Discovering the Mutual Fund

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The best investment decisions are made with the best use of available information. In the Philippines however, since there is a dearth of information on where people can invest, most Filipinos still keep their extra funds in savings accounts that earn them three percent (3%) per annum at the most. The yield on time deposits, which at longer maturities can offer around 8 to10 % at best, is not an attractive option either.

Not too many know that a good alternative to a savings account is investing in mutual funds. For as low as P5,000 one can invest in a mutual fund, which by far is one of the best investments ever created since 1924 by three Boston securities executives that decided to pool their money together. The beauty of investing in mutual funds rests on its convencience and cost efficiency. Although mutual funds do not offer a guaranteed yield, historically, they are known to provide an average rate of return that is higher than what savings accounts or time deposits offer.

A mutual fund is simply a pool of funds invested in stocks or bonds with a predetermined investment objective. The mutual fund will have a fund manager who is responsible for investing the pooled money into specific securities (usually stocks or bonds). Hence, one need not study each and every stock to buy and capitalize on the financial expertise and track record that the fund manager offers. Of course, the biggest advantage to mutual funds is diversification, which is its ability to put one's investments into several instruments of varying risk and return profiles. In fact, diversification is not limited to buying multiple stocks alone, but after buying different kinds of stocks, you can add on bonds, then international bonds, and the list goes on at varying levels of financial sophistication. This is something that a small investor cannot do on his own, or perhaps will consume weeks and months for a big investor to do, but can be done instantaneously with a mutual fund since they automatically diversify in a predetermined category of investments that the financial manager intently and periodically analyses. After all, the saying "don't put your eggs in one basket" is a tried and tested adage that investors, big or small, should take to heart.

In terms of liquidity, mutual funds also offer an easy exit since in the event that the investor needs his money, mutual fund companies allow the investor to pull out his investments, and redeem his shares at the prevailing net asset value per share or NAV.

Mutual funds are usually classified into: 1) **a stock fund** or a mutual fund purely invested in equities; 2) **a balanced fu**nd which is a mix of both stock and fixed-income placements; and 3) **a bond fund** which is purely invested in government securities. In the Philippines, because of the conservative nature of investors, mutual funds are predominantly placed in bond funds (94%)

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and only 2% of the assets are in stock or equity funds, based on the most recent 1994 data. Balanced funds corner around 4% of the market.

The mutual funds industry in the Philippines can still be considered miniscule. As of 2004, the industry's net assets stood at P52.95 billion, with reportedly some 25 funds in existence. Contrast this with over 10,000 mutual funds in the U.S. today totaling around $7 trillion (with approximately 83 million individual investors). Despite the fact that the local mutual funds industry traces its roots from as far back as the 1950's, there are really only three major players in the industry: the BPI Management and Trust Group, PHILAM Asset Management, Inc. and Sunlife Asset Management Inc. The largest fund in the industry is still the Ayala Life Fixed Income Fund with a P21.715 billion in fund size. Philam Dollar Bond Fund stood second with P12.397 billion, and Philam Bond Fund at the third place with P7.814 billion. At the fourth place is Sun Life Bond Fund with P4.609 billion industry share. The Ayala Life's Dollar Bond Fund came in next with P2.295 billion fund size. As of December 2002, it was estimated that mutual funds are only a 2 percent of the amount invested in savings and time deposits. Needless to say, with this volume, the mutual funds sector has an insignificant contribution to stock market.

Financial education is key to further growth of the mutual funds industry in the Philippines. On the one hand, it is true that there are industry issues that the players are grappling with and are still trying to resolve. Among these include the mutual fund's strong resemblance to the Common Trust Funds (and now the Unit Investment Trust Fund (UITFs) and while faced with strong competition from these alternative instruments, mutual funds are subject to more taxes which is a disincentive to investors. The lack of strong regulation is another unresolved issue. However, while industry players are working on leveling the playing field among them, active work should also be done to increase awareness among the investing public on the benefits of mutual funds as an alternative savings instrument. At present, it is the investment agents that play the main role of disseminating information on mutual funds but these agents are attracted to push more the insurance and pre-need products that give them more commissions.

One good way to disseminate information is to educate potential clients by way of seminars and forums held in offices/ workplaces or other organized public venues. While published literature on mutual funds abound, nothing beats a personal explanation of its features by the experts themselves. For instance, determination of the Net Asset Value (NAV), which is key to monitoring the value of one's investment, may be unknown to a small investor but actually is a fairly easy concept to understand. The fund prospectus, a detailed document distributed to clients and potential savers that contains all the information that should be disclosed to an investor, can better serve the user if explained point by point in a laymanized version. The thrust of educating the small savers and equipping him with more information that can enable him to come up with better investment decisions can be a shared responsibility between the players and the policy makers who advocate for further capital market development in the country. At the end of the day, the advancement of the mutual funds industry in the country will benefit both the individual saver, who is now able to enjoy better yields from his hard earned money, and the economy at large, which gains from a much improved system of mobilizing savings.