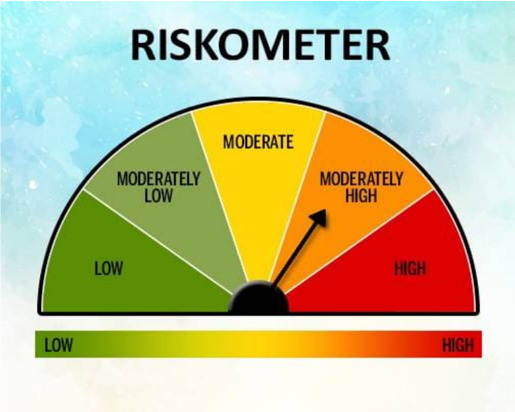
A Basic Guide for Investing in Unit Trust

Investing in unit trusts is not just a destination. It's a dynamic journey comprising a series of decisions over time. Here are some useful pointers for investing in unit trusts.

1. Know Your Risk Profile and Investment Goals

It is vital to assess your own risk tolerance before you start investing. This assessment will help you to determine the right allocation of assets between equity, bond and money market funds for your portfolio. To obtain an accurate assessment, investors have to be realistic about their investment goals and risk tolerance levels during each phase of their lifecycle. As investors move from one stage of their lives to the next, their risk tolerance changes and their asset allocation will have to be rebalanced accordingly.



2. Adopt a Disciplined Mindset

With a disciplined mindset, investors will endeavour to stay focused on their long-term investment goals, and not be emotionally influenced by short-term market fluctuations. In contrast, failing to adopt a disciplined mindset may cause investors to lose out in the long run as they make decisions based on impulsive actions and emotions.

3. Know the Investment Product

Being well-informed of the types of unit trust investments is key to successful investing. Thus, investors need to ensure that they have read and fully understood the fund's Prospectus and Product Highlights Sheet (PHS) to gauge the suitability of the fund. A fund's Prospectus and PHS provide information such as the fund's category, objective, distribution policy and asset allocation.

4. Practise the Golden Rules of Investing

It is also essential for investors to follow the four golden rules of investing, which are listed below:

a) Diversify your portfolio

Holding a diversified portfolio — one that's invested across various markets, sectors and asset classes that generally do not move in tandem with each other — protects one's investments from unwarranted risks. In other words, the investor is not "putting all his or her eggs in one basket".

Suppose an investor buys 10 different funds that are invested across different markets and assets; a potential decline in the performance of any one particular fund may not pose a significant impact on the investor's overall portfolio. In comparison, a portfolio of funds concentrated in only one or two markets may be significantly impacted when these markets consolidate.

b) Adopt a long-term investment horizon

Investors need to be patient and have a long-term horizon to allow sufficient time for their investments to grow over the years. As the late John C. Bogle, the founder and previous chief executive of The Vanguard Group, said: "Time is your friend, impulse is your enemy."

c) Practise Ringgit Cost Averaging

To avoid market timing, investors are encouraged to practise Ringgit Cost Averaging (RCA) — a strategy of regularly buying a fixed Ringgit amount of a particular unit trust on a monthly or quarterly basis, regardless of its unit price. By practising RCA, investors get to buy more units when the prices are lower, and vice versa.

d) Review and rebalance your portfolio on a periodic basis

It is essential to give your portfolio an occasional tune-up as your personal financial situation may change. Market fluctuations may also alter the mix of your assets over time. Adjusting the asset allocation (e.g. between equity, bond and money market funds) every half-yearly or annually will help realign your portfolio to be in line with your investment goals and risk tolerance.

Conclusion

Unit trust investors need to be mindful of their risk profiles, investment goals and the investment products they invest in. Above all, adopting a disciplined mindset and practising the golden rules of investing will serve unit trust investors well over the long run.