

# Unit Trusts :

## Making Your Money Work For You



Financial planning is all about wealth accumulation so that you will have a substantial nest egg for your retirement or towards your child's education. Traditionally, individuals tend to save their money in banks or invest it in the stock market. However, with the current volatile stock market and low interest rates, unit trusts can be an attractive investment vehicle for individuals who want to make their money work for them instead of working for their money.

Unit trusts (also known as mutual funds) are pooled contributions from many investors with similar financial aims. They are held in trust by a trustee, and managed by professional fund managers who will invest these consolidated funds. Currently, there are over one hundred types of unit trusts in the Malaysian market, but for the purpose of this article, we will divide them into high-, medium- and low-risk funds.

High-risk funds include growth, small-cap and index funds, which invest primarily in equities, and are suitable for

investors who are not adverse to risks. On the other hand, low-risk funds like bond, income and money market funds, invest mainly in government securities or corporate bonds. Finally, there are also medium-risk funds (e.g. balanced funds), which seek to invest in a diversified spectrum of assets, including equities, bonds and cash. Most unit trust companies have also launched Islamic funds, which adhere to syariah principles, and do not invest in interest-bearing money market instruments and "non-halal" shares like gaming stocks.

Why should you invest in unit trusts? There is an old adage, "Don't put all your eggs in one basket". For most individual investors in the stock market, they can only afford to invest in a small number of counters, which can be quite risky. However, with unit trusts, the fund manager will have a sizeable pool of money to invest in a widely diversified portfolio, and thus, limiting the risk factor. Furthermore, for a relatively small amount of money (between RM1,000 to RM5,000 for the initial investment, and RM100 for subsequent "top-ups"), an individual can gain access to the invaluable know-how of professional fund managers, as well as enjoy similar pricing advantages to big institutions, by spreading the costs amongst the large number of investors.

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Deciding on which funds to invest in depends on your risk tolerance. Of course, the higher the risk, the higher the returns



on your investment. Needless to say, the losses can also be quite substantial. If the stock market drops, the investor may find that the current value of his fund has fallen to less than his initial investment amount. Therefore, you should never rush into a decision, nor borrow funds for your purchases of unit trusts, without first understanding the risks involved.

When choosing a fund, you should consider the size of the fund and other charges like sales fees, switching costs and management fees, which will be stated in the fund's prospectus. It is important to note that funds, which have frequent dividends and bonus issues, may not necessarily be good funds. In order to assist you in your decision-making, most financial periodicals will have regular publications on the performance of unit trusts by rating agencies such as Lipper and Standard & Poor's. However, a fund's track record does not guarantee its future performance. Hence, you must also look at the reputation of the company, as well as the proven capability and integrity of the fund managers.

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Finally, it is important to note that investing in unit trusts is for the long term only (most fund managers recommend between 3 to 5 years). This is because historically, the stock market tends to have an upward bias in the long term. Furthermore, the fund manager may not have had enough time to generate sufficient returns to cover the costs. Therefore, investors must analyse their own financial commitments, risk tolerance and investment goals before jumping onto the bandwagon. Most banks these days offer a wide selection of funds from several unit trust companies, and their trained financial advisors will be more than happy to assist you in finding the right fund for your needs.