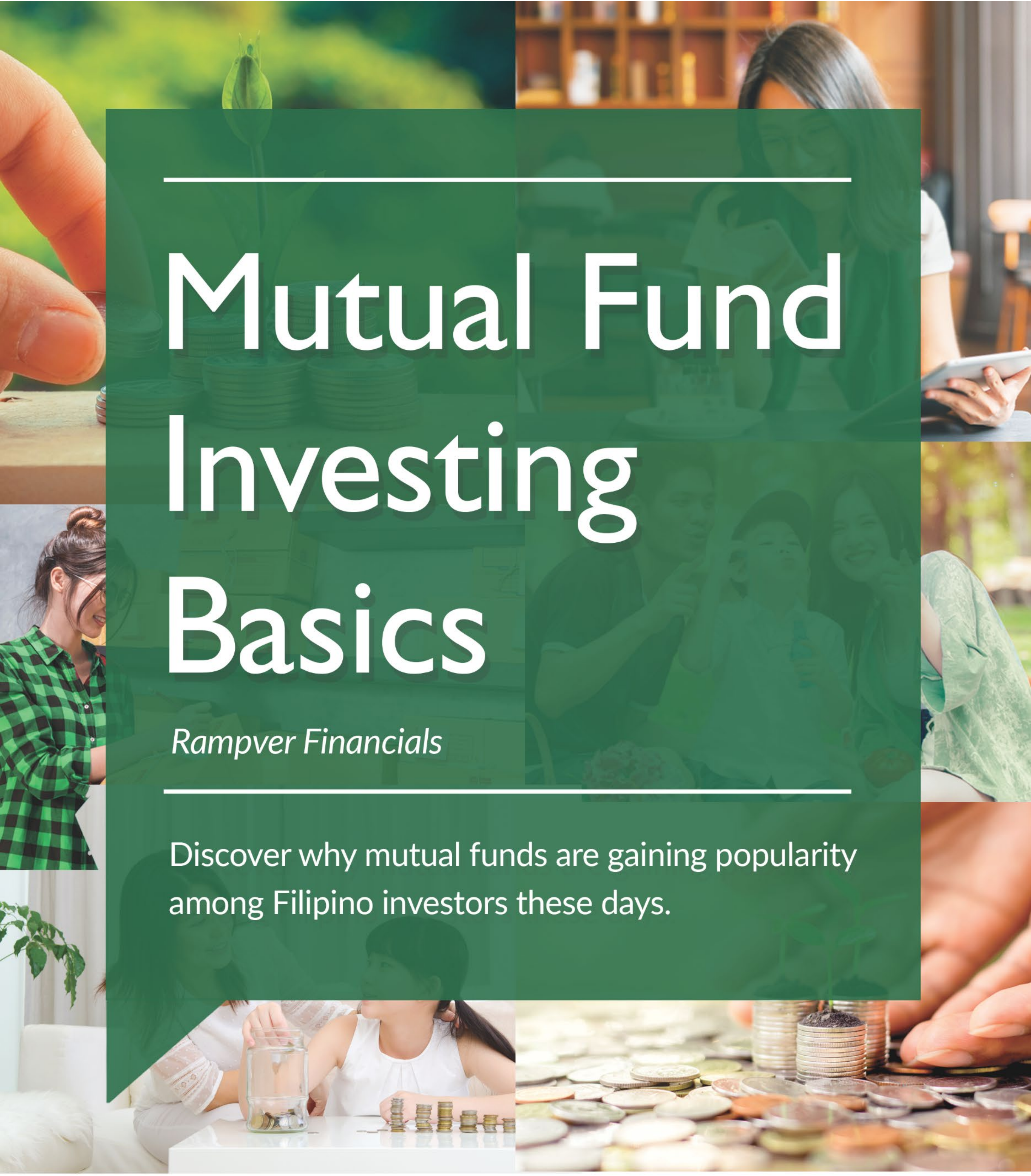

Mutual Fund Investing Basics

Rampver Financials

Discover why mutual funds are gaining popularity among Filipino investors these days.

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Two Reasons Why You Should Invest

Investing remains to be a strange, magical thing for many people. Most Filipinos still believe that the risks outweigh its benefits.

With a high unemployment rate and issues on financial capabilities, most people in the Philippines simply want to safekeep their money in conservative, capital-protect products as these are seriously regarded as “hard-earned fruits of labor”.

Putting funds in the bank or keeping it under the mattress, surprisingly gives a sense of security, does it?

Investing in a financial instrument, diversifying it in a portfolio of securities or entrusting it to so-called experts like “fund managers”, can still be likened to scams or highly risky easy-money schemes.

Likewise, both the known & unknown risks of market volatility in the stock market scare many potential investors away.

Here are two reasons why one must invest.

Beat Inflation

Inflation is defined as the depreciation of your money value over time.

Many years ago, a five-peso coin can still buy a full course meal for lunch complete with drinks and dessert. Now, this same coin can only get two pieces of warm, morning *pan de sal* – at most.

Fast forward to today, still, inflation eats away the value of money – *slowly but steadily*.

₱1,000 today will certainly worth less a few years from now. So, leaving money inside a cash box for years is not advisable as keeping it there means degrading its value over time.

Now, let us talk about the concept of compounding.

Better explained: the inflation rate for 2016 is 2.6%.

If ₱5,000.00 is invested in an equity fund last January 1, 2016, after one year, the investment made a 10% gain, or ₱500.

Due to inflation, ₱5,000.00 is now only worth ₱4870.00 (₱130.00 less than the original). But because it was invested, it's now ₱5,370.00.

Investing in protecting money from the effects of inflation, and notably gained a good yield as well.

This may sound negligible at first, as the values presented above can be much lower.

Stretch this scenario for five, ten to fifteen years, and the values go up, thanks again to the most potent force in investing: "**Compounding**". Do the math.

Achieve Financial Goals and Dreams

Money, after all, is a means and not an end to achieving one's goals and dreams.

You do not have to do the saving on your own. Investing can be a great way to grow your funds for future use (retirement, child's education, or future business)

The power of compounding over time produces great results. Famous scientist Albert Einstein once quoted "Compound interest is the eighth wonder of the world. He, who understands it, earns it; he who doesn't, pays it."

Equity funds, for example, have the reputation of giving good yields on long-term, five to ten years in the average.

Putting your money invested in the long-term minimizes the risk of losses incurred by the inherent volatility of the market.

There are many financial instruments, such as mutual funds, that give you several options where to invest.

Talking to a licensed financial advisor is helpful. These advisors are trained to match investors' financial needs to risk appetite, time horizon (length of time the money is invested) and based on your answers to these, where best to invest.

Copying another person's financial plan and treating it as your own is not advisable. This is because there are no two investors who have exactly the same circumstance, financial goal, risk appetite or time horizon.

Seeking professional help, (much like health) with your finances is a must. ***Let us not self-medicate.***

Yes, investing can be hard and could be a complicated thing for many, but it is crucial in fulfilling dreams. Amidst the jargon, stigma, fear and the risks involved, as an investor, you must fix the gaze on the target.

Clearly identify the reasons why you want to grow your money, when and how you plan to achieve it.

Know your Investor Risk Profile

To be successful in investing, it is a must to figure out what type of investor you are: investment risk profile.

This will give you an idea of what investment instruments are suitable for you.

Investment Considerations

Depending on what we need to achieve, you can have separate investor profiles to match each goal.

Here are four key things to consider when investing:

- **Duration** - How long can you afford or do you want to invest?
- **Returns** - Do you prefer income or growth?
- **Liquidity** - how fast can you get your money back?
- **Risk** - What balance of risk and reward is right for you? What is your level of comfort?

Duration

Duration means how long you want to invest.

Saving for an overseas trip in a year's time is a short-term investment. So it is important to be able to get it when you need it.

Investing to buy a house in five years' time is an example of a medium-term investment.

Investing for retirement or a child's education is usually a long-term investment.

It is common to have different investments in different durations.

Returns — income or growth?

To work out the most suitable types of returns, you need to decide if income for you or growth is a bigger priority.

If you want to establish a fund intended for retirement and do not need the money in the short term, you can consider long-term investments such as mutual funds, variable unit link products, stock market and the like.

Liquidity

Liquidity means how easy can you cash in your investment.

A highly-liquid investment means we can get at our investment any time. Mutual funds are a perfect example.

In a low-liquidity investment, it may take time to find a buyer and complete the sales process. Property is usually a low-liquidity investment.

Risk

The higher the risk you take, the higher the returns you could receive, a risk-reward trade-off.

Generally, it is easy to recognize high-risk investments because the potential returns also stand out as high.

Remember, the promise of low-risk, high-return investment does not exist. If it does, be cautious, more than likely, it is a scam.

Three Types of Investors

Conservative Investor

You protect your money while giving it space to grow through low-risk investment funds. you are an investor with a low appetite for risk and you are amenable to modest returns. You embrace the concept of “slowly but surely”.

You have money lying around but might need it anytime soon, so your investing horizon is closer towards the medium-term.

You want to preserve your savings, take advantage of investment opportunities, and still reach your short-term goals as early as 1 to 3 years.

Moderate Investor

As a moderately aggressive investor, you want the balance of capital growth and protection. You want to experience the “best of both worlds”.

You are willing to take the risk but are not ready to have 100% exposure in the equity/stock market. You prefer the combined benefits of bonds and stocks as a way to reach your goals while building your financial nest for the long-term.

Aggressive Investor

You are committed to investing for the long term, knowing that you may encounter market downturns along the way. You have set aside enough for your short-term needs, and you have enough money for investing.

You want to increase the earnings potential of your money for the largest profit to meet your goals. You have no immediate need for your investments and are willing to invest for the long term. You can at times act with “blind faith”.

Mutual Funds: How Do They Work?

Filipinos from all walks of life have dreams for themselves and their loved ones.

Providing children with the best education, having a nice home, starting a business and comfortable retirement are some of the many dreams that Filipinos nurture in their hearts.

This is the point where savers realize the need to become investors.

Savings accounts in banks are good as it serves emergency funds but these are not enough, for they are exposed to the effects of inflation, and can make the value of money less over time.

Investing in mutual funds can help individuals grow money even without having the time and expertise to do so.

In mutual funds, people can effectively invest their money in reputable instruments without the burden of having to study the different available financial instruments nor forcing the issue on “timing the market”.

What are mutual funds?

A mutual fund is an investment company that collects or pools investors’ funds and investing it in different securities such as stocks, bonds, money market instruments, or combinations of the three

Each investor of the fund becomes a shareholder or part-owner of the fund and receives a number of shares depending on the **NAVPS (Net Asset Value Per Share)** upon purchase, plus the front-end fees applied.

All mutual funds in the Philippines are registered in the Securities and Exchange Commission. These funds operate under the provisions of strict regulation and auditing created to protect the interests of the investing public.

What is Net Asset Value per Share (NAVPS)?

Each share is priced according to the fund's Net Asset Value per Share (NAVPS). Simply put, the price per share of a mutual fund.

The value or price per share changes daily, depending on the performance of the whole investment mix.

So, like any investment or company that you become a part-owner of, each investor participates proportionately in whatever gains or losses (paper or otherwise) of the fund.

The NAVPS varies daily because of the market changes that affect the underlying securities in the mutual fund.

This price is determined by the total value of the securities in the portfolio, divided by the number of shares outstanding.

This price fluctuates based on the valuation of the securities held by the portfolio at the end of each business day, and this price is contrasted against the fund's historical prices to check its growth performance.

The fund's NAVPS is posted immediately the next day in local newspapers, company websites, or social media pages for the investors to see.

Note that while it may be tempting to focus on short-term performance when evaluating a fund, most experts will tell you that it is best to look at longer-term performance, such as three- year and five-year returns (track record).

Technically, mutual fund investors do not “directly” own the underlying securities or stocks in which the fund invests in; they only own shares in the fund itself.

The fund is professionally managed by seasoned financial experts/practitioners (fund managers) duly elected by the shareholders. fund managers call the shots, and their job is to seize market opportunities while lowering the risk for investors.

They grow and maximize the earnings potential of the funds through strategic trading, optimized asset allocation, interest earnings, and dividend yields.

Each mutual fund has its own set of features — asset mix, time horizon, and risk exposure that depends on the fund’s goal and goals.

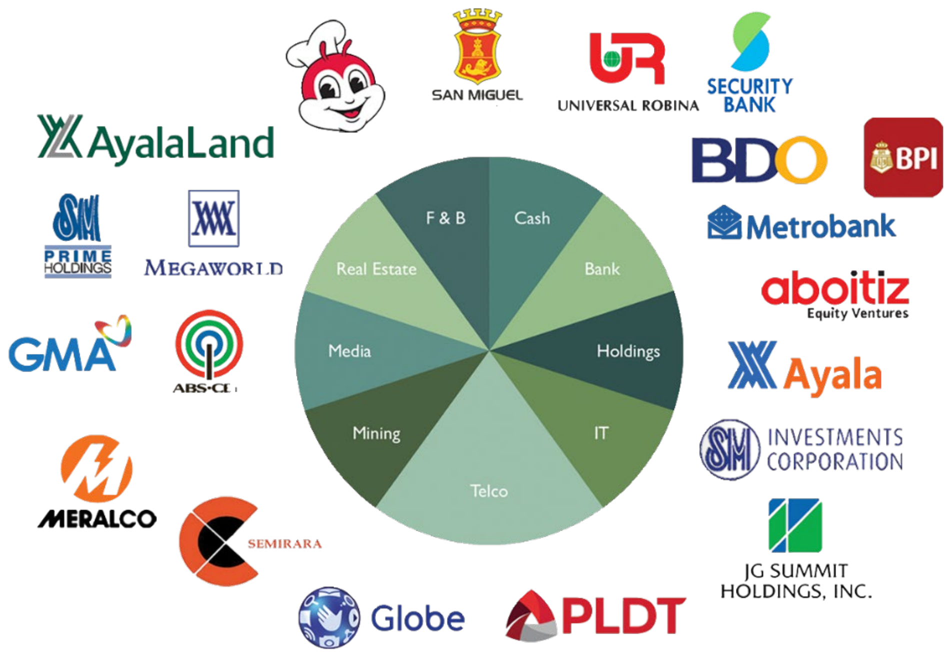
These are presented in the fund’s prospectus.

Types of Mutual Funds

In the Philippines, mutual funds, in general, can be classified into four basic types — the stock fund, bond fund, balanced fund, and the money market fund.

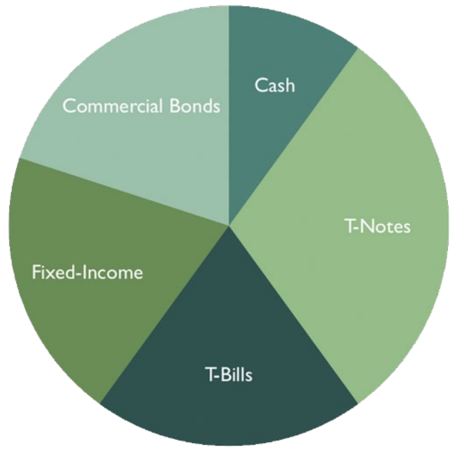
Each fund type corresponds to the specific investment goals of the fund, usually stated in the managed fund’s prospectus or fund fact sheets.

Stock Funds/ Equity Funds



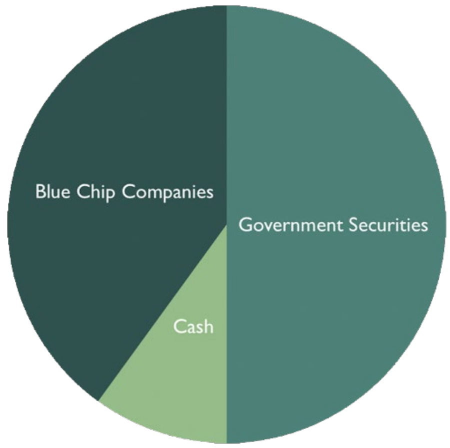
- This type of fund is invested in a diversified portfolio stocks/ equity and generally has the highest return on investment over the long-term.
- Stock funds are basically designed for "growth", to earn from capital gains and dividend yields. These are good for investors who seek the largest capital appreciation, given that they can take a high risk of volatility.
- The recommended length of stay for this fund is five years and beyond.
- This is usually recommended for those investors who have long-term financial goals such as children's education, retirement fund, funds for future business, and others.

Bond Funds



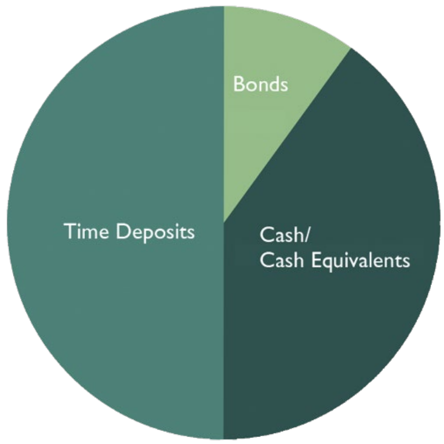
- This type of pooled fund is invested in a diversified portfolio of fixed-income instruments, such as government securities, treasury bills, commercial papers, treasury notes, and others.
- Bond Funds earn through the interests paid regularly on the securities where they are invested in. The return of investment in bond funds usually outperforms the interest rates of bank deposits and deposit substitute instruments.
- This fund can be a good guard against inflation and it can preserve (although may not be guaranteed) the money value for the short-term. this is for the conservative investors who are risk-averse, who do not want to subject their money in market volatilities, thus opting for a safer investment instrument, yet protecting it against the effects of inflation.
- The recommended time horizon for this type of fund is one to three years.

Balanced Funds



- This type of fund is a hybrid fund, a mix of a stock fund, bond fund or money market fund in a single portfolio.
- This type of fund is poised to gain a moderate return on investment without exposing the fund to too much risk or volatility.
- Usually, there are set gauges on how much a balanced fund should be invested in stocks and bonds.
- This is recommended for investors with moderate risk appetites — that is they are willing to expose their investment in volatility yet they have some cover in case something happens to the market.
- The usual time horizon for balanced funds is around three to five years.

Money Market Funds



- These are types of funds that invest in very short-term debt securities such as time deposits, corporate bonds, money market placements, bank deposits, and cash or semi-liquid assets.
- Money Market Funds present the least risk among the other types of funds, yet, true to the "risk-reward trade-off concept", this fund also generates the lowest possible returns.
- This fund is suitable for investors with an ultra-low-risk tolerance and a short-term investment horizon, usually less than one year.
- Recommended for investors who may need their funds in a short period of time at the same time seek safer and more stable investment vehicles and still earn better than traditional bank products.

It is very crucial for investors, especially for beginners to seek financial advice when choosing the right type of fund.

Maximizing the fund's advantages and earnings potential can be achieved if matched with financial goals, time horizon, and risk appetite.

Add into account those factors that the investors usually look for — fund's track record, the credentials, and awards received by the fund manager, accessibility, preference, and others.

More like entering a relationship or a deal, the investor must first and foremost know how the chosen fund will make his/her investment goal a reality — for investing is a long-term commitment.

Proper matching and goal setting must be done prior to participating in these kinds of instruments for they also have disadvantages, which sometimes, like a relationship can be detrimental to the investor's money if left ignored or neglected.

After all, money is just a means to achieve a greater cause — fulfillment of life's dreams and goals.

Advantages of Mutual Fund Investing

Professional Management

One of the main attractions of mutual funds is the fact that it affords its investors (Particularly providing the retail investors) the services of full-time professional fund managers.

Fund managers analyze various investment options, and actively select and short-list those that would give the best possible returns to the fund and its shareholders.

Fund managers call the shots. Their job is to seize market opportunities while lowering the risk for investors. They grow and maximize the earnings potential of the funds. They do this by strategic trading, optimized asset allocation (diversification), interest earnings, and dividend yields.

This can be a relief to investors that do not have the luxury of time to track and manage an investment portfolio.

Low Capital Requirement

Mutual funds accommodate investors who do not have a sizeable amount of money to invest.

Direct stock investments usually need large capital depending on the stock's board lot.

The minimum investment amounts for Treasury Bills and commercial papers, for instance, range from ₱100,000 to ₱1,000,000, depending on the bank or investment house you are dealing with.

In contrast, most mutual funds in the Philippines need a minimum initial investment amount of only ₱1,000 and minimum additional investments of ₱500.

Employees and participants of businesses, associations, and cooperatives can also invest in mutual funds, with amounts for as low as ₱250.

Great Equalizer

Mutual funds are the “great equalizer” in investments. The rate of return of those investing ₱5,000 is the same for those investing millions of pesos.

The returns are proportionate. This is because each share in a mutual fund represents a unit of ownership, and each share in the fund earns the same amount.

Consider a fund, for example, earns a 15% yield in one year. The investor who placed ₱1 million in the fund will be getting a 15% return on investment. Likewise, investors who placed ₱10,000 will get a 15% return, too. *

*(Assuming both investors placed their money at the same time.)

Diversification

There is a saying that goes, "Do not put all your eggs in one basket." This is especially true in the world of investments which is full of uncertainties.

Diversification is a risk management strategy that mixes a wide variety of investments within a portfolio.

When people invest in a mutual fund, they achieve instant diversification. This is because the fund is required by law to invest in a specific percentage amount of securities in a wide range of instruments.

Mutual funds provide instant access to a diversified portfolio, without the difficulties of having to monitor dozens of assets daily.

Liquidity

Liquidity is the ability to readily convert investments into cash.

Mutual funds will create new shares to be sold to new investors.

Since you buy shares directly from the mutual fund, they are redeemable and can be readily be sold back to the fund.

While the law provides that redemption proceeds must be given within seven (7) banking days from the date of the redemption request, most funds are able to pay its redemption proceeds within 2–3 banking days.

Mutual funds are, thus, considered very liquid investments.

Safety

Safety is a very important consideration for most investors. It is sometimes even more important than potential investment returns.

Mutual funds are highly regulated by the Securities and Exchange Commission (SEC) under the Investment Company Act and its implementing rules.

They are prohibited from investing in highly-risky investment products such as commodities.

They also have to submit regular reports to the SEC as well as to their shareholders.

All the fund's assets must be held by reputable commercial banks for safekeeping.

Mutual funds are also very transparent. Investors have the right to vote during shareholders' meetings and also allowed to know where the investment fund is.

Potentially Higher Returns

Because a mutual fund is managed as a single portfolio, it is able to take advantage of certain economies of scale.

For instance, with its billions under management, it can negotiate for lower stock brokerage fees or command higher interest rates on fixed-income investments.

In the end, however, it is still the investment adviser who really makes the big difference between making direct investments and investing in mutual funds because very few individual investors can match the “muscle” of a big pool of funds, experience, and skill of full-time professional fund managers.

Convenience

In other countries, mutual funds can be purchased directly through a broker, financial planner, bank or insurance agent, by mail, over the phone and increasingly over the internet.

The popularity of mutual funds in the Philippines is fast catching up. It may be a matter of time for this level of convenience to be a reality in the country.

Mutual fund companies also offer a variety of other services, including monthly or quarterly account statements, tax information, and 24-hour phone and computer access to fund and account information.

Tax-Exempt

Gains realized by investors upon redemption of their mutual fund shares are excluded from gross income (effective January 1, 1998). It is not subject to personal income tax stated in R.A. # 8424, otherwise known as the Tax Reform Act of 1997.

This benefit alone makes it more profitable investing in a mutual fund.

Seek Financial Advice First

Although a mutual fund has a good number of advantages, it is still prudent and wise to seek the help of a reputable financial advisor.

These kinds of investment vehicles, much like any product would also have its own set of disadvantages, (i.e: fees, long-term nature, etc.), which can also hamper the investor's objectives and earnings potential.

Steps in Opening a Mutual Fund Account

Thanks to the advocacy of different financial personalities, associations, and companies across the globe, the Filipino public is becoming more financially literate.

It is important for the public to take concrete actions to maximize their opportunities. Doing this will secure their own and their loved ones' future.

That said, there is no better way to execute and take part than opening your own investment account. In the Philippines, there are is a wide range of financial instruments to choose from.

But if you are new to this, or would not have the time to study which investments to pick, you can always invest in a mutual fund.

Excited to get started?

Here we have summarized the five simple steps to open a mutual fund account, for ₱1,000.

Know Yourself

Investing is both an emotional and personal decision. You must first know yourself well before investing in anything.

Consider these factors before deciding which mutual fund may best suit you.

Financial Goal — What are you investing for? Why are you investing?

Is it for your retirement? Your child's college education? Or your future business? Whatever your goal is, there is a specific mutual fund that matches your needs. It is important to set your goal **S.M.A.R.T.** (specific, measurable, attainable, realistic, and time-bound).

Risk Tolerance — Risk Tolerance is the level of extent of risk in which an investor can take. Are you an aggressive, moderate, or conservative type of investor?

Do remember that there are always risks attached to investing. There is always the possibility to gain or lose money.

Don't worry because before anything else, you will be given an assessment called the Investor Risk Profile Questionnaire (IRPQ). This will help in knowing what type of investor you are.

Additionally, there are supplementary materials such as the Fund Prospectus (the official document of the mutual fund company, with all features and information about the fund).

Also, there are Fund Fact Sheets (monthly fund performance reports, showing where the investment fund is) to which you can use as a reference to know more about the mutual fund you are planning to invest in.

These tools also manage your earnings expectations in mutual funds.

Time Horizon — For how long do you plan to invest your money? It is crucial to know the amount of your financial goal, so you can as well set your preferred term. Remember, time plays a major role in growing your investments.

Get Recommendations from A Professional

It is a bit of a challenge for you as a beginning investor to choose the right mutual fund that suits best your needs. It will be confusing for first-time investors to decide which fund to invest in.

As with health, financial situations should be properly assessed. Getting financial advice from a professional is recommended. (but anything beyond that is also wrong).

"At Rampver Financials, you can get those valuable recommendations from our financial advisors — for free. You don't have to study all the 50+ mutual fund companies, we will do that for you. You will be presented with an unbiased shortlist of selections that best suits your financial goal. We are committed to handhold and assist you through our financial literacy programs and unbiased advisory services."

Fill Out Investment Forms and Submit

Opening a mutual fund account is very much like opening a bank account. Depending on the mutual fund you are planning to invest in, you fill out certain forms. Some of these are the following:

- Data Privacy Consent Form
- Customer Information Sheet
- Investor Risk Profile Questionnaire (IRPQ)
- Foreign Account Tax Compliance Act (FATCA) Form
- Specimen Signature Cards

While the requirements are tedious, this process protects you from fraudulent transactions.

Attach two valid IDs (at least 1 government-issued IDs) with three specimen signatures, for verification.

After filling out the forms, submit it to authorized receiving personnel and offices (licensed distributors and brokers).

The mutual fund company will then review your forms for any missing information. You will have to provide any missing information before proceeding.

Fund Your Account

Now you can fund your mutual fund account. Make your payments only to authorized and licensed distributors or brokers, remittance centers, and bank partners of the mutual fund company.

The minimum initial investment is around 1,000, but you can go above that amount.

TIP: You can submit your forms and fund your account at the same time to avoid delay.

If the submission is successful, you will receive a confirmation (either the same banking day or one day after) though email or text message.

For mutual fund companies that still issue hard copy receipts, these will be sent to you within 30 banking days.

Top-Up Your Mutual Fund Investment

It will be difficult for you to achieve your financial goals if you only invested once or a one-time lump sum.

You cannot expect your ₱1,000 to grow to a million pesos even in ten years if you just leave it without doing any top-up investments.

You must consistently invest to fulfill your financial goals at your target time horizon. Investing regularly helps you to manage and maximize the ups and downs in the market.

Your financial advisor will also assist you to plan when, where, and how you can top-up your investment, without eating up a large chunk from the budget.

You should feel that investing as an enjoyable and fulfilling activity, not a painful process that obliges you to make a sacrifice. If this is how we perceive it, you tend to repeat it.

Investing is both an emotional and personal decision.

It is psychology, use it on your side.

Rampver Financials

Have A Bias for Action!

At Rampver Financials, we know that you will need different financial solutions at every stage of your life. That is why we developed an open-architecture platform supporting multiple financial product lines from reputable investment and insurance houses.

Be it personal finance, wealth management, life protection, healthcare plans, estate protection, or business loan packages, you can trust and partner with us to discuss your need particulars, and be assured that what we will eventually offer is a lasting solution.

Get in touch with us!

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