CREATING WEALTH THROUGH MUTUAL FUNDS

Analyst: Roselyn A. Dennis
Email: roselyn.boateng@databankgroup.com

Wealth creation and poverty reduction have been proposed as effective antidotes to poverty. While the former may be described as preventive, the latter is more curative. Investment is a key player in wealth creation and one of the investment channels through which wealth can be created is Mutual Fund investment. What is the case for Mutual funds? Is it a potent alternative for wealth creation? Why should investors continue investing in mutual funds, notwithstanding the southbound trajectory of all Ghanaian mutual funds this year?

A mutual fund is an investment company that pools money from many individuals and invests in different forms of investments, according to the fund's stated objectives. There are different kinds of mutual funds including:

Balanced funds: A fund that invests in a balanced portfolio of equities, debt securities and money market instruments, with the objective of providing reasonable returns with low to moderate risk (Example: NTHC's Horizon Fund).

Growth or equity funds: Invests primarily in stocks (Examples: Databank's Epack, SAS's Fortune Fund, and HFC's Equity Fund, Anidaso Fund).

Fixed income funds: These invest in debt securities like bonds, debentures and mortgages that pay regular interest or in the case of preference shares pay regular dividends. The objective is to provide investors a regular income stream with low risk.

Money market funds: Short-term mutual funds. Investment in a variety of short-term investment instruments including commercial paper, treasury bill, banker's acceptances.

There are diverse investment vehicles [investment in shares, treasury bills commercial paper and mutual funds], but what is the case for mutual funds - why should investors create wealth through mutual funds?

One of the merits of investing in a mutual fund is the lowering of risk- an attractive component for wealth creation. An investor who holds just one investment is vulnerable to a high level of risk. Mutual funds however, spread that risk among many different securities, limiting the potential of one security's negative performance eroding returns of the entire portfolio. Risk is therefore reduced through diversification.

Diversification: Mutual funds are a convenient and affordable way of gaining access to a wide range of investments that might be very difficult and time-consuming to purchase and manage individually. Because mutual funds typically hold diverse investments, they offer a degree of diversification that would be difficult to achieve if you invested in individual stocks.

Professional management: Actively managed mutual funds also give you the benefit of professional investment management. The investments are selected by experienced professionals who devote themselves exclusively to tracking the markets, analyzing Investments and implementing a consistent investment strategy, ensuring that the best stocks are picked and prudent investment decisions are taken on behalf of the investor.

Flexibility to meet your needs and goals: A wide range of mutual funds is available to help meet the needs of every type of investor, from conservative to very aggressive due to the presence of diverse forms of investment, enabling an investor meet a variety of investment goals. Included in these goals are saving for a home, retirement or education.

Liquidity: Mutual funds provide liquidity in that investors can sell their mutual fund units when they need their money and receive current market value on their investments. For mutual funds with specific investment horizons, however, the investors who want to liquidate a part of investments before the exit period have to pay a commission.

Mutual Funds are ideal for investors who would want to invest on a regular basis to accumulate wealth for the future. The secret to wealth creation is to start small until an appreciable amount is accumulated in the future. No one should despise humble beginnings. An individual can start with an amount of ¢50,000, if he wants to make regular contributions.

Mutual funds are a proven wealth creation tool as evidenced by the success stories of funds in more advanced countries. The performance of some mutual funds in the United States shows a consistent return on the investment. We can cite examples of mutual funds that have posted consistent positive returns over the years. The C&B Mid Cap Value Fund which invests in Small/Mid Cap Stocks currently has a year-to-date return of -7.49%, but has a one-year average annual return of 14.5%, as well as a three-year return of 20.1%. The Opportunity Fund, another mutual fund has a year-to-date return of 8.35%, an average annual return of 16.22%, and a three-year return of 23.12%- all in the positive league. Large cap funds including the Capital Growth Fund, has a year-to-date return of 11.8%, a one-year average return of 19% and a three-year return of 18.5%. The International Core Mutual Fund – one of America's international specialty funds, has a year-to-date yield of 8.65%, has an average annual return of 19.65%.

Below is an illustration of the performance of some Asian mutual funds - An indication that mutual fund are viable investment options.

Fund	YTD (%)	1-Year (%)	3-Year (%)	5-Year (%)
Asian Focus Fund	15.3	18.6	24.7	16.3
China and Hong Kong Fund	6.09	7.4	23.4	7.18
Global Energy Fund	57.6	54.1	n/a	n/a
Global Innovators Fund	9.3	13.9	13.7	-4.3

This table shows the performance of a wide variety of investment funds in India.

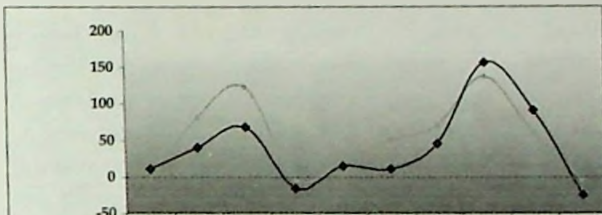
Fund	Compound Annualized		
	1-Year (%)	2-Year (%)	3-Year (%)
Reliance	82.97	101.54	69.18
Fanklin India Prima Plus	41.96	62.72	40.53
Birla India Opportunities Growth	39.84	52.57	29.14
Prudential ICICI Power-Growth	41.73	60.07	43.31
Kotak Tech Fund	41.97	50.87	22.13
Kotak MNC Fund	66.49	66.74	40.34
HDFC Capital Builder Fund	63.38	80.94	49.19

Countries such as Chile who have enacted new pension systems that place greater emphasis on the role of private investment in retirement savings, have often used mutual funds as funding vehicles for such systems.

Zeroing down to mutual funds in Ghana (a country where mutual fund investment is relatively nascent) investing in mutual funds has proved worth-while over the years. The only mutual fund that can be used as a point of reference is Databank's Epack, which is Ghana's premier mutual fund-having been in existence since 1996. The mutual fund has had a track record of steady growth, occasionally besting the performance of the Market Tracker- the Databank Stock Index.

Drawing a parallel between the weighted index of the Stock Market (the DSI) and Epack, would bring to the fore some interesting comparisons. Though the first year of Epack's operations showed a decline of -2% in 1996, the second year [1997] recorded a year-to-date gain of 82%, as compared to the market index's 41% return (half of the return posted by the mutual fund). Epack continued to perform better than the Databank Stock Index till 2003, when the tide turned in favour of the Market Index [157%] and persisted in 2004.

Comparative Analysis of Databank Stock Index and Epack Investment Fund



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005*
Epack (%)	-2	82	123	-3	20	51	70	137	60	-4.2
DSI (%)	11	41	69	-15	15	11.4	46	157	91	-25

Epack (%) DSI (%)

YTD Return on the Databank Stock Index and Epack Investment Fund

To strengthen the argument for mutual funds in wealth creation, we can now compare the cumulative returns of the flag ship mutual fund, Epack to other notable investment avenues in the country, over a five year period. The 91-day bill has posted a cumulative return of 326% from 2000-2005, while the one-year note has recorded a cumulative profit of 345% during the same period The cumulative appreciation of the US dollar (a treasured investment avenue), has gained

134% over the five-year period being assessed (2000-2005). The Databank Stock Index, which is an aggregate weighted index of all the stocks listed on the Ghanaian bourse, has posted a cumulative return of 590%. Epack however has outperformed all these stocks with a cumulative return of 1023% as at December 19, 2005. To put this return into perspective, an individual who invested ¢1,000,000 in Epack in the year 2000, would currently have a net worth of ¢10,225,500 in his account and would have made a real return of ¢8,097,400. (Factoring in a cumulative inflation rate of 213%), as compared to an individual who invested in dollars, who would have a negative real return of -¢790,000 (174%-213%*1,000,000).

This year has been a test situation for mutual funds in Ghana, with most of the funds moving into negative territory and their net worth declining. This trend was underpinned by the poor performance of stocks listed (most mutual funds are equity funds) on the Ghanaian bourse, which resulted in a spate of panic selling by mutual fund investors, resulting in a decline in the net asset value of most of the funds.

Aside Databank's Money Market Fund which invests in short-term instruments including Treasury bills and Commercial paper and has a current net worth of ¢70 billion [2004 net worth: ¢16.6 billion],the value of the rest of the mutual funds has depreciated, so far this year. Epack's net asset value is ¢257 billion as compared to ¢347 billion by the close of 2004. NTHC's Horizon fund is ¢11 billion, down from ¢16 billion at the close of 2004, while SAS's Fortune fund has a year-to-date net worth of ¢7.02 billion [2004 close: ¢5.27 billion]. The reason for this trend is the short-term perspective of Ghanaian investors. Most Ghanaian investors seek for flexible short-term investments that would yield high returns and any contrary trend results in an exit by investors. Investors must however note that consistency as well as patience are two essential tools in investment growth.

With this downward trend, is it still recommended that investors increase their wealth through mutual funds? Taking stock of the year-to-date performance there is still a strong case for mutual fund investment. The Databank Stock Index, which has a year-to-date return of -25.03%, pales in comparison to the returns on most mutual funds. Epack, the country's premier mutual fund has so far this year, made a year-to-date return of -4.19%, while SAS's Fortune Fund has a year-to-date return of -9.08%. What is more there have been cases of turnarounds in mutual funds, soon after negative returns were posted. This was the situation in 1999, when Epack Investment Fund ended the year at -3%, but gained 20% at the close of 2000.

Fund	Half-Year (%)	Year Close (%)
Epack Investment Fund	-6.80	-4.19
Fortune Fund	-2.71	-9.08
Horizon Fund	-0.97	11
HFC Equity Fund	1.92	46
Money Market Fund	17.4*	16.93*
Anidaso Fund	n/a	-0.2

Mutual funds have become popular among investors globally because throughout the world, individuals share the same basic needs and goals – A comfortable retirement, higher education for their children and improved family living standards, which they intend achieving in the future. Investors with this objective and with a thirst to accumulate wealth for major projects have found mutual funds to be a viable investment alternative.

The Ghanaian investor should therefore weigh the pros and cons of investing in the different mutual funds available depending on his investment objectives) and choose one out of the six mutual funds in the country to enhance wealth accumulation.

Ghanaian fund managers must take a cue from their US counterparts, (who have increased portfolio investment in emerging markets) and search for investment in other countries in order to diversify risks.

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INVESTING IN SHARES WHEN THE "CHIPS" ARE DOWN

Overview

'Property is the fruit of labor; property is desirable; it is a positive good in the world'. - Abraham Lincoln. The desire to create wealth is an age old aspiration of man. This is because power, control and security [especially financial security] are derived from the possession of wealth. This drive underscores basic savings in commercial banks, investment in treasury instruments, equities, mutual funds and properties [houses, land etc]. While basic savings only accumulates income earned, investment rewards the investor for withholding consumption until a later date. Depending on the nature of the investment option considered, returns may be low, moderate or high after inflation has been factored out. This suggests that, naturally, rational investors would opt for investments that yield the highest returns. There is some risk inherent in investing and investors get a reward for bearing this risk. Risk and the rate of return on any investment are positively related. Thus, the risk tolerance level of the investor determines his choice of investment and how much returns accrue on the investment. Investors must note that the risk involved in any investment is the probability of not receiving exactly the expected returns or receiving returns that deviate from the expected. What should investors do when 'the Chips are Down?' What should investors do when their expectations in stock market investors are not met as has been the case for many invested in the Ghana Stock Market in 2005?

Mechanics of Stock Market Investment

Historic records have proven beyond doubt that investment in stocks yields superior returns than other financial assets. Investors have different goals which determine their choice of investment vehicles [treasury instruments, equities, mutual funds and properties [houses, land etc]]. Investors have dreams which they aspire to achieve through investment goals such as planning for early retirement, children's education, purchase of a dream car, accumulate capital for a business venture or pay off mortgage/to build a home.