

**Philequity Corner (April 28, 2014)**  
**By Valentino Sy**

**Time in the Market vs. Timing the Market**

In our article four weeks ago, we showed how people can profit from the Peso Cost Averaging method (*Example of a Real-Life Investor*, March 31, 2014). We recounted the inspiring story of an actual investor of the Philequity Fund who invested P5,000 to P10,000 on a weekly basis. In our article today, however, we show the ledger of another investor who employed a different style of investing but still made a lot of money.

**Recalling the Peso Cost Averaging method**

Like we discussed previously, Peso Cost Averaging is an investing technique which involves buying a fixed peso amount of stocks on a regular schedule. As we showed during our March 8 Investors' Briefing and in our article last March 31, this method is a stress-free way of investing. This is because it allows people to grow their investment position gradually instead of committing a large sum all in one go.

**One time, Big time**

Let us now look at the statement of account of another investor that we presented during our Investors' Briefing. As you can see, he invested P1.56 million back in 1994 (when the Philequity Fund began). He has neither withdrawn from nor added to his investment since. Today, his lump sum or "one-time-big-time" investment has grown to over P51 million! This translates to a CAGR of 19% for the past 20 years.

<b>Transaction Date</b>	<b>NAV Per Share</b>	<b>Transaction Amount</b>
01/01/1994	1.0000	P1,556,875
<b>Market Value as of April 25, 2014</b>		P51,380,000
<b>20-year CAGR</b>		19.1%

**Time to grow**

What can we gather from this investor's experience? It is the significance of one's time in the market – how long you actually hold on to your investments. From 1994 to present, Philippine stocks have gone through three bear markets – the 1997 Asian Financial Crisis, the 2000 Philippine political crisis and the 2008 US Sub-Prime Crisis. Yet, this investor stayed put. Would you have done the same? Assuming you chose a fund that invests responsibly in fundamentally sound stocks, do you give your investments enough time to grow?

This investor has supported the old adage of "Time in the market is better than timing the market." It is very difficult, even for professional traders, to catch extreme peaks and troughs in the market. Hence, we recommend emulating our "one-time-big-time" investor in terms of his long-term frame of mind. Not only has it proven to be profitable, but it also seems very stress-free.

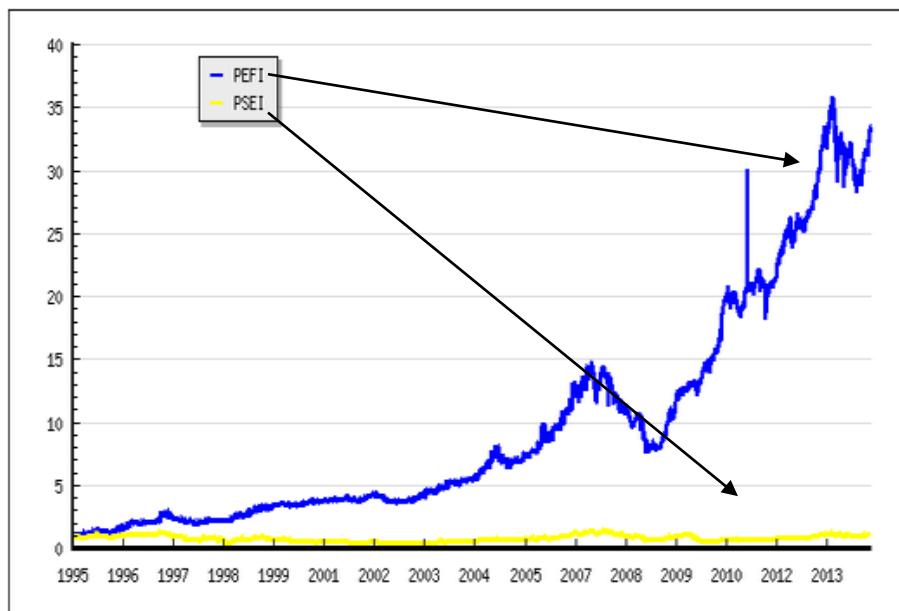
## Diversification and Expertise

We would like to point out that this buy and hold strategy would not work in all cases. If the investment was in purely speculative and illiquid stocks, then it could have resulted in dreadfully large losses.

Investing in a fund allows investors to diversify their exposure to a basket of stocks. Moreover, they can avail of the expertise of a fund manager who can choose stocks that will do well in the long term. Also, a seasoned fund manager would have a better sense of when to increase or reduce exposure in the market. He has the ability to substantially reduce equity exposure during severe market meltdowns. He can shift to a defensive portfolio in market corrections. Or he can significantly increase weighting in stocks with higher beta during bull markets.

### The case for a competent fund manager

The two investment cases we had presented show clearly the reasons for investing in stocks. However, it is equally important that your investment is managed by an experienced and competent fund manager. Below, we show the performance of the PSE index as compared to our Philequity Fund. Our Philequity Fund has returned 3,200% since inception. The PSE index in contrast has a return of 139% over the same period. Including cash dividends and reinvesting these in the index would have returned around 252% for the PSE Index.



The chart above juxtaposes the Philequity Fund (PEFI) against the performance of the PSE Index (PSEI). This proves the wisdom of time in the market in a fund managed by a competent fund manager.

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