



INVESTING IN UNIT TRUST – WHAT DOES IT MEAN TO YOU

An updated preface from the book by Mike Lee - **“POWER CONCEPTS – FOR INVESTING WISELY”** - great ideas to help you manage your personal finance and unit trust investments.

Thousands of people are attracted to invest in unit trusts every year. These investors come from all walks of life ranging from housewives, pensioners and business people (who have the cash) to contributors who have their EPF money in Account one. What attracts these people to invest in unit trusts?

Most investors, I believe, are attracted by the potentially higher returns promoted by unit trust consultants (UTCs) and their unit trust companies (UTMCs). After all, these investors were not too happy over the low rates of returns of 3.7% or 5.04% (5 years' average for 2003-07) paid respectively by their banks for fixed deposits and the Employees' Provident Fund for dividends. Another valid reason is that investors wish to include unit trusts as a component in their asset allocation model to diversify their investment's portfolio risks. Unfortunately, not many investors achieve their objectives of a higher return. Many in fact, lose money, probably because they do not have the knowledge, skills, patience and time to monitor and re-balance their investments when market conditions change.

How, you may ask, can an investor lose money in unit trusts when the research analyst, the fund manager, the unit trust management company (UTMC) and the unit trust consultant (UTC) look after his or her interest? There is, of course, no direct answer to the above question. There is also no such thing as a perfect situation where everything will turn out right all the time. Research, if not thoroughly conducted can go wrong. Asset allocation, if not skilfully conducted, can also go wrong. Market conditions can also change, affecting the performance of an investment portfolio.

These are the risks that one has to take when making investments. However, one thing that can be quite certain is that the UTMC will never encourage investors to sell regardless of the market conditions, as this amounts to not doing business and may reduce their income substantially. Dollar cost averaging and switching to lower-risk products are commonly advised to help you stay invested. Of course, other options exist, which investors can consider on their own.

Only two parties are now left to do the job, the UTC and YOU. Many concerns arise here. First, can the UTC do the job by looking after your interests? Some may and some may not as there are trailer commissions to sacrifice. Second, is the UTC knowledgeable and experienced enough to give proper advice? Third, as an investor, you may have deviated from the original investment plan over time, or did not heed the advice of the UTC. Fourth, you may have changed your UTCs many times for personal reasons, and are therefore unable to follow a common plan for your benefits. The list can go on and on. Hence, the blame cannot be directed at anyone in particular, as many things might have changed during the course of the investment.

This book therefore hopes to achieve the objective of educating investors (those with little knowledge about finance or investment) about the many concepts of investment and planning. The need to invest and understand simple rules such as the Rule of 72 and the Rule of Compounding will help investors keep pace with inflation at least. In a low-interest regime, it may be better to invest one's money. This should be reversed by 'renting' your money to the bank when interest rates increase. For risk-averse investors, understanding risk will open up their minds about what risk-taking is all about. They will also learn that it is necessary to take a bit more risk if they are to benefit from a higher return.

Investors are, however, reminded that a higher return always comes with higher risk, which means that they may lose some or all of their capital. The chapters on Dollar Cost Averaging and Asset Allocation illustrate the effectiveness of investing regularly with, for example, a DCA programme, and also using asset allocation to spread out the risks. The chapter on Distributions and Unit Splits will give investors a deeper understanding about their usefulness and drawbacks, and displace the argument that it is better to buy 'cum' instead of 'ex'.

After reading the first few chapters, investors will realise that a unit trust is not as simple an investment instrument as it seems, and that they require help if making a higher return is the main objective. There are so many types of funds to understand, and each comes with different risks and purposes. Yet unit trusts are viable investment instruments if you know how to manage them properly. The role of the financial planner then becomes critical as the success of the investment plan depends, to a certain extent, on the financial planner's commitment and guidance.

Thus, in Chapter 9, sub-section 9.3, investors will find the difference between 'selling' and 'marketing', and also the difference between a 'short-term tactic' and a 'long-term strategy'. It is important for investors to find a licensed financial planner to establish a good working relationship right from the beginning; someone who understands their needs and who can take care of their interests.

Chapters 7 and 8 about Child Education and Retirement Planning respectively, are included for the benefit of investors who have little knowledge about these

processes and how such plans can be implemented. However, do not take these two chapters as complete child education and retirement plans by themselves. The actual financial plan pertaining to child education and retirement planning requires more details and fact find.

Nevertheless, these chapters explain that there is more than one approach to saving and investing for a child's education or a retirement plan. Yet, in the absence of good advice, most people will be convinced to take the first plan offered instead of looking at other options which might be better.

Investors should also learn how to play an active role in managing their own financial affairs, including making informed decisions. The concept of a 'decision-making process' will enable them to perform this task. Understanding the need to prepare a budget will go a long way to ensuring increased savings over the years and expenses kept under control at all times. Excess funds which are invested will ensure that investment objectives are achieved over time.

Furthermore, investors need to understand why they should always make a plan for investments so that there is a specific purpose, a time frame during which they can set aside some money, a level of risk they can take, and, last but not least, the asset allocation (diversification) for their investments.

In addition, they need to understand how their investments could be affected by changes in economic cycles, interest rates, government regulations and so on, and why they need to sell when they have achieved their objectives, or at least re-balance their portfolio. **Finally, it is in the interest of investors to work with their advisor, preferably a licensed financial planner who can also educate them and help them to manage their financial affairs.**

When investors become more educated, I believe they are able to exercise better care, judgment and common sense.

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Notes:

POWER CONCEPTS – FOR INVESTING WISELY is available at all major bookstores at RM39.90 or order through our website www.ctla.com.my at only RM30.00.



CTLA Financial Planners Sdn. Bhd (CTLA) is licensed by the Securities Commissions of Malaysia to conduct financial planning activities. CTLA specializes in Investment Planning using the financial planning approach and methodology for both individual and corporate clients in areas of:

- Child Education Planning
- Retirement Planning
- On-line share investments and trading (using EPF funds)
- Unit Trust Investments (using EPF funds)
- Business Planning and Advisory
- Cash Flow Planning

Our licensed financial planners also provide estate and trust planning in addition to the above. For enquiries, please contact Mike Lee, CFP at 019-2236 208 or Alice Ng, CFP at 012-3717 375 or visit our website at www.ctla.com.my for more information.



Mike Lee is the founder and managing director of CTLA. He is a professional trainer, speaker and author of the book “**Power Concept\$ - For Investing Wisely**” and a technical workbook in CD format “**The CTL Workbook – How To Market Unit Trusts Effectively**”. Power Concept\$ has received good reviews from both investors and advisors marketing unit trusts who finds the book very informative and educational. The CTL Workbook was also well received by unit trust consultants and financial planners who have benefited from its easy –to-use financial applications and solutions since it was first launched in 1998.

Mike Lee is a CPE-approved speaker registered with SIDC and has conducted a SIDC CPE-accredited workshop recently on 24 September 2008 **“Managing your unit trust portfolio well at all times”** Mike contributes regularly to Sin Chew Jit Poh his solutions to readers’ financial problems and Personal Money about his views and opinions on unit trust investments and insurance matters.

Prior to setting up his financial planning practice in 2002, Mike has more than 25 years of experience in the private sector holding senior positions ranging from Accountant cum Group Company Secretary to General Manager/Executive Director with high responsibility for marketing and finance. He now specializes in investment planning with particular emphasis on unit trust investments in relation to child education and retirement planning.