

The Importance of Investment Horizon in Investing in UITF

One of the cornerstones of effective investing is the determination of one's investment time horizon. It plays a key role in making the proper investment choices, whether these involve the selection of investment outlet, the type and level of risk one could withstand and tolerate, the timing of the purchase or sale of the investment, or, come to think of it, whether to invest at all. **In short, knowing one's own term preference is critical to almost every single aspect of investing.**

In the case of Unit Investment Trust Funds (UITFs), investors should always be mindful to choose funds appropriate to their investment horizon. Whatever his return requirements are, someone who has short-term constraints should only **consider** funds invested in short-dated assets, such as Money Market Funds, to minimize, if not altogether avoid, experiencing the kind of volatility commonly associated with longer-dated instruments. Meanwhile, an investor whose funding needs coincide with a longer-term perspective **has the luxury** to opt for UITFs that maintain long durations and thereby enjoy the **possibility** of reaping bigger rewards as a trade-off for the risk he should be prepared to take relative to such a stance. It would not be that difficult to imagine the potentially disastrous results that a mismatch of the investor's time horizon and the investment vehicle could lead to, particularly during times of volatility. For the astute investor, taking that simple but critical step of selecting the outlet apropos to his time horizon will help him weather the inevitable investment "storms".

Had investors only observed this basic tenet of matching their investment horizons with that of the UITFs that they got into, the recent retreat of UITF asset values that ensued from the trend reversal of interest rates would probably not have been as dramatic as it had actually been. Increasing interest rates was not the only factor that pulled down UITF NAVpus. Another probable culprit was the redemptions initiated by mismatched investors who panicked at the prospect of ending up with fund values that are less than what they would be requiring in the immediate term. This panic selling exaggerated the fluctuations of interest rates, as supply of securities offered in the market to service the redemptions outpaced buyers. In the end, no one was spared from the shakedown. Even some of those who recognize and accept that volatility is part of investing became leery and found themselves re-assessing their risk tolerance, if not actually joining the herd.

For those who stayed invested in UITFs, particularly the Bond Funds, it is thus imperative to emphasize that around 80% to 100% of the portfolio of these funds is invested in Government Securities, which, while subject to interest rate risks, are credit-risk free. In other words, these investors should remember that the underlying assets of UITFs remain highly viable and stand to return to par value upon maturity. They should not be shaken by the recent volatility of interest rates and UITF NAVpus. What they should bear in mind is that the country's fundamentals remain healthy and intact, and that fluctuations in asset values are merely normal and, by nature, temporary.

Apart from the inherent soundness of the UITF portfolio's underlying investments, UITF investors should also take comfort in the fact that the Bangko Sentral ng Pilipinas, via BSP Circular 447, guides the operation of UITFs. To provide safety nets to investors, this circular requires the following:

- Investment and operational practices of fund managers to comply with global standards
- Tradability of investment outlets to ensure liquidity
- Proper risk disclosure
- Independent security custodianship
- Regular multi-level audits.

In an environment governed by rationality, the UITFs' recent volatility would have been tolerated, even expected. The exaggerated correction experienced by NAVpus and the exodus of funds from the UITFs should not have resulted if the UITF participants stayed true to their stated investment objectives and time horizon. We have seen this time and again – interest rates or bond prices do rise and fall, but they do not rise continuously and fall continuously. By the same token, the NAVPU of UITFs will also rise and fall intermittently, not continuously. For investors keenly aware of their investment profile and **whose stated investment horizons do not fluctuate with the market**, investing in UITFs should not be as stressful as the uninformed paints it to be.