CHAPTER V

CONCLUSION AND RECOMMENDATION

Summary and Conclusion

The results of the study shows that none of the funds in the sample could out perform the market portfolio. Funds managed by different management companies performed differently with the best performing funds coming from the same management company while the worst performing funds comes from another management company. This means that different management companies have different performances and investors may choose funds based on who the managers of the funds are.

The study also revealed that all the funds are less risky than the market portfolio and thus offer security of capital for the investors. They are also quite well diversified in terms of their risk as they hold rather well diversified portfolios.

When the funds were classified according to their types, the best performers are the balanced funds followed by the income and growth funds. This seems to contradict the notion that growth funds should be the best performers as they invest in more risky assets that have higher potential for capital gains while the balanced funds should earn the lowest returns since they invest in the less risky and more secure assets. The risk profiles of the different type of funds shows that the funds do no adhere very well to their stated objectives as their systematic risks are quite different from traditional values. Hence both the returns earned and risks levels observed in the study suggest that the stated objectives of the unit trust funds issued to the investors are not always dependable ie. there is sometimes no relation between the stated investment objectives and the actual performance of some unit trust funds.

For the ten year period, the funds' performance ranking is consistent 50% of the time. This shows that the funds are quite consistent in their performance. The same could be said for the funds' systematic risks as the beta values are quite stable over time.

It was also shown that none of the fund managers could forecast security prices and none could beat the naive buy and hold strategy. In fact evidence of poor forecasting ability of a management company was discovered.

The study suggest that investment managers can improve their performance by reducing their expenses on security analysis so that investors can enjoy better returns. It also shows that the larger funds and those that practice active trading are riskier while the older funds are less risky. Hence investors can use such variables as age, size and trading practices in selecting and investing in the funds that suit their degree of risk aversion.

Implications of the Research

The major implications raised by the research are that (1) unit trust funds should strive to keep costs down in light of the managers inability to benefit from research activities, (2) investors should be wary of managers claims of superior performance as many of their claims are over optimistic and not based on satisfactory measures, and (3) unit trust managers should possibly spend more time on defining objectives as regard to risk and return, explicitly stating their fund objectives to the public and formulating portfolios to match these objectives.

Suggestions for Future Research

In view of the limitations of the study, the models should be tested in the future using samples of unit trust funds from more management companies so as to be more representative of the unit trust industry. More data on fund characteristics should be obtained in the future to give a better and more general insight of their effects on fund performance and risk levels.