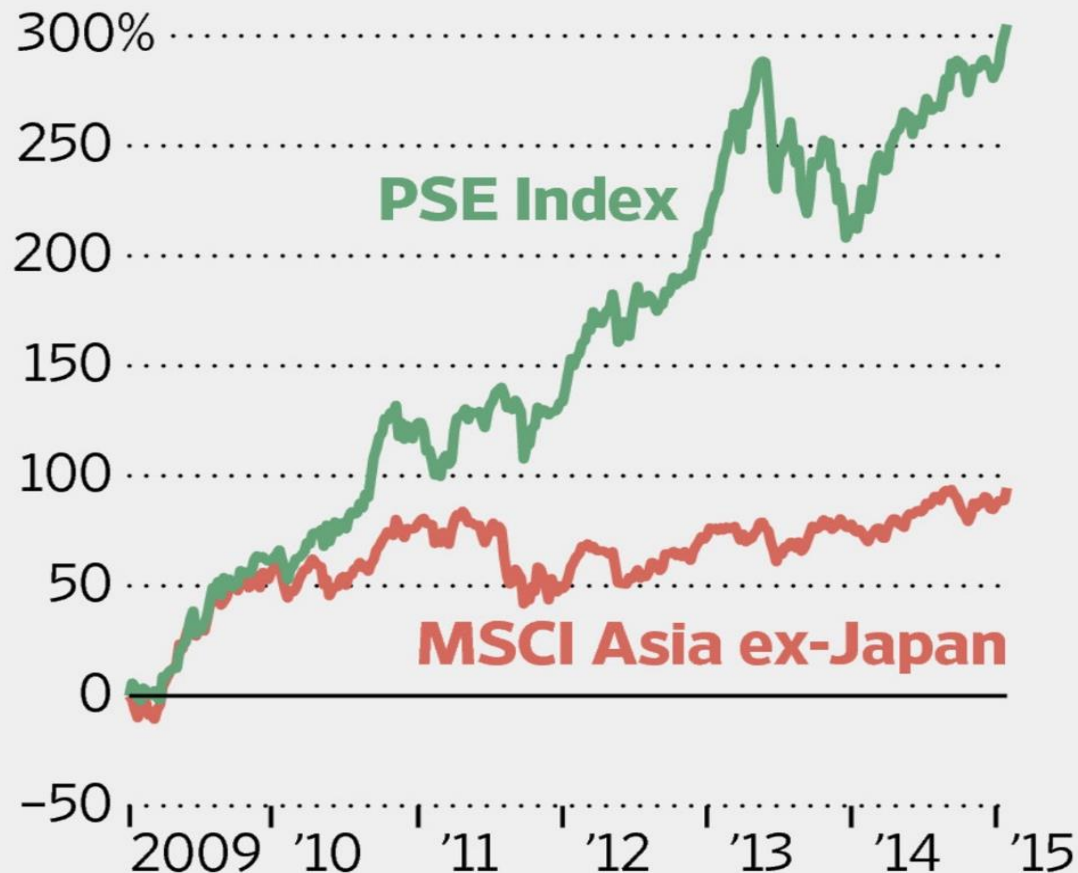
# Luxury 3-BR Condo Price (1,000 PHP/sq. m)



Source: Colliers



Philippine stocks have been some of the most consistent gainers in Asia since the global financial crisis.



\*In local currency terms

Source: Factset

The Wall Street Journal

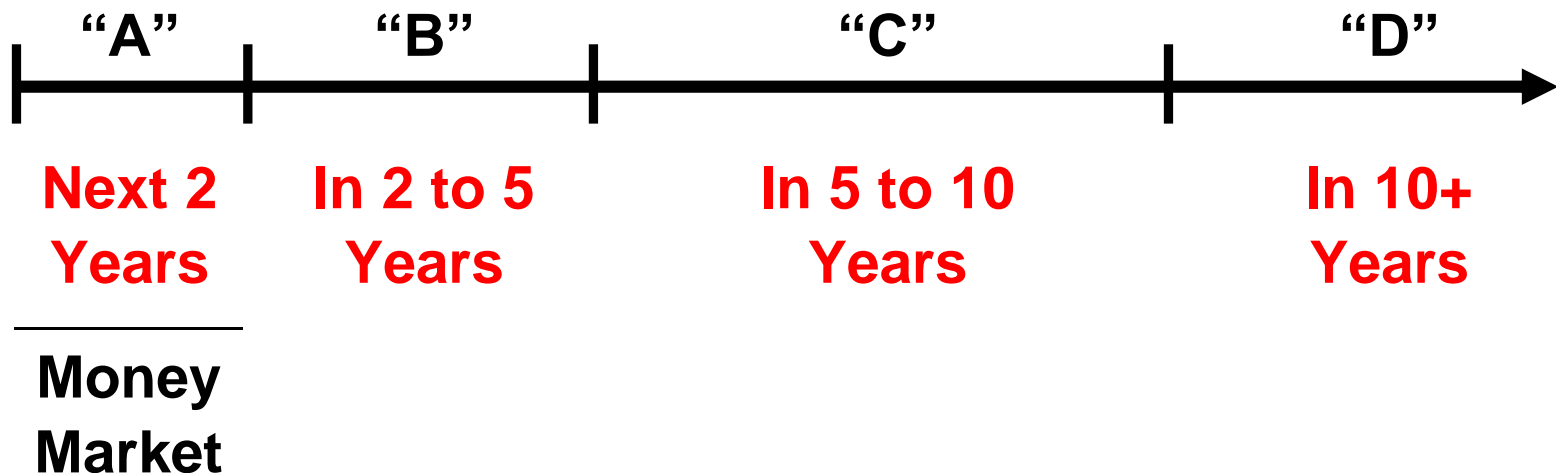
# FIC ABCD Investing Strategy

## ABCD NEEDS

When do you need to spend your money, given your life events and lifestyle?

## ABCD VEHICLES

Where do you put your money to maximize your returns, given your life needs?



Be Careful of Putting Too Much in A-Money

The problem is that A-money vehicles provide the least return. The interest rate is generally so low that you are actually losing money on a real basis. A savings account, with Php 1,000 at the beginning of the year might end up being Php 1,010 at the end of the year. However, because of the inflation in the price of goods, you actually have lost money because you can buy less "stuff" with the Php 1,010 at the end of the year.

As a result, you want just the right amount of money in A-money vehicles.

Which A-Money Vehicles are Best?

B-Money: Stock Funds ⬆	Expense Ratio		5Yr Performance		Total FIC Score ▲	Min. Initial Investment ⬆	Min. Subsequent Investment ⬆	Management Fee ⬆	Min. Holding Period ⬆	Early Redemption Fee ⬆
	% ⬆	FIC Score ⬆	% ⬆	FIC Score ⬆						
ALFM Money Market Fund	1.01%	3	2.11%	2	2.5	P5,000	P1,000	0.75%	30 days	1.00%
Philam Managed Income Fund	0.98%	2	0.98%	5	3.5	P100,000	P10,000	0.25%	30 days	1.12%
Sun Life Prosperity Money Market Fund	1.39%	4	0.28%	6	5.0	P5,000	P1,000	0.40%	7 days	0.28%

The lower the Total FIC Score, the better. Avoid funds that score above 3.5.

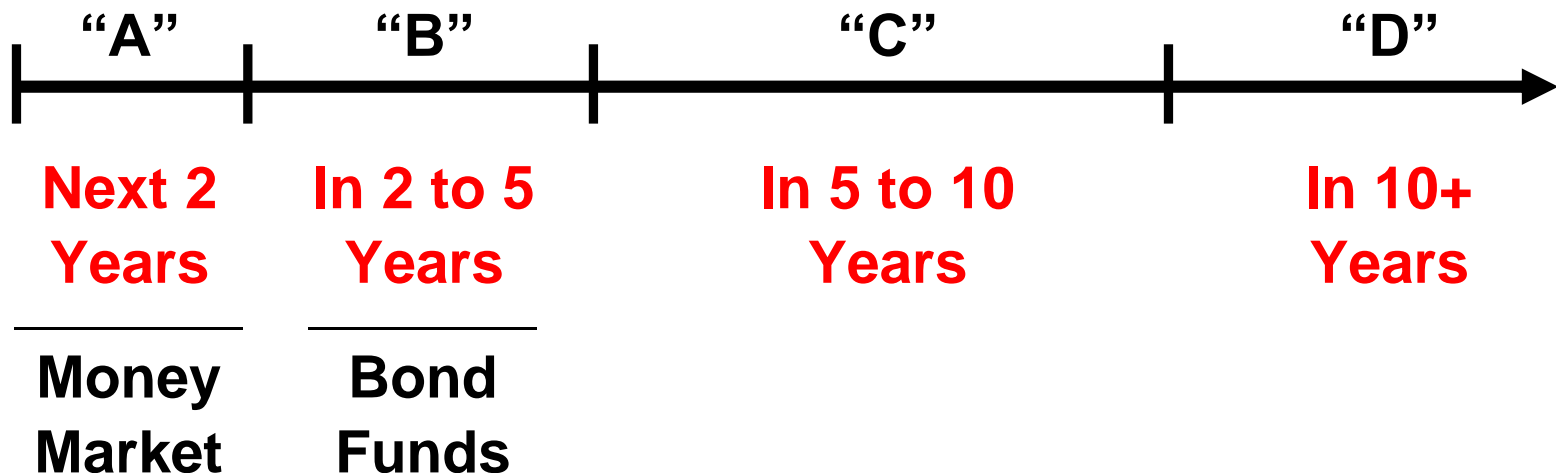
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Though bond funds are relatively safe and generally produce higher returns than the rates you get from bank deposits, it is important to remember that you can lose money investing in the wrong bond funds.

Also, some management fees are so high, and the quality of the bonds inside the bond fund so low, that you need to stay away from those funds.

In addition, bond funds don't have the PDIC insurance protection that bank savings accounts have. That means that picking the right companies to loan to is very, very important.

Extra due diligence is necessary to pick the right bond funds to invest in. This is what the FIC helps you do.

Which B-Money Vehicles are Best?

B-Money: Stock Funds ↕	Expense Ratio		5Yr Performance		Total FIC Score ▲	Min. Initial Investment ↕	Min. Subsequent Investment ↕	Management Fee ↕	Min. Holding Period ↕	Early Redemption Fee ↕
	% ↕	FIC Score ↕	% ↕	FIC Score ↕						
Philequity Peso Bond Fund	0.56%	2	5.85%	2	2.0	P10,000	P5,000	1.50%	90 days	1.00%
ALFM Peso Bond Fund	1.80%	4	4.07%	3	3.5	P5,000	P1,000	1.50%	180 days	1.00%
Philam Bond Fund	1.95%	4	4.81%	3	3.5	P5,000	P1,000	1.50%	180 days	1.12%
Sun Life Prosperity Bond Fund	2.00%	4	3.66%	4	4.0	P5,000	P1,000	1.65%	180 days	1.12%
First Metro Save and Learn Fixed Income Fund	3.37%	8	8.67%	1	4.5	P5,000	P1,000	1.75%	180 days	1.00%
Sun Life Prosperity GS Fund	2.07%	5	2.82%	5	5.0	P5,000	P1,000	1.65%	180 days	1.12%

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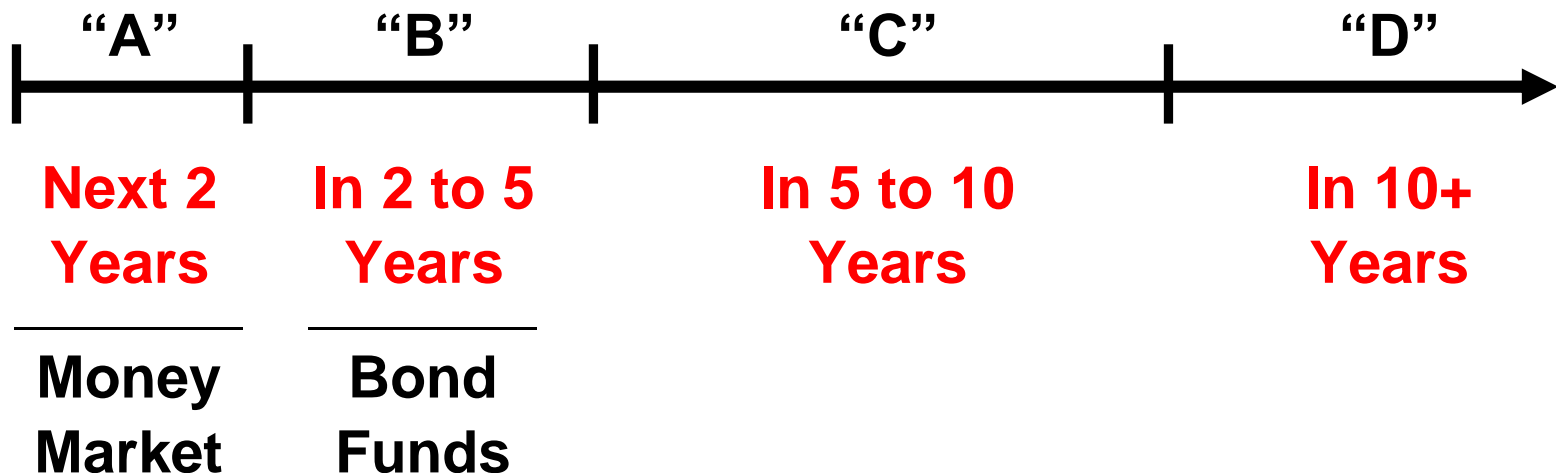
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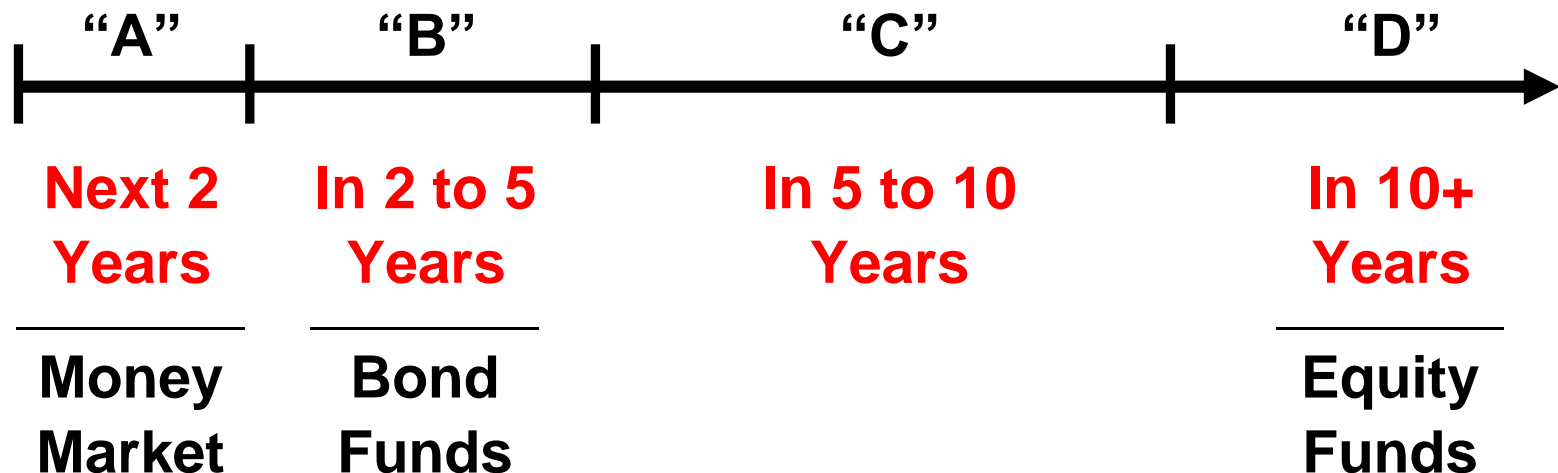
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Some fund managers charge a fee that is so high, it takes away all the return of the funds.

Some fund managers are not experienced investors. They are often more like gamblers who can have a great streak and look like they know what they are doing. However, they may simply have taken a lot of risk and just gotten lucky. Then, a year or two later, the risk catches up and they lose everything.

So, while stock funds can be great D-Money vehicles for you, you have to be careful in choosing the manager who will do the work for you and charge you a fair amount for their work.

Which D-Money Vehicles are Best?

D-Money: Stock Funds ↕	Expense Ratio		5Yr Performance		Total FIC Score ▲	Min. Initial Investment ↕	Min. Subsequent Investment ↕	Management Fee ↕	Min. Holding Period ↕	Early Redemption Fee ↕
	% ↕	FIC Score ↕	% ↕	FIC Score ↕						
Philequity PSE Index Fund	0.76%	1	11.02%	1	1.0	P10,000	P5,000	1.50%	90 days	1.00%
Philippine Stock Index Fund	1.69%	3	10.72%	1	2.0	P5,000	P1,000	1.50%	180 days	1.00%
Philequity Fund	2.43%	4	10.57%	1	2.5	P5,000	P1,000	1.50%	90 days	1.00%
ALFM Growth Fund	2.45%	4	5.36%	4	4.0	P5,000	P1,000	2.00%	180 days	1.00%
Sun Life Prosperity Equity Fund	2.58%	5	7.40%	3	4.0	P5,000	P1,000	2.15%	180 days	1.12%
ATRKE Equity Opportunity Fund	2.77%	5	5.61%	4	4.5	P10,000	P5,100	2.00%	None	0.00%
Philam Strategic Growth Fund	2.64%	5	5.60%	4	4.5	P20,000	P5,000	2.00%	180 days	1.12%
First Metro Save and Learn Equity Fund	3.52%	8	8.47%	2	5.0	P5,000	P1,000	1.875%	180 days	1.00%

The lower the Total FIC Score, the better. Avoid funds that score above 4.0.



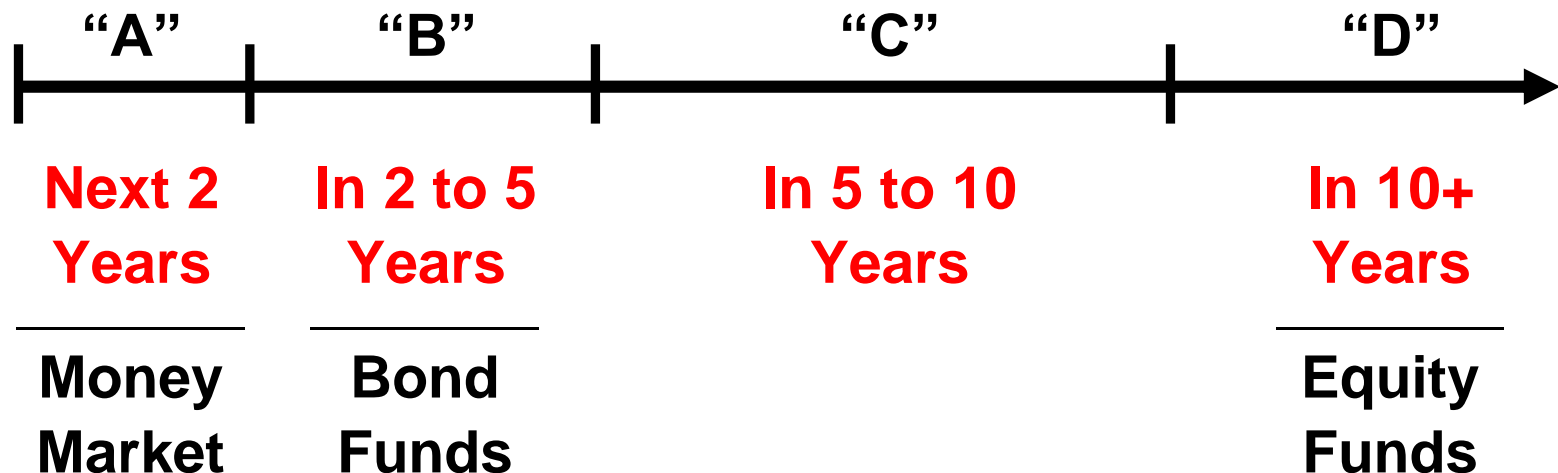
# FIC ABCD Investing Strategy

## ABCD NEEDS

When do you need to spend your money, given your life events and lifestyle?

## ABCD VEHICLES

Where do you put your money to maximize your returns, given your life needs?



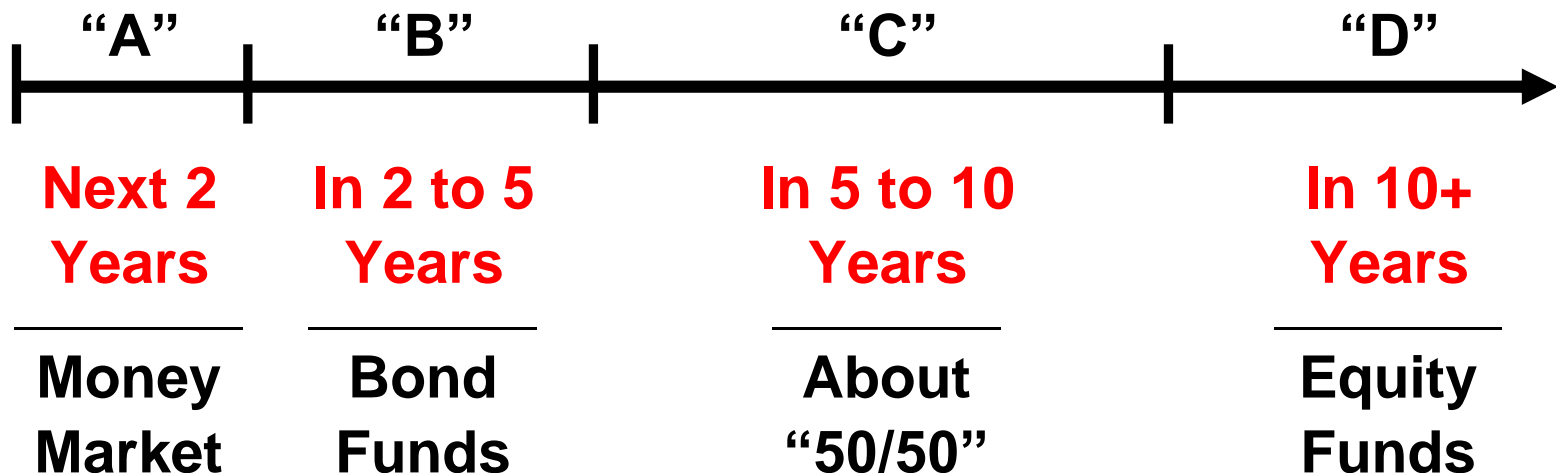
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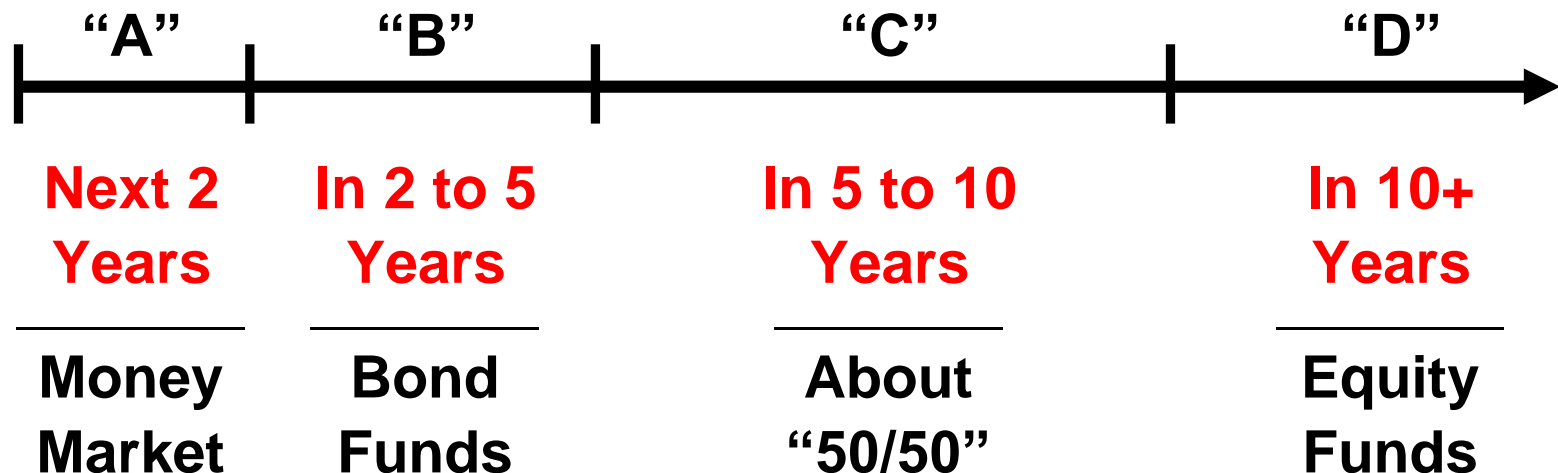
# FIC ABCD Investing Strategy

## ABCD NEEDS

When do you need to spend your money, given your life events and lifestyle?

## ABCD VEHICLES

Where do you put your money to maximize your returns, given your life needs?



There are currently NO GOOD funds for C-Money Needs.

Simply divide between B and D Vehicles.

# Lump-sum or Peso Cost Averaging (FIC “PCA SCHEDULE” 18, 12, 6, 3, or ASAP?)

# Lump-sum or Peso Cost Averaging (FIC “PCA SCHEDULE” 18, 12, 6, 3, or ASAP?)

Peso Cost Averaging is a personal wealth-building strategy that involves investing a fixed amount of money at regular intervals over a long period

Designed to reduce market risk by stretching out the purchase of stocks over time, buying more when prices are low and buying less when it is high, effectively keeping your average cost down

## Month 1

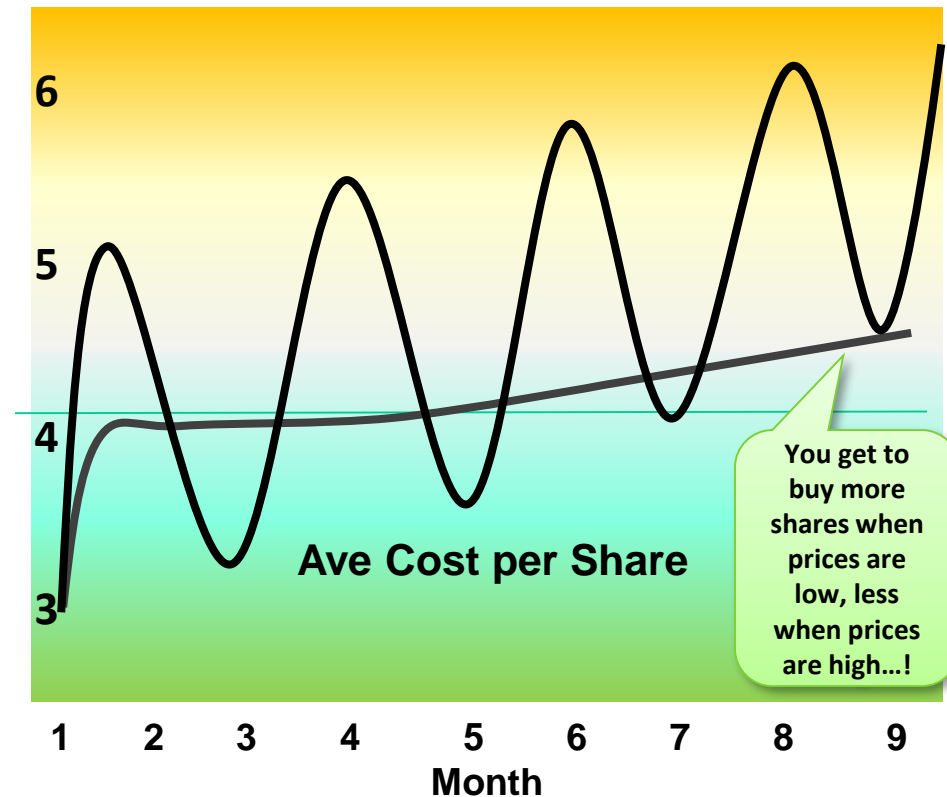
Buy Php5,000 worth of stock ABC at market price

## Month 2

Buy Php5,000 worth of stock ABC at market price

## Month 3

Buy Php5,000 worth of stock ABC at market price





Filipino Investing Community

What if I don't have money to invest right now?



Filipino Investing Community

It is time invested, not timing,  
that will drive your investment success



Filipino Investing Community

It is time invested, not timing,  
that will drive your investment success

100,000 PHP invested in stocks in 20 years = ?





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100,000 PHP invested in stocks in 20 years = ?

5,000 PHP saved monthly for 20 yrs = ?

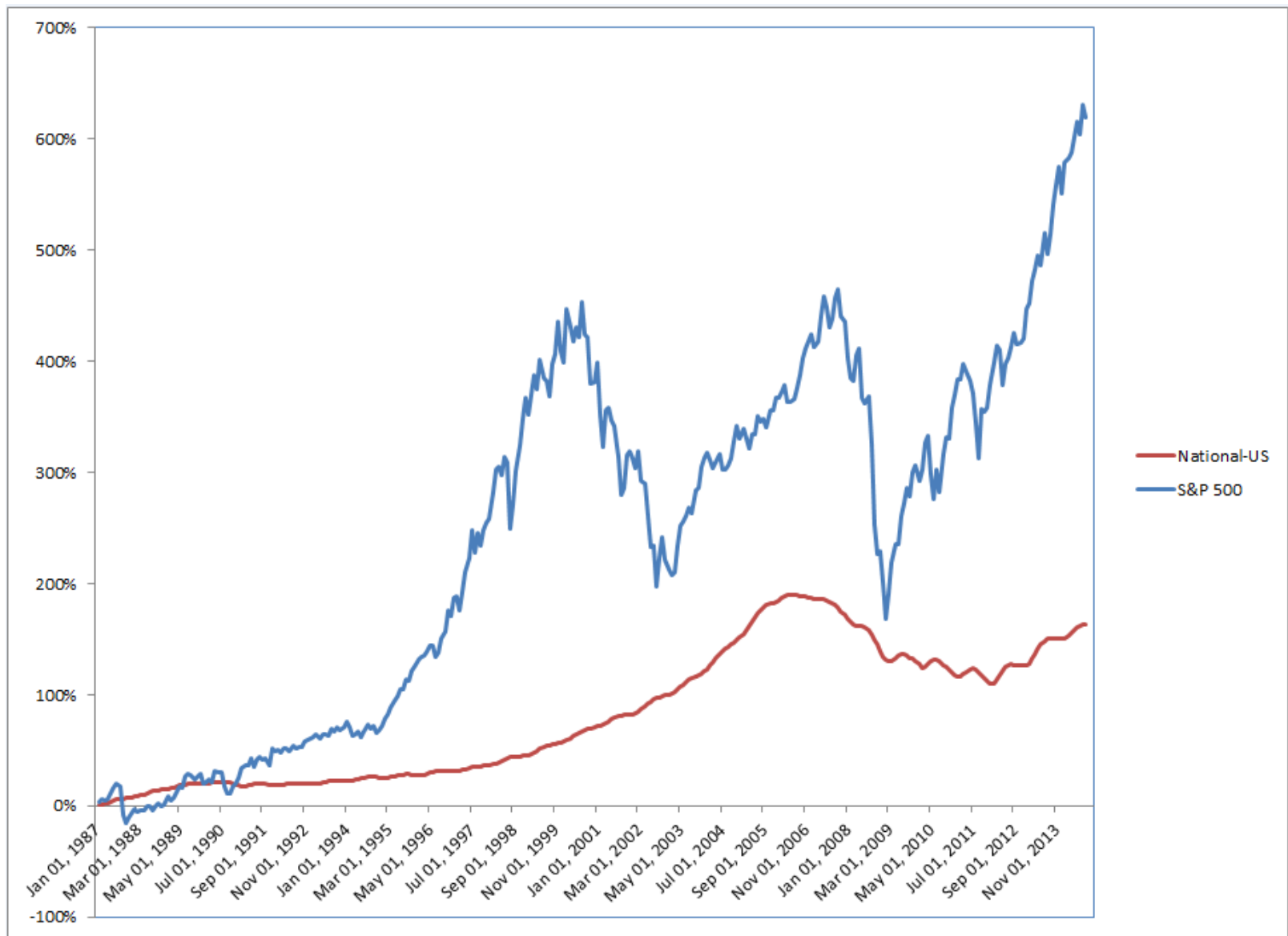


It is time invested, not timing,  
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100,000 PHP invested in stocks in 20 years = ?

5,000 PHP saved monthly for 20 yrs = ?

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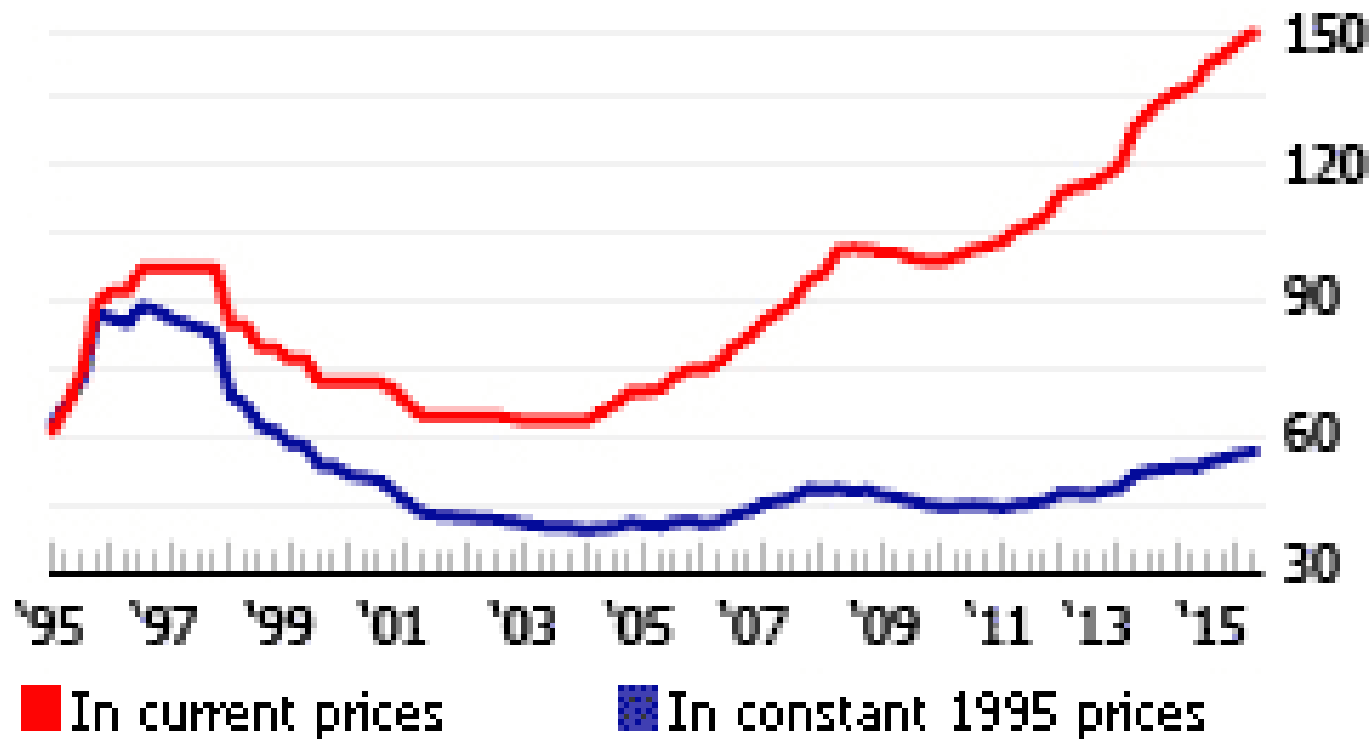
Source: The Case Shiller home price index (red)  
versus the S&P 500 Index (blue) since 1987, S&P  
Dow Jones Indices

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## Luxury 3-BR Condo Price (1,000 PHP/sq. m)



Source: Colliers

# IRA, 401K, 403B, etc?

## Evaluating Assets:

Amount of Resources (T&M):

Level and Timing of Returns:

Volatility of Returns:

Accessibility: