TIMSON TRADE

INVESTING IN THE PHILIPPINE STOCK MARKET

www.timson.com.ph

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WHY INVEST?

People invest their money for different reasons:

1. Building their dream house
2. Saving for their children's education
3. Having an emergency fund
4. Retiring early

Whichever the reason for investing is, the main objective of investing is to earn more from what you already have and gain financial freedom! Whether your goal is to have enough for your child's tuition fee or simply being able to travel the world someday, investing your money today will definitely support your dreams and aspirations.

Whether you invest in stocks, bonds, mutual funds, or real estate, your investment can generate returns through interest, dividends, or capital appreciation. What is important is that your money is not sleeping inside your wallet and losing value because of **INFLATION**. Investopedia.com defines inflation as a sustained increase in the general level of prices for goods and services. As inflation rises, every Peso you own buys a smaller percentage of a goods and services. Put it in simpler terms, if your Php100 can buy you five hamburgers today, the same Php100 might be able to buy only four or less hamburgers a few years from now. By investing, your money will be able to grow in order to combat the effects of inflation, and the best part of investing is that your assets are the ones earning passive income for you!

Investing helps you to maximize your assets by generating income even while you sleep. In today's world, you can either work or have your assets work for you to earn money, but having only 24 hours in a day limits our capability to earn through physical work. This is why it is best to leverage on your assets and have them work to produce multiple income streams. By generating more income in a fixed period of time, you are definitely one step closer in reaching financial freedom and be able to retire at an earlier age.

Investing is not complicated. You simply need to set aside a portion of your monthly income and invest it in any income generating/appreciating asset. Remember, this is not a sacrifice because you are doing this for your future. Over time, your investment account will surely grow and you will be able to realize the immense benefits of investing, especially when you reach the point wherein you don't need to work anymore.

WHAT ARE STOCKS?

A stock is a **share in the ownership** of a company. Once you purchase shares of a company, you become a stockholder or a part owner of the company, which means that you have a claim on the company's assets and earnings. On the other hand, if the company loses money, you also stand to lose since you are a shareholder of that company. As a stockholder, you are also entitled to voting rights during the company's stockholder meetings. The more shares of stocks you own in a company, the bigger your ownership in the company will be. In the Philippines, you can be a part owner of some of the country's biggest companies by purchasing their stocks.

STOCKS VS FIXED INCOME SECURITIES

When comparing stocks and fixed income securities, it is essential to know their fundamental difference. A **fixed income security** is basically a form of debt wherein a company or the government borrows money from the investing public, which they promise to return after a few years. In exchange for the money borrowed, the company or the government pays the investors a fixed annual interest, thus the term 'fixed income securities'. Ruling out a company or government default, the investors of a fixed income security know that the borrower will return their whole investment after a few years whether the borrower makes money or not, making their investments more secure as compared with stocks.

A **share of stock**, on the other hand, is a form of ownership in a publicly listed company. This basically means that your investment's performance will depend on the performance of the company. Your investment can increase exponentially in value when the company is making money and is performing beyond expectations. However, your investment can also decrease in value when the company underperforms or loses money. This is why investors need to invest in companies/businesses that are profitable and will be there for the long-term.

In short, there is a higher degree of uncertainty in stocks as compared to fixed income securities, but the **POTENTIAL RETURNS ARE GREATER**.

WHY SHOULD I INVEST IN STOCKS?

History has proven that in the long run, stocks will provide a higher annual return as compared to bonds, treasury bills, time deposits, and other fixed income securities. If you had invested P100,000 in the PSEi (Philippine Stock Exchange Index) back in January 2010, your money would have grown to around P227,000 by the end of 2015, giving you an annual return of around **14.64%** per year. Investing in bonds or other fixed income securities would have gave you only a maximum return of around **3.00-7.00%** per year.

HOW DO I EARN FROM THE STOCK MARKET?

There are 2 ways to earn from stock investing:

1. **Dividends** – These are part of the company's earnings that are paid out to stockholders either in the form of cash (cash dividend) or additional stock (stock dividend). A **cash dividend** is the amount that a stockholder will receive for every share he owns (gross of tax). If a company declares a P0.10 cash dividend per share and you have 1,000 shares, you will receive P100 (1,000 shares x P0.10/share), gross of tax, on the dividend payment date. A **stock dividend** is the additional number of shares a stockholder will receive for every share that he owns. If the company declares a 20% stock dividend and you have 1,000 shares, you will receive an additional 200 shares on the dividend payment date. Different companies have different dividend policies. It is important to note that not all companies declare regular dividends, especially companies that are still in their growth stage since their earnings are being reinvested into the company. You can check the companies that pay regular dividends at www.edge.pse.com.ph.

2. **Capital Appreciation (Increase in stock price)** – This is the basically an increase in the stock price. Typically, the price of a stock rises when the company performs well and when there are a lot of buyers for the stock. Say for example you bought a stock at P100/share. If the stock price rises to P120/share, then your capital gain is P20/share.

However, your capital gain will only be realized once you sell the stock. As long as you don't sell the stock, your capital gain may increase or decrease. If you continue to hold the stock and the price goes down to P105/share, your unrealized capital gain will now be at P5/share instead of P20/share. Similarly, if you hold the stock and the price rises to P140/share, then your unrealized capital gain will now be at P40/share from P20/share.

WHEN SHOULD I START INVESTING IN STOCKS?

"The best time to invest was yesterday. The second best time to invest is TODAY."

Time is your greatest ally when it comes to investing. The more time your money is invested in the stock market, the more returns your money can give you through the effects of **COMPOUNDING**. **Compounded returns occur when your capital gains and/or dividends are reinvested and generate returns.**

Say for example you invest P100,000 today and you earn 15% in Year 1. At the end of Year 1, your capital would have become P115,000. Assuming your investment earns another 15% in Year 2, your investment would have grown to P132,250 at the end of Year 2. Notice that even if you earned 15% in both years, the Peso amount that you earned in year 2 (P17,250) is greater than the Peso amount that you earned in year 1 (P15,000). This is because the P15,000 that you earned in Year 1 became part of your investment in Year 2, which also generated additional returns during Year 2. The effects of compounding can be massive if projected 10 or 20 years down the road.

	PERSON A	**PERSON B**	**PERSON C**
Age Started Investing	20	30	40
Annual Investment	P100,000	P100,000	P100,000
Total Investment for 10 Years	P1,000,000	P1,000,000	P1,000,000
Investment value at age 60	**P30,590,838.63**	**P11,794,092.55**	**P4,547,133.23**

**Calculations are based on an annual investment return of 10.00%.*

From the illustration above, we can see that even if all 3 people invested the same PESO amount for 10 years**,** but **PERSON A** ended up to be the richest when all three reached 60 years old. This is because he invested at a much earlier time than the other two. Investing at an early age gives a massive advantage because of the effects of compounded returns.

WHAT ARE THE FEES WHEN TRADING STOCKS?

For buying and selling:

Commission Rate	0.25% of Gross Value Traded or Minimum P20.00 per transaction*
Value Added Tax (VAT)	12% of commission*
Securities Clearing Corp. of the Philippines (SCCP Fees)	0.01% of Gross Value Traded
PSE Fees	0.005% of Gross Value Traded

Additional fee for selling:

Sales Tax	0.5% of Gross Value Traded

**May vary depending on your stockbroker's commission rate.*

ILLUSTRATION: For example you purchase 10,000 shares of Company ABC at Php5.00 per share; here is a sample calculation of the fees involved:

Buying Transaction:

Gross Value Traded (10,000 shs x P5.00)	Php 50,000
Commission Rate	Php 125.00
Value Added Tax (VAT)	Php 15.00
Securities Clearing Corp. of the Philippines (SCCP Fees)	Php 5.00
PSE Fees	Php 2.50
Total Buy Amount	**Php 50,147.50**

A few weeks later, you then decide to sell all 10,000 shares of Company ABC at P5.50 per share. Here is a sample calculation of the fees involved:

Selling Transaction:

Gross Value Traded (10,000 shs x P5.50)	Php 55,000
Commission Rate	Php137.50
Value Added Tax (VAT)	Php16.50
Securities Clearing Corp. of the Philippines (SCCP Fees)	Php 5.50
PSE Fees	Php 2.75
Sales Tax	Php 275.00
Total Sell Amount	**Php 54,562.75**

From the illustrations above, we can calculate your NET PROFIT to be:
PHP 4,415.25 (PHP 54,562.75-PHP 50,147.50)

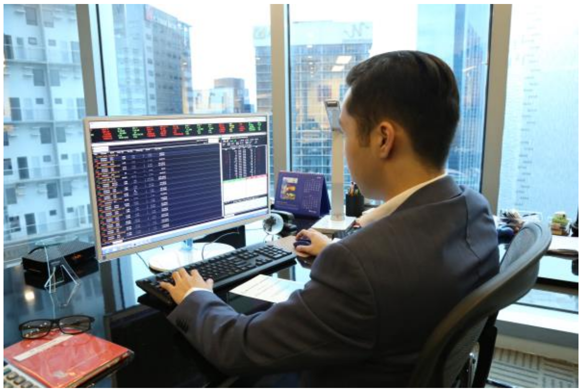
HOW DO I BUY STOCKS?

In the Philippines, you can buy stocks of publicly listed companies in the **Philippine Stock Exchange (PSE)**. The Philippine Stock Exchange is a marketplace wherein investors can buy or sell stocks of publicly listed companies. However, you cannot just walk into PSE's office and purchase stocks in exchange for cash. You need to open a stock trading account with a PSE-accredited stockbroker like Timson Securities Inc. (www.timson.com.ph).

You have the option to choose between a traditional and online stockbroker. Different stockbrokers have different commission rates ranging from 0.25%-1.50% for every transaction. Timson Securities Inc. offers the lowest commission rate of **0.25%** per transaction. Some stockbrokers only offer traditional or online, while some stockbrokers like Timson Securities Inc. offer both.

1. **Traditional:** You will have a licensed salesman who will assist you with your orders via phone or written instruction. He/she may provide you with investment advice and recommendations.

2. **Online:** You will be given a set of a username and password, which you will use to log-on to your online stockbroker's trading platform. There, you can place your orders in the comfort of your very own computer without the assistance of a trader.



HOW DO I OPEN AN ONLINE TRADING ACCOUNT WITH TIMSON SECURITIES?

To open an online trading account with Timson Securities, prepare the following requirements:

1. **Completed and signed** **Customer Account Information Form (CAIF)**. Please print on long bond paper (8.5x13in) or scale the document according to your paper size in the printer's settings.
2. **Photocopies of any (2) valid government issued IDs such as:**
   • Passport
   • Driver's License
   • Digitized SSS ID
   • GSIS E-Card
   • OWWA ID
   • Postal ID
   • Senior Citizen's ID
   • OR any Government Issued ID
3. **Photocopy of a proof of billing such as:**
   • Utility Bill
   • Credit Card Bill
   • Bank Statement

Additional Requirements:
• For Resident Foreign Citizens – Alien Certificate of Registration (ACR) or Work Permit from DOLE
• For Non-resident Foreign Citizens - Authentication of a photocopy of one (1) valid passport

**To open a traditional trading account, contact cs@timson.com.ph via email.*

You may personally submit the originally signed forms and requirements to our office at Suite 3310 Robinsons Equitable Tower ADB Avenue Ortigas, Pasig City 1605 Philippines. You may also send the originally signed forms to our office via courier at Suite 3310 Robinsons Equitable Tower ADB Avenue Ortigas, Pasig City 1605 Philippines. Once we receive and finish reviewing your requirements, a customer service representative will contact you to inform you about the status of your application. Once your account has been approved, you may then proceed to fund your account with our partner banks. Minimum initial deposit is **PHP 25,000.00.**

To know more about Timson Securities Inc., visit our website at www.timson.com.ph.

HOW TO PICK THE RIGHT STOCKS TO BUY?

There are 2 main schools of thought when it comes to analyzing stocks:

1. **Fundamental Analysis (FA)**
2. **Technical Analysis (TA)**

The main difference between the two is that Fundamental Analysis focuses on the study of the company's financial statements while Technical Analysis focuses on the study of the stock's chart and price movement.

FUNDAMENTAL ANALYSIS

Investors who use fundamental analysis to pick stocks are basically concerned with the following:

1. **Is the company making money?**
2. **What is the company's revenue growth?**
3. **Does the company have a competitive advantage over its competitors?**
4. **Is the company's management credible?**

By assessing the company's profitability, growth, market position, and management team through financial statements and press releases, investors try to provide a theoretical intrinsic value to the company. This intrinsic value is what the investor thinks the company's value should be. If the company's stock price is trading below the perceived intrinsic value, then the investor would want to buy the stock because it is cheap/undervalued. If the company's stock price is trading above the perceived intrinsic value, then the investor would want to sell the stock because it is expensive/overvalued. Generally, people who use Fundamental Analysis in buying stocks have a **long-term timeframe** in investing and are willing to wait for the stock price to reach its intrinsic value, even if it takes several months or years.

Assumptions in Fundamental Analysis:

1. The stock price doesn't always reflect the stock's intrinsic value or "real value"
2. In the long-run, the stock price will reflect the company's real value
3. There are different methods to value a company *(Discounted cash flow method, Price/Earnings ratio, Price/Book Value ratio, etc.)*

TECHNICAL ANALYSIS

Traders who use technical analysis to pick stocks are generally concerned with the price movement, supply and demand, and the chart of the stock. They believe that everything that they need to know about the stock (fundamentals, news, profitability, growth, etc.) are already reflected in the stock price since these information are known by the investing public. Traders only need to look at the chart of the stock to determine if the stock should be bought or sold. Generally, traders who use technical analysis in buying stocks have a **short-term timeframe**, as they want to take advantage of the short-term volatility of the stock.

Assumptions in Technical Analysis:

1. **The market discounts everything.**

Fundamentals, news, etc. are priced in by the market already.

2. **Price moves in trends.** ***"The trend is your friend."***

Future price movement is likely to follow the current trend.

3. **History repeats itself.**

   Investors/traders provide consistent reactions to similar market stimuli, providing similar chart patterns over time.

To learn more about fundamental and technical analysis, visit www.investopedia.com.