

SELECTING A SUITABLE UNIT TRUST FUND.

Unit trusts offer investors a simple, a more convenient, and less time-consuming method of investing in a diversified portfolio with as little as RM1000 than trading individually. But selecting the right funds is never easy. To begin, there is a wide array of unit trusts funds available in the market that investors need to understand first before investing. Amongst them is the Equity Unit Trust Funds, one of the most popular scheme that provides exposure to companies listed on Bursa Malaysia (and some overseas share markets). Fixed Income Unit Trust Funds are invested mainly in Malaysian Government Securities, corporate bonds, and money market instruments such as bankers' acceptance and fixed deposits. The objective of a fixed income (or bond) unit trust funds is usually to ensure consistent income flow rather than capital growth.

Money Market Unit Trust Funds, meanwhile, invest in low-risk money market instruments that are, in effect, short-term deposits of banks and other low-risk financial institutions, and in short-term government securities, with less than 90 days maturity. The money market unit trust fund is, therefore, highly liquid and ideal for use as a short-term strategy for investors to park their savings. In addition to the above funds, there are other funds such as the Government Sponsored Unit Trust Funds and the Syariah Unit Trust Funds, which invest in a portfolio of "halal" companies, Islamic Debt Securities and bonds or other securities in accordance with Syariah principle.

Apart from these traditional funds, some new investment products have also emerged. These include the Real Estate Investment Trusts (REIT), a defensive investment tool based on its stable returns from investing in real property, and the Exchange Traded Fund (ETF), which is an open-ended investment fund that tracks the index of a particular market or sector.

Next, investors would need to evaluate a few general considerations that help the selection process. The first consideration involves identifying investment goals, which may involve planning for retirement, setting up children's education fund, preserving capital, or simply earning income for the present.

The second consideration would involve determining the appropriate investment horizon, or the number of years available for investing that would help achieve one's financial goals. Time horizon is important in influencing what assets to invest in, how much the investment can grow and how much risk to tolerate. The goals set and the investment horizon, partly a function of one's age, would play a major part in the selection of an appropriate fund. For example, a person in his early twenties, wanting an early start on a retirement fund, would be interested in a fund that emphasised capital growth rather than current income or liquidity.

One other consideration is determining the degree of risk tolerance. Like any other investment product, unit trust has also its own elements of risks. Funds that aim to deliver higher returns would normally be accompanied by higher risks. The appetite for risks should differ, depending on age, financial situation and any other alternative investment holding. For example, a younger person may take more risk for long-term gain as compared to a person who will be retiring soon.

After determining which category of funds to invest, it is important to analyse the prospectus for each funds selected. Some general factors to consider include the track record, the investment style and the cost structure of the funds. One important point to note is that investors, when selecting a fund, can be easily swayed by the funds' historical investment performance. Past performance does not reflect future returns and therefore should not be the primary determinant, though it may be used as one of the factors in selecting the type of fund to be invested.

In reviewing a prospectus, one should pay close attention to the following items. First, investors should look at the fund's investment objective, whether the fund's goal is to maximize dividend income, maximize interest income, earn short-term gains, seek long-term capital growth, etc. Second, the fund's profile, which contains a synopsis of the main attributes of the funds, such as a description of

the fund's investment objectives and the strategies (the types of securities the fund invest in) that it employs to realize its objectives should be looked at.

Third, investors have to analyse the risks involved in investing in a particular unit trust and decide whether they match their own risk profile. Fourth, investors should be clear on the fees charged and the impact of these fees on returns, as not all unit trust funds charge the same type of fees or the same level of fees. Next, investors should study the procedures for subscription, redemption and the switching of units carefully. And finally, investors should look out for any specific features and constraints that may be in conflict with their investment goals, as some funds may have a policy of not distributing dividends, may require higher minimum investment requirement or may have procedures for buying or selling units that are somewhat restrictive.

However, making the right decision on the appropriate investment to meet one's investment objective and risk profile is not enough. The selection of a unit trust adviser with the necessary resources, experience and skills to manage one's investment is crucial.

After investing in a fund, its performance needs to be closely monitored. Regular investment or the practice of dollar cost averaging is strongly encouraged. Over time, investment strategy and objectives should be continuously evaluated and adjusted. As an example, a person nearing retirement may consider moving money from growth funds into fixed-income funds that provide current income and greater stability.

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