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By Valentino Sy

Invest early, invest often

Many of our readers and clients who are not invested yet or are underinvested in equities have been asking when they can start investing. It is understandable that they are wary since they missed a big part of this bull market. In this article, we share our most basic investment strategies and show how they can participate in this ongoing secular bull market in Philippine stocks.

Start by saving

Investing should really start with saving. One cannot invest without saving. One should start by saving a certain portion of his monthly income and spending less than what he earns. It is also important to pay off debts such as credit card or other consumer loans that charge high interest rates. This may sound simple and basic, but for some it might be harder to do. One has to make a deliberate and conscious effort to practice this kind of behavior. Doing this on a consistent basis should allow one to steadily build an investment portfolio.

Invest early

Since investing is a behavior that should be practiced regularly over the long-term, investing should start at a young age – the earlier, the better. In fact, many of our employees have been making regular contributions to the Philequity Fund for and in behalf of their children. Aside from this, it is a common practice for us at Philequity to make gifts to children, godchildren or grandchildren in the form of mutual fund contributions. The investments are named after the children, which also make them the youngest investors of Philequity.

Invest now

At any rate, investing should not be limited only to those who started early. It is never too late to start investing. Everyone should have a certain part of their savings in equities. If you have not invested yet, the time to start is now.

Invest regularly, invest often

Just like saving, investing is something that should be practiced regularly. Those relatively new to the market can start by investing in small and regular increments. This is a buying method that we refer to as “peso cost averaging.” This allows one to avoid having to time the market, as it is impossible to time it consistently and accurately. In doing this, one should be less affected by the wild swings of the stock market especially during corrections. Instead, the focus would be on expanding his investment portfolio.

Asset allocation and risk appetite

An investor should always consider his risk appetite and asset allocation strategy to determine how much he should invest in equities. We stress that equity investments should be kept at a level that one is comfortable with. We call this "sleep at night levels." Those who feel extremely jittery and anxious during volatile periods are probably those who took more risk than they could handle. Hence, it is important to make investments in accordance with one's risk appetite, as this would increase his staying power and allow him to stay invested over the long-term.

Aside from risk appetite, one should also spread his investments across different asset classes. Understandably, some of the investments would be in real properties and businesses. Some might be in the form of insurance or time deposits to ensure that one is supported in times of emergencies. Aside from these, other forms of investments include those made in bonds, currencies or commodities. An asset allocation strategy should guide one on how much to invest per asset class. But considering the long-term upside potential of equities, we believe that everyone should have a certain portion of their investments in equities, depending of course on their risk appetite and asset allocation strategy.

Diversification among stocks

If an investor were to invest directly in stocks, we strongly recommend that he diversify among many stocks and different sectors. If one has the access and can monitor it, he may also diversify across different countries. Diversification among stocks should minimize the impact of black swans, which are low probability but high impact negative events that may plague certain companies or sectors. These are unpredictable events that may suddenly cause a stock to go down. Instead of overexposing to a few stocks, we recommend investing in a basket of stocks that are chosen based on fundamentals. As the old adage goes, "Do not put all your eggs in one basket." If choosing and diversifying across stocks and sectors is difficult for some, they can always opt to invest in mutual funds. For example, the Philequity Fund invests in a portfolio of many stocks from different sectors to ensure proper diversification.

Buy companies, not stocks

In Chinese (Fookien), the phrase "*pua ko pio*" means to play in the stock market. This comes from the phrase "*pua kiao*" which means to gamble. And this is probably how some investors think of the stock market. Some think that investing in the stock market is a game of luck and chance. On the contrary, we believe that one can be a successful investor by working hard and doing your homework.

We thus believe that the mindset of some retail investors has to change. Instead of looking at the stock market as a game of chance and searching for random tickers that might fly the next day, investors should focus on buying companies with strong fundamentals. Companies such as Ayala Land (ALI), SM Investments (SM), Universal Robina Corp (URC) are examples of solid businesses with competent management. They have stood the test of time and continue to perform well to this date. Instead of trading on tips and gambling on stocks with no clear fundamentals, wouldn't it be better if you became a business partner of the Ayalas, Sys and Gokongweis of the country? When you buy common shares of ALI, SM and URC, you become a partner in these reputable businesses and partake in their growing profits. Though their stock prices may encounter short-term volatility, the underlying fundamentals will prevail and ultimately dictate where their stock prices go over the long term.

Investment lessons through the years

Through the years, we have shared important investment tenets which are also integral parts of our strategy. These are contained in the Philequity Corner archives and we encourage everyone to study and revisit them. We enumerate and summarize some of the more investment important lessons that we have explained in the past.

1. **Opportunities in crises.** Every crisis presents an opportunity. Though a crisis may cause the market to go down in the short term, stocks generally recover and resume their upward trajectory after the crisis passes. What is important is to understand how the crisis is unfolding. It is also crucial to have the cash and the courage to invest in companies or stocks that can perform stronger after the crisis.
2. **Newton's law of inertia.** Applied to the stock market, Newton's law of inertia tells us that a market that is trending upwards will continue to trend higher until a drastic change in fundamentals and sentiment create an equal and opposing reaction. Since our market has remained on an uptrend and our country's fundamentals are intact, our market will continue to move higher over the long-term unless a drastic change in fundamentals happens.
3. **Staying the course.** Since we caught the start of the bull market in 2009, we have always urged investors to stay invested in Philippine stocks. More important than catching the bottom of the bear market is being able to properly ride the bull run.
4. **Asset allocation and risk appetite.** One's investment portfolio should be tailored based on his asset allocation and risk appetite. Even considering this, we believe that everyone should have a certain portion of his investment portfolio in equities, given the long-term upside potential of stocks.
5. **Diversification.** For those investing in stocks directly, it is important to diversify among different sectors and stocks to manage risk and avoid the impact of unpredictable negative events.
6. **Buy companies, not stocks.** Instead of gambling in the stock market, investors should focus on studying and buying companies with excellent business models and solid fundamentals. These are the companies that will do well over the long-term.
7. **Time in the market vs. timing the market.** Rather than trying to time the market and trading for short-term gain, investors should focus on long-term investing, as this is where the big money is made.
8. **Peso cost averaging.** A great way to enter the stock market is through peso cost averaging. This eliminates the timing aspect of investing as it necessitates investing regularly in fixed increments.
9. **Seasons in the stock market.** We have written about seasonality in the stock market (Santa Claus rally, January effect, sell in May and go away, ghost month). Recently, we wrote about the historically strong period of November to mid-February (*From Halloween to Valentine's*, October 27, 2014). Investors may take advantage of these historical trends when they invest in the stock market.

Purpose of Philequity Corner

Aside from sharing our take on the local stock market, global markets and currencies, one of the primary goals of Philequity Corner is to impart investment lessons to the investing public. We take time to explain our strategies and insights in these articles and in our investor briefings in order to teach our readers, clients and investors how to invest properly. Rather than give specific stock tips or trades, we prefer to share the process that we go through in order to come up with our investment decisions. As the old quote goes, "Give a man a fish and you feed him for a day; teach a man to fish and you feed him for a lifetime." For us, this quote rings a bell, as one of Philequity Corner's most important missions is to increase investment literacy in the country, make investing less cumbersome for the common Filipino and contribute to a more educated investing public.

Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit www.philequity.net to learn more about Philequity's managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 689-8080 or email ask@philequity.net.