

Boring balanced funds bounce back

Looking at the next recovery

UNIT TRUSTS HAVE PROVED to be stubbornly persistent investments. Over the years these collective funds fall in and out of favour with retail investors, money accordingly flows in and out and performance goes up and down. But unit trusts are still around and will be – it convincingly seems – for a long time.

This special report looks at the latest unit trust performance tables and – in consultation with investment professionals – tries to determine trends to aid investors. Short- and long-term performance are looked at, with an emphasis on the latest short-term results.

Short term, as investors well know, often means nothing and can even be dangerous in encouraging top performance hoppers and switchers – probably the most risk-prone category of investors – who make the biggest losses.

So why do we look at the short term? With all the warnings attached, simply because that's where you can at times (and only at times) pick up the beginning of what could prove to be a significant change in unit trust performance or identify the early beginnings of new trends. We think some of those are starting to come through in the short-term numbers, even over what's typi-

cally a "meaningless" one-month period.

But after all the analysis in the world – and accepting that different types or categories of unit trusts are better suited to different investors depending on their risk profile and needs – one fact seems to come

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through: for the (mythical) "average" investor the core unit trust portfolio should be kept simple. For that we know of nothing better than balanced funds, also called asset allocation funds.

Some of the professionals also think so. "The boring balanced fund is back in vogue as skilled money managers show significant levels of outperformance over many client solutions," writes Kirshni Totaram, head of institutional business at Coronation Fund Managers, in its April quarterly report.

And why the "boring" old balanced fund? "Totaram says many different studies all agree on one point: asset allocation determines the greatest part of

the portfolio's return. "We agree with the academics: asset allocation and diversification are the biggest drivers of portfolio performance over both the long and short term."

Asset allocation decisions are important and often complex. But just as market conditions change and various investment cycles rotate, so does the asset allocation decision.

It's a dynamic process. And who better to make those decisions than a fund manager backed by a record of consistency and performance.

"It seems that when all the dust has settled the next recovery will be marked by a flight to quality and simplicity of product. The balanced fund is very definitely back in favour," says Totaram.

If anything is needed in a unit trust industry that's become increasingly complex and overcrowded with funds it's that return to simplicity. That and a fund manager who can choose the asset and change the composition of the portfolio when necessary. ■



Kirshni Totaram
Asset allocation determines the portfolios' return.