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## Old habits are hard to break

As an adviser of eight years, I have noticed that investors' attitudes towards unit trusts have improved. They understand that fund investments provide the smaller players with a well-diversified portfolio of financial assets to help spread risk and gain access into markets and instruments they may not have had the time or experience to do by themselves.

These investors think long-term, their investment size has grown, and they are very confident about unit trust investments.

However, there are still some who do not understand unit trusts and many more who do not bother to. Basically, the man-in-the-street continues to prefer punting on the stockmarket directly to investing in a unit trust managed by someone else. Many perceive unit trusts as unexciting; as seldom offering the fantastic returns that retail investors enjoy when picking the right stock in a rising market.

Below are some observations I would like to highlight:

### **Observation #1: Selling Out Too Early**

If you have been holding on to your unit trust for three years or more, consider yourself a rare species.

Investors are often too eager to cash out of a fund they bought only two to three weeks ago. Unfortunately, this group of investors may be selling their funds at the wrong time or for the wrong reasons; effectively getting rid of well-performing funds too soon and hanging on to poor-performing funds too long.

For many years now, the industry has been trying to educate investors about taking a long-term view. We feel that investors should hold on to a fund for at least three years the minimum period within which a fund manager's performance can be properly assessed. As it is, three years is a rather short period when compared to standards in other countries like the US.

Getting out too early could mean missing out on even better performance in the future. If your portfolio performs well in the short term, you should ask yourself what its potential might be over the longer term.

So is there a good time to cash out a fund? Yes, of course. For instance, when risk profiles or financial objectives change as you get older. Sometimes, if a unit trust fails to perform after a reasonable period of time, it may also be necessary to review your investments.

On November 2, 1999, the Monetary Authority of Singapore released its half-year survey of the Singapore asset management industry. It showed that total assets under management had increased by a significant 36% in the first half of 1999.

While this is good news for the industry, dare we suggest that investors fully understand the meaning of professionally managed investments such as unit trusts?

## **Observation #2: CPF Savings = Short Term + High Risk**

CPF savings are best utilised for long-term investments. Yet many people tend to invest that money directly into shares usually those with a higher risk and short-term perspective.

Because CPF money cannot be withdrawn until age 55, they feel that can be more aggressive with that money. They tend to use their CPF money more aggressively investing in stocks than in unit trusts.

Is there anything wrong with that? To the individual, there is no problem although statistics show that only one in four Singaporeans actually make money when investing their CPF savings on their own.

But collectively, there is a concern. Singapore has a rapidly ageing population, and ensuring that Singaporeans have sufficient retirement savings is high on the Government's agenda. By investing in high-risk stocks, this may increase the potential of leakage in your retirement fund.

The latest changes to the CPF investment rules, where the Government has lowered the limit for individual investment in stocks to 35% and raised unit trust investments to 100% (of investible savings), is to help channel investors away from speculative investments like stocks to longer-term investments like unit trusts.

While this is good news, investors still need to be convinced that investing in a unit trust is more rewarding in the long term. They must understand that the fund manager's job is to lose less in a bear market and make more in a bull market.

Most fund managers are also guided by the fund's mandate, which makes it less likely for them to stray from what they are supposed to be doing.

## **Observation #3: Cheap Is Good**

Some investors sell a unit trust that has risen 50% (to, say, \$1.50) to buy a similar unit trust that is just launched (at \$1) because they think it has a greater potential for capital appreciation.

If you do so, you are selling for the wrong reason. Unlike shares, the price of a unit trust at a particular time does not indicate relative value in the same way; that is, where you would assume stocks at \$1 is better value than at \$5.

What most investors tend to forget, or fail to realise, is that assuming all things being equal, the unit trust quoted at \$1.50 is capable of appreciating by the same amount (or maybe even more) than the new one on offer at \$1.

In fact, by switching from one unit trust to another, you are incurring unnecessary transaction costs.

Another reason you should not treat unit trust investing in the same way as stock investing: a fund manager worth his salt is constantly changing his portfolio, retaining only those stocks with potential price appreciation.

In fact, a good fund manager never allows the stocks portfolio to be "overvalued", so there should be no need to sell your holdings when the price reaches some arbitrary or psychological value of, say, \$1.50.

#### **Observation #4: Going For Free Gifts**

Most unit trusts here are launched IPO style, offering bonus units during promotional periods. Recently, fund managers have also resorted to handing out free gifts to sell new funds.

Investors therefore have a choice between the free gifts and a discount on the sales charge. While a discount in the form of a bonus is attractive, free gifts which over the last six months have included mobile phones, handheld PCs and air tickets may pose a problem.

This marketing strategy has created a new group of investors whose aim is to collect the free gifts, and not finding a fund that meets their objective. In the end, they will probably take profit as soon as they are able, missing out on the benefits of staying invested for the long term.

In my practice, I advise my clients to go for the discounts, which equate to more units, rather than the free gifts. When the unit trust increases in value, your overall worth will be higher than if you opted for the free gifts.

I would prefer fund managers to do away with free gifts and sell unit trusts for what they are.

#### **Observation #5: High Cost**

Then there is the argument of the high cost of investing in unit trusts. Upfront charges could be as high as 8%: 1.5% to 2% for the management fee; and 5% for the initial fee and handling charges by the CPF bank for facilitating the transfer of CPF funds to the unit trust managers.

Compare this to stockbrokerage charges of 0.75% (as at January 1, 2000) for small trades, and it is understandable why people ask, "why bother"? While no one is begrudging fund managers their annual management fee of 1+%, it is the initial sales charge of 5% that investors dislike.

Perhaps one way to justify the charge would be to seek out an adviser who can provide you with the knowledge, experience and resources required to make a decision.

This adviser could help assess which unit trust to select, and should stick with you through thick and thin. Building an ongoing relationship with an adviser makes sense, as the investment process is not a one-off event;

it is a continuous process that requires regular monitoring. If you stay with a fund for five years, you will find the upfront fee of 5% less expensive, provided the adviser is constantly in touch with you.

Ultimately, investors would be best served worrying less about the fees and more about the performance of the fund. The better the fund does, the less important fees become.

## In Closing

Unit trusts are long-term investments. Once you have done your research in selecting a good fund run by a successful fund manager, you should sit back and let the manager do his work.

### Investment Steps For Unit Trusts

1. Personal investment objective: Capital growth
2. Select unit trusts based on investment objective: This is with an understanding that the investments are for the medium- to long-term
3. Subscribe to unit trusts at offer price: Through fund managers or distributors
4. Monitor performance: Through monthly fact sheets and half-yearly and yearly report
5. Decision to redeem unit trust at bid prices: During a financial emergency or when the investment objective is met.

*The writer Ben Fok was a manager (funds specialist) with Fraser Securities. He is currently the chief executive officer of Provident.*

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