

Advantages And Disadvantages Of Unit Trusts

Advantages

- Unit trusts are a very convenient and low cost way of investing in markets which you otherwise would have found difficult to access.
- The average returns from unit trust companies compare very favourably with returns from more traditional investment products.
- Highly qualified portfolio manager specialists make investment decisions, and manage the unit trusts.
- The unit trust industry in South Africa is strictly regulated by the Collective Investment Schemes Control Act (CISCA), and investor interests are protected by the management company's trustees. In addition, the AUT has been formed by the industry to encourage self-regulation.
- Unit trusts provide diversification for smaller investors who may not otherwise have access to a broad spread of investments.
- Complete transparency in that prices are published in the newspapers daily, and performance figures are readily available enabling easy comparison of similar funds.
- There is the advantage of liquidity and accessibility, because you can cash in all or part of your investment if necessary.
- Unit trusts provide diversification in a manageable way because each unit represents a pro-rata share of an entire portfolio.

Disadvantages

- Unit trusts are generally medium to long-term investments, which may not suit all investors.
- The volatility in the investment, as prices fluctuate daily according to market movements, may not suit all investors' needs.
- Investors can be tempted to redeem their unit trusts in the short-term.
- Because professionals administer unit trusts, there are certain costs involved.