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Your guide to unit trusts

If you are interested in opening a unit trust account, but not really sure what they are, then you have come to the right place. This guide will look at what unit trusts are, how they work, and how they will diversify your investment portfolio.

What is a unit trust?

Whether you are new to the investment world, or a seasoned saver, unit trusts are a great way to save your money, and watch it grow.

A unit trust is the pooled money of many investors that is invested in the financial markets through a single collective investment scheme (CIS). A unit trust decreases the risk of investing of an individual investing in the stock market. It allows a qualified and experience portfolio manager to invest on a person (or rather a group of people's) behalf.

Unit trusts can invest in different markets and market sectors, or they can invest across markets. There are a number of different unit trust products available on the market designed to suit the needs and risk appetite of a particular investor.

Risk appetite refers to how much risk you are willing to take with your money. Generally higher risk investments will generate a greater return, while lower risk products will generate a more steady and reliable income. It is important to note that when investing your return is not always guaranteed, and the higher the risk you take the higher the risk you can lose your investment.

Types of investors

The length of time you are looking to invest in a unit trust will determine the type of unit trust you choose. This will depend on the type of investor you are, taking into account your risk profile and investment term.

If you are looking for a short term, low risk option, then a short term fund of between three and 12 months investment term will suit you. If you investment term is longer and you are wanting exposure to more risk, then a three to five year investment option might be better for you.

Before making any decisions about your investments it is important to seek professional advice. A financial advisor will be able to assess your situation, look at your wants and needs and help you decide on the best investment option for you.

As with any savings, the longer you leave your money, the more compound interest can work.

Types of unit trusts

There are six different types of unit trust funds. These are equity funds, fixed interest funds, income funds, money market funds, asset allocation funds, and global funds. Each of these funds has a different goal or investor in mind.

Equity funds grow capital by investing in the broader stock market, such as with the JSE Top 100, or the Inda 25. These funds can also invest in certain equity sectors such as resources, financial and industrial funds.

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Fixed Interest unit trusts, also known as bonds, invest in a range of interest-bearing assets. These include bonds and fixed deposits. This type of unit trust is the same as an income fund.

Money market funds (or cash funds) are ideal for short-term investments and for people who have a low risk appetite. These types of funds offer a safe vehicle for people to 'park' their money.

Asset allocation funds, or managed funds, are unit trusts where the fund manager invests in a variety of assets, including equities, bonds and cash depending on the conditions of the market.

Global funds are unit trusts that are exposed to international markets, including international stock markets or companies not listed in South Africa.