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Picking a **Unit Trust** that **Suits your Portfolio**

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How should investors go about when selecting a unit trust for their investment needs? By following these few simple steps the selection process may be a lot simpler than you think.

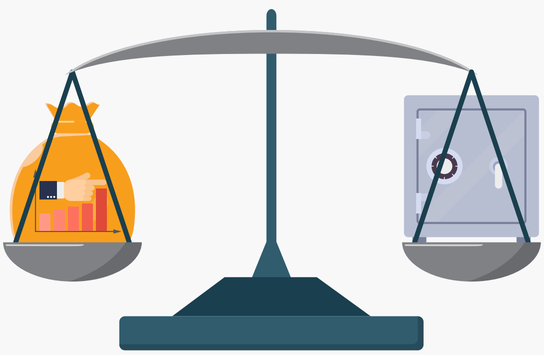
STEP 01 Investment Goals & Risk Tolerance

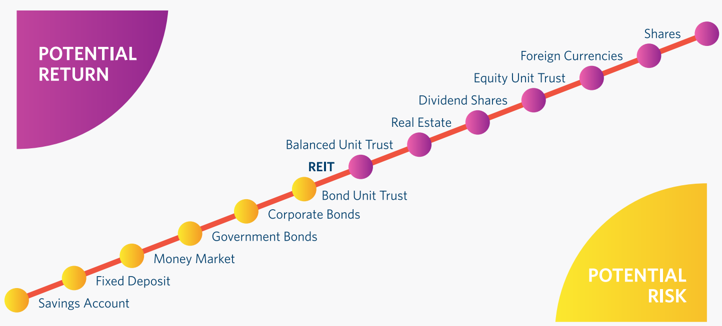
Before you make any decision to invest, be it in unit trusts, stocks, bonds or other money market instruments – an investor needs to fully flesh out his investment goals and determine why you've decided to invest in the first place.

This is then closely correlated to your risk tolerance, which is the level of risk that you are willing to accept for your investments. Can you stomach large substantial swings in your portfolio? Or do you prefer to play it safe and employ a more conservative approach?

Mapping out your investment goals and risk-level, will then help towards determining which fund suits your needs best.

STEP 02 Income, Growth, or Balanced?





Source: Invest Smartly, Securities Commission Malaysia, 2017

An investor with a higher appetite for risk will pick more aggressive **growth funds** which aims to generate long-term capital appreciation through a diversified portfolio. It typically consists of fast-growing stocks that are expanding quickly, and has the potential to deliver above-average returns.

Alternatively, **income funds** are focused on providing regular income streams through investments primarily in high-interest bonds or other fixed-income securities.

However, investors today don't have to settle for either just growth or income. They can also choose both by investing in a **balanced fund**, which typically consists of a mixture of both equities and fixed-income instruments.

STEP 03 Evaluating a Fund's Performance

An investor would then have to review the fund's past results and how well it has performed under varying market cycles. Did the fund consistently outperform the stated benchmark?

With that in mind, past performance is still no guarantee of future results. Thus, investors should also read up carefully on the fund's prospectus to better understand its strategy, as well as its sector allocation and fund holdings.

Most importantly, the fund must demonstrate a sound investment process which can be defined and easily understood.

STEP 04 Charges and Fees

Investors should also pay attention to the different types of fees that may be charged for various transactions. Common fees typically incurred include:-

Initial sales charge/front-end load
Covers the cost of marketing, distributing, and monitoring of unit trust funds by the unit trust consultant for the duration the unit trusts is held

Exit Fees
Incurred when disposing or exiting a unit trust fund

Switching Fees
Incurred when an investor switches unit trust from one category to another

Management Fees
Covers fees for portfolio management, trustee & custody expenditures, audit and administrative fees

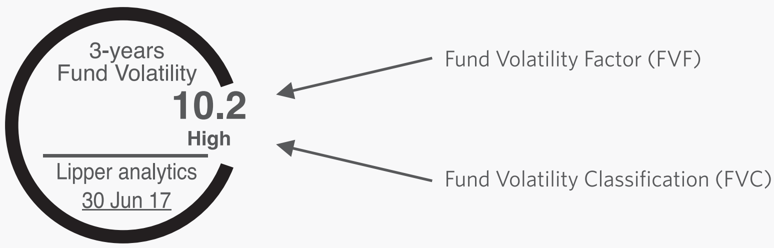
STEP 05 Measuring Volatility

Whilst, it is important to assess a fund's relative or absolute performance – the selection of funds should also consider the volatility of those returns.

In the Malaysian-context, financial analytics firm Lipper provides both the fund's volatility factor (FVF) and Fund Volatility Classification (FVC) to guide investors in their selection process.

The FVF provides a standard deviation measure of a fund's returns, which is calculated against the annualised returns of the fund over a three-year period. A fund with a higher FVF indicates that its returns have fluctuated widely against its annualized returns. In contrast, a fund with a lower FVF signifies that its returns are less volatile.

In the example above, the FVF value is 10.2, which means that there is a possibility for the fund to rise and fall around 10.2% relative to the annualised return.



The fund also has a classification of 'High', which suggests that the fund is resides in a higher risk-band and may be using more aggressive growth strategies to achieve those returns.

Knowing is Half the Battle

Picking a unit trust does not have to be such a daunting task. By clearly identifying your investment goals and risk-tolerance, you've already overcome the biggest hurdle.

A little homework and due diligence will also go a long way to increase your chances of success and picking a winning unit trust fund that suits your portfolio.