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12 questions to ask before investing

How has the investment performed in the past?

"Past performance is no guarantee of future returns" - Investment Disclaimer

Past performance simply refers to the returns made on an investment in the past. It is usually presented on a regular intervals' basis - daily, weekly, monthly or annual, etc. At Databank, the past performance of the fund is indicated on our monthly Fund Facts Sheets. Important indicators to look out for are the **Compounded Annual Growth Rate,** which shows the average annual growth rate of an investment over a period of time as well as the **Calendar Performance,** which details returns on the investment for each calendar year.

Although history makes us aware that future performance may be very different from past performance, it does not take away the fact that knowing the track record of an investment offers an investor essential insights about the investment. Here are some of the reasons you should look out for an investment's track record:

1. Past performance helps you to know the returns you should expect on an investment

By studying how the investment has performed in the past, you can tell if the investment is likely to give you returns above or below a certain percentage. Many Fund Facts Sheets show the average returns you could make on an investment each year. Use this to plan what to expect.

2. Past performance helps you to know the volatility of the investment

Volatility describes the change in the price of an investment (or security) over a period of time. If the price is relatively stable, it is considered as having a low volatility while a highly volatile investment is one that experiences significant changes from time to time. When you study the past performance of the investment, you have a realistic assumption of how high or low the investment can get. Fixed-income investments generally have low volatility while equity funds fluctuate a lot. Take MFund (fixed income), for example, with highest and lowest annual returns at **28.06%** and **11.99%** respectively, while Epack (equity) has had returns as high as **137%** and as low as **-12.21**% in its lifetime. As you hope for higher returns, keep an eye on the lows and expect returns to also go southwards.

3. Past performance can show you if there are red flags with the investment

How do you know an investment is a fraud? The track record can help you. If you are investing in a fixed income fund, you should consider the Treasury Bill rates to see if returns are similar. If your investment's returns are significantly higher or lower than that of T-Bills, you should be careful. For equity investments, consider the performance of the stock market and confirm. If you notice any discrepancies, you should raise eyebrows, ask more questions and be convinced about how they make their returns before you invest.

How you should analyse the past performance of an investment

- **Go for the long-term records –** If the investment has been around for a while, look at returns for at least the past 5 years. Don't be deceived to just take very impressive returns in the past few months. Dig as far back as you can.

- **Be realistic –** Investors often tend to look at the highest returns and think, "Wow, I could get this!" But you should also look at the lowest and think, "Wow, I could get this too!" That way, when the fund starts to underperform, you will not be alarmed.

- **Remember that past performance is no guarantee of future returns –** This is so important. Looking at track records is not a fail-safe method of choosing an investment; it is a guide. In the future, the investment could perform very differently from how it has done in the past – either much better or much worse. Investing comes with risk and the past performance records is not meant to eliminate the risk. It is just meant to guide you.

Invest wisely. Invest with Databank.