FINANCIAL LITERACY
FOR YOUTHS

Investment Instruments in Malaysia That Accommodate to Every Investor's Risk Profile

Whenever the conversation about investing is initiated, the most frequent pain points we usually come across are:

(1) The way people hate taking risks, or

(2) They don't know the basics of proper investing, or

(3) They want to invest, but don't have the time to read through earnings conference-call transcripts.

Regardless of your reasons to not invest, we have some solutions for them. To assist you with that, we will feature three types of investment instruments that should meet your evaluation criteria. Each form of investment listed below may not be to your liking however, these options are worthy of a consideration.

Malaysia Bond/ Fixed Income Fund

This instrument is suitable for investors who:

- **Want to take moderate risk and want to earn a moderate return;**
- **Do not want to put their extra money into EPF because they want the flexibility of using it for the future.**

For the novice, if you are new to investing, refuse to take any risk, nor do you want to part with your hard-earned cash, the Malaysia bond/ fixed income funds are a good place to get your feet wet.

Previously in the past, investing in corporate bonds were meant only for the rich or wealthy; as per contra, regular investors, like us can now invest in the bond/ fixed income funds issued by financial institutions.

For those of you who are in the dark, think of a corporate bond as you loan your money to companies – as a return, corporations will pay you back in full, with regular interest payments. Most investors would naturally want to lend only to trustworthy companies, whereby their businesses are at least stable or will improve with time.

Through the purchase of these funds, you are essentially acquiring debts issued by the companies, rather than ownership within the companies.

Unlike shareholders, where businesses are not obliged to pay their owners dividends, interest for bondholders of the companies must be repaid. Failure to do so would cause a company go into default.

Here is a snapshot of the returns you can expect to earn from some of the bond/ fixed income funds available:

Name of Fund	**Total Expense Ratio (%)**	**Total Return Over 1 Year (%)**
KAF Bond Fund	0.51	5.24
RHB Income Fund 2	1.15	4.98
AmDynamic Bond Fund	1.14	4.79
Eastspring Investments Bond Fund	1.16	4.51
CIMB-Principal Bond Fund	1.13	4.48

** Disclaimer: This information is not to be construed as an invitation or solicitation for the subscription, purchase or sale of any fund.*

FBM KLCI ETF

This instrument is suitable for investors who:

- **Want to earn the market return and do not mind taking more risk, but are unsure of which stocks to buy.**

If you follow market news often and wonder how you can earn the stock-market return that is being talked about, then you need not look any further than the FTSE Bursa Malaysia KLCI (FBM KLCI) Exchange Traded Fund (ETF).

The FBM KLCI ETF was created to mirror the performance of the 30 biggest stocks on the Kuala Lumpur Stock Exchange (KLSE). The good thing about the FBM KLCI is that it is self-selecting. Companies with larger market capitalisation that are eligible and meet the requirements will automatically replace companies that do not perform well on the FBM KLCI.

By buying the FBM KLCI ETF, you automatically get investment exposure into a diversified portfolio of the top 30 stocks on the KLSE since the investors could expect to closely track the market's return.

Reasons to Invest in FBM KLCI ETF

Easy access to diversification	Own top 30 Malaysian companies with a single trade
Flexibility & liquidity	Buy and redeem the Fund anytime at current market price throughout the exchange trading day
Low cost	FBM KLCI ETF has no entry fee Management fee is 0.5% (unlike an actively managed unit trust fee which is normally around 1.5% to 2%)
Transparency	Understand the top 30 Malaysian stocks you are buying into via Index Composition
Income Distribution	Semi-annually (if any)

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Real Estate Investment Trusts (REITs)

This instrument is suitable for investors who:

- **Want to invest in properties to earn a passive income. Type Subtopic Here**

In Malaysia, it is easy to find people who have a keen interest in property investment. It could be your dad who bought a condo as an investment or your uncle who is a self-proclaimed property tycoon, seems like everyone knows at least one person who is an enthusiastic property investor.

You do not need RM1 million to begin investing in properties. Real Estate Investment Trusts (REITs) provides the best way for retail investors to get into the property investing as investors are at liberty to choose distinctive types of REITs, such as industrial, commercial and healthcare REITs.

Similar to any other investment, there are risks that investors would need to bear when investing in FBM KLCI ETF such as rising interest rates. There is also no guarantee that their investments would provide a lucrative return.

Additional Information about REITs

1. **It is Not Precisely the Same as Buying Real Estate**

When you invest in REITs, you are a shareholder of the REITs that you invest in, and naturally, the properties that REITs owns. The advantage of investing in this instrument is that unlike owning private property, you need not stress over renting out the properties, finding the right tenants to lease it to, maintaining your property and ensuring that your tenants pay rent promptly. Nonetheless, investors have to keep in mind that when investing in REITs, retail investors like you and I will only own a tiny percentage of the REIT and will probably have nothing to do with the decisions made by the management team.

2. REITs are Traded on the Stock Exchange

One big benefit is the liquidity it provides – it implies that if you wake up one morning and abruptly dislike where the REITs is heading, you can promptly sell your ownership on the stock exchange. In any case, being traded on the stock market ascend to volatility. Every once in a while, when the general stock market is performing severely, REITs may shadow this same pattern and perform poorly even when the property market is unaffected.

3. Diversification

Investing in REITs offers you an approach to diminish your risks through diversification. A majority of the properties own by Malaysia REITs are currently close to 100% occupancy.

4. Proper Management

In order to ensure that properties give you the best returns, they need to be appropriately overseen. REITs management teams work hard behind the scenes to acquire more foot traffic to the shopping centres and ensure that it is kept pertinent. These are things that would be ignored if people owned single units in a building. Likewise, REITs managers also have to comply with the Securities Commission (SC) Malaysia policies.

5. Stable Tax-exempt Income

REITs on the local exchange offer high yields and are generally protected because they represent actual tangible buildings in Malaysia and to a lesser degree, some properties abroad. This is especially useful to investors searching for regular income distributions from stable assets. The best part about receiving dividends in Malaysia is that it is tax-free (Paragraph 12B of Schedule 6).

As a Parting Note...

We recommend prospective investors to seek proper advice before venturing into any investing activities. A dependable guideline we like to use is that you should always understand a product fully before investing, no matter how lucrative it seems from the outset.

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