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Unit Trusts

Unit trusts are the pooled resources of thousands of investors who have entrusted their money to a management company.

The management company buys a basket of assets e.g. shares, bonds, property, currencies, derivatives etc. on behalf of the investors. The trust does not give the shares to the investor but combines them in a portfolio. The management then divides the portfolio into many equal "units." The investor receives a certain number of units for the money he has entrusted to the company that manages the unit trust.

Anyone can buy units by investing a single lump sum or by investing on a regular monthly basis. In most equity or share investments there is always an element of risk. Fluctuations of share prices on the JSE cause this risk and are also responsible for their increase or decrease in value. However, the fluctuations in unit trusts are often not so severe. Shares that show a stable or better performance cushion the drop in price of other shares. This is especially the case with the general unit trusts, where risks are lower than in the specialist trusts because the general unit trusts gain exposure to more sectors.

A barometer of the country's economic health is the Johannesburg Stock Exchange. Share prices generally rise in a healthy economy. In an ailing economy, prices will fall and subsequently so will the price of units in a unit trust. That is the bad news! Bad news becomes good news. Unit trusts utilize the bad news to create good opportunities for investors. In simple terms, the drop in share prices means that more units can be purchased on behalf of the investor for the same amount of capital.

When the downturn cycles (bear markets) are over, the share prices will be lower. The trusts will be able to purchase more units with the same amount of investors' money. The larger number of units purchased are then offered a bigger opportunity for growth in an upturn of the market. This is also why unit trusts are not usually a short-term investment. They are able take advantage of both the downturns and the upturns. Therefore, the reasoning is that the longer the period of investment, the lower the risk.

What are their advantages? The most obvious advantage of unit trusts is the direct access investors get to wealth creation and profits of the Johannesburg Stock Exchange. Everyone, regardless of occupation, qualifications, sex or age, can share in this industry that opens the door to every sector of the South African economy.

The beauty of unit trusts is that the investor needs no expert knowledge. The individual doesn't require experience in buying or selling or knowledge of shares. Teams of professional economic and market analysts will invest on the investor's behalf to ensure the maximum capital and income growth.

These investments are extremely flexible, and one can change from a single lump sum to regular monthly investments. One can increase or decrease the amount according to one's individual needs. Few other investments are as accessible and flexible as unit trusts.