PREFACE

POWER CONCEPTS**....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 agents (PDUTs) and their unit trust companies (UTMCs). After all, these investors were not too happy over the 3.7% or 4.75% (in 2005) paid respectively by the bank 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 (PDUT) 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 amount 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 PDUT and you. Many concerns arise here. First, can the PDUT do the job by looking after your interests? Some may and some may not as there are trailer commissions to sacrifice. Second, is the PDUT 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 PDUT. Fourth, you may have changed your PDUTs 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-adverse 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 advisor then becomes critical as the success of the investment plan depends, to a certain extent, on the advisor'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 good advisor (a PDUT or 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 needs much more detail.

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.

Furthermore, they 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, 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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