

The Chance for Higher Returns

From Savers to Investors

The goal of investors is to consistently increase the long term value of their assets so that they can purchase increased amounts of goods and services with their savings. People save money for different reasons. A young professional may want to save to make a down-payment for his first car, while young newlyweds may want to save for a down-payment on their first home. An older couple may want to save money for their children's college education, or to build a good nest egg for retirement. Whatever the reason, it is easy to understand the importance of saving. The real question is how to determine the best way to invest your money given your short, medium, or long term goals.

Today in the Philippines there is a variety of investment options available to investors beyond the traditional savings deposits. The Unit Investment Trust Funds (UITF) offered by the Trust and Asset Management arm of banks have grown significantly over the years, as more and more investors are learning to break away from the security of traditional savings deposit and turning to more sophisticated investment outlets. UITFs pool money from many investors and invest the money in stocks, bonds, money-market instruments, other securities or assets, or some combination of these investments. The main driver towards this alternative type of investment is the higher returns that it provides, compared to lower yielding deposit accounts. However, despite its growth, the UITF industry stood at about PHP 140 billion as of December 2007, a long way to catch up with bank deposits which stood at PHP 3.3 trillion as of the same period. It is evident that a large portion of the population is still apprehensive when it comes to investing in higher yielding assets, perhaps due to fear of losing their hard earned cash or simply lack of information. However, investors who take the time to understand the risks involved can effectively mitigate their risk exposure by choosing an investment outlet that best matches his or her risk tolerance. At the end of the day, the returns that can be reaped from a little initiative to educate one's self can be quite rewarding indeed.

Starting an Investment Portfolio

The proliferation of UITFs allows retail investors access to investment choices other than the conventional bank deposit, and start their own investment portfolio. Prior to any investment decisions, it is important for an investor to evaluate his risk and return objectives, understand the underlying investments and portfolio characteristics of the UITFs, and match them to his risk appetite. Information about the UITFs can be easily found in the TOAP website (www.uif.com.ph). First, an investor has to decide how much cash he would like to invest and the how much he wishes to allocate to money market, bond and equity funds. The decision should be based on how much risk he is willing to take and how long he intends to keep his investment portfolio. An investor with a longer investment horizon can be more aggressive and put more in equities. Regardless of how much risk a person can take, it is advisable to keep a portion of money in bond funds since this will reduce the overall risk of the portfolio.

Since the September 2004 implementation of the Bangko Sentral ng Pilipinas Circular 447 providing operation guidelines for UITFs, at least 130 BSP-approved UITFs from 28 trust entities are available to retail clients. It is easier to think of them in categories based on the underlying assets where the pooled funds are invested in.

Money Market Fund is a good place to park your money. Whether storing money for emergencies, saving for the short-term, or looking for a place to store cash from the sale of an investment, money market funds are a safe place to invest. These funds invest in short-term debt instruments and typically produce interest rates that are higher than what a bank can offer in a savings account.

Bond Funds carry more risk than money market funds and are often used to produce income or to help stabilize a portfolio. The primary investments of bond funds are government and corporate debt obligations.

Equity Funds are considered riskier than bond funds, and are used for growing your money although certain bond funds can also be risky. Typical money market funds and bond funds typically provide returns just above inflation, but stock funds should do much better over long periods of time.

Abroad, there are pooled funds that invest in even riskier assets like commodities, real estate and even pieces of art.

UITFs provide investors access to professional managers who select securities the fund purchases, and monitor the performance these securities; offer diversification by spreading investments across a wide range of companies and industries rather than through ownership of few individual stocks or bonds; and provide liquidity as investors can readily redeem their participation any time. Lastly, UITFs can accommodate investors who do not have a lot of money to invest by setting relatively low amounts for initial purchases.

Handling Volatile Markets

Since the start of the year, investors have been uneasy amid the volatile markets. Some investors may consider holding cash or deposits but given rising inflation, this move will not only provide them with lower returns but also diminish their purchasing power. There is no cure-all solution to turbulent markets but there are strategies to handle them. First, try not to focus on the short-term returns. Historical data shows financial markets will not trend downwards forever as economies grow and mature over time. Second, stay the course. Investors who stick it through during turbulent markets are rewarded. While the current market volatility should not be taken lightly, it is the long-term goals that really matter. Lastly, diversify to spread your risks. If an investor has done enough research and has put his money with professional fund managers, he should not panic along with the rest.

Your Partners Towards Long-Term Goals

The Trust and Asset Management departments of banks have continued to expand their UITF products to offer "one-stop investment solutions". While there are no guarantees when investing, there are products that offer investors an opportunity to potentially earn higher returns, to diversify their portfolios and a chance to build their wealth to achieve long-term goals.