

Capture Malaysian Stock Market Performance with ETF

Globally, ETFs are increasingly becoming popular as an alternative investment instrument. Although ETFs are experiencing a growth in popularity across the world, these instruments are still new to many investors in Malaysia. The first equity ETF launched in the country is the FTSE Bursa Malaysia KLCI etf, (formerly known as FBM30etf) (the “Fund”) which was launched in 2007¹. Here we would like to share with you some of the investing benefits of the Fund and how you can use the Fund to capture investment potential in the Malaysian stock market.

Investing in FTSE Bursa Malaysia KLCI etf (FBM KLCI etf)

- (i) Buy Malaysia’s top 30 stocks in one deal

FBM KLCI etf is designed to follow the performance of its benchmark index, FTSE Bursa Malaysia KLCI.

The index comprises of the top 30 largest companies in the market. Hence, buying the Fund will give investors the advantage of immediate exposure to the country’s top 30 stocks which are representative of the Malaysian stock market. Moreover, investors will also benefit from this cost-efficient tool as it is less costly than building a portfolio from multiple stock purchases.

- (ii) Cheaper way of investing

The cost of investing in the FBM KLCI etf is generally lower than an actively managed fund. This is because the Fund is passively managed as compared to actively managed funds that involve frequent trading, thus generate higher transaction costs, which in the long run could diminish the fund’s return. For example, a unit trust fund may charge up to 1.8% per annum on management fee, which is much higher compared to the management fee of 0.5% charged by FBM KLCI etf². In addition, investors purchasing a unit trust fund may incur entry fees of up to 6%, while the Fund does not charge any entry fee. There is a nominal brokerage and clearing fees.

- (iii) Transparency

With the Fund, investors also have the advantage to easily access real-time information such as fund prices and fund information. With the transparency that the Fund offers, investors can regularly monitor and have up-to-date valuation on their investment. These help them to capitalise on market trend and also make informed trading decisions. These endearing features are some of the main reasons why investors increasingly embrace ETFs as their choice of investment.

(iv) Liquidity

Since the FBM KLCI etf can be bought and sold throughout the trading day, it offers the same level of liquidity as any other stocks on the exchange. Like any other ETF structure, the Fund's liquidity is also enhanced by its unique creation and redemption process. Liquidity providers or participating dealers are appointed to provide liquidity for the creation of new units when demand is high or the redemption of units when demand slows. The liquidity offer by the Fund provides investors the flexibility to enter and exit the market easily and this enables them to capitalise on market opportunities.

(v) Solution for portfolio construction

Investors can also opt to use the Fund as a core-holding in investment strategies. They can leverage on the broad diversification and lower costs of the Fund through the core holding and then add stocks, unit trust or other alternative investments to enhance their investment portfolio.

ETFs are most effective when used as tools for implementation of investment strategies. Investors can take advantage of the ETF such as the FBM KLCI etf to construct portfolios that meet their respective investment requirements. When combining the Fund with other investment products, more sophisticated portfolios can be realised.

Conclusion

There are many favourable characteristics the FBM KLCI etf has to offer such as its ability to provide exposure to the top 30 Malaysian stocks, its low costs, and its flexibility to trade on an open market with a small amount of capital. The Fund also offers transparency where investors can easily access real-time information on their investment. Now that you have heard about the Fund, the next time you want to trade in the equity market, consider adding FBM KLCI etf in your portfolio as it enables you to capture the Malaysian market performance in a single transaction.

Sources:

¹Bursa Malaysia

(<http://www.bursamalaysia.com/market/securities/equities/products/exchange-traded-funds-etfs>) as at 29 April 2016.

²FTSE Bursa Malaysia KLCI ETF

(<http://www.ambankgroup.com/sites/fbmkclietf/en/FundInformation/Pages/default.aspx>) as at 29 April 2016.

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