

(This article appeared in The New Paper on 21 January 2002)

ASK DR MONEY

How to buy unit trusts cheaply

BY LARRY HAVERKAMP

www.AskDrMoney.com

Q. My bank's sales commission on unit trusts is 5 per cent.

Is this a good deal?

A. No, it is not! You can do better by buying through the Internet.

While banks typically charge a sales commission of 5 per cent, online sellers charge only 2.5 per cent and sometimes less.

Despite this, 95 per cent of all unit trusts have been sold through banks. This will likely change as people become aware.

To get the low 2.5 per cent commission, you must use the Internet. If you have an unspoken fear of computers, your best helper is a teenage relative.

Direct your enthusiastic teenage helper to pull up one of these three sites: FundSupermart (www.fundsupermart.com), Finatiq (www.finatiq.com) and DollarDex (www.dollardex.com).

It is easy to set up the automatic CPF deductions at these websites. You can also set up regular bank transfers using Giro.

I spent half a day trying to figure out which of them is best. But I gave up because each is good, efficient, user-friendly, and cheaper than banks.

REGULAR SAVINGS PLANS

Unit trusts are not just for the rich and famous. You usually need to buy a minimum of \$1,000 worth and sometimes as little as \$500. You can make subsequent investments of just \$100 each.

The easiest way to buy unit trusts is through a regular savings plan (RSP).

You can use a RSP for small unit trust purchases, like \$100 a month.

EXCELLENT HABIT

This is an excellent savings habit and you will see the money accumulate quickly.

A regular savings plan also allows you to "dollar cost average". This means that you make your investments over time instead of in one lump sum.

This is a good strategy because it reduces the risk of buying at too high a price.

Occasionally, there are even better deals than the low 2.5 per cent Internet commissions.

For example, until 31 Jan 2002, UOB Asset Management is charging a commission of only 1.5 per cent. If you already have a UOB account they charge only 1.0 per cent.

UNIT TRUSTS ARE GROWING

Unit trust investments in Singapore grew by 33 per cent in 2001 and stood at \$10.4 billion as of Dec 31, 2001.

Their biggest advantage is that they allow you to buy many shares with a single purchase. This greatly reduces your risk of loss.

When shopping, look at the "fee ratio" and don't buy one with a fee ratio higher than 1.5 per cent.

Unit trusts sometimes brag about their past performance.

Don't take this too seriously as studies have shown that past performance is a poor predictor of a unit trust's future performance.

Finally, there is a good reason to prefer Singapore over foreign unit trusts. This is because Singapore unit trusts will "keep the money at home", thereby boosting our stock market, currency and economy.