

Investing in ETF

Start now, slowly, and be prepared to hold for 18-36 months, investors advised

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KUALA LUMPUR: The Kuala Lumpur Composite Index (KLCI) has plunged 27% over the one-year period to April 2, and 40% from its peak of 1,516 points in January last year. Prices of many stocks have been battered to levels not seen in recent years.

ETFs suitable for those less savvy in picking stocks and managing risk

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and be prepared to hold the units for 18 to 36 months," he told. *The Edge Financial Daily*.

However, investing with a medium- to long-term view does not mean investors shouldn't sell during the period, Zainal Izlan said.

"The market is still volatile. So, if there's any trading opportunity, such as a short-term rebound in share prices, investors should sell on strength and then buy again," he added.

i-VCAP is the manager of MyETF Dow Jones Islamic Market Malaysia Titans 25 (MyETF-DJIM25), Malaysia's third ETF and Asia's first syariah-compliant ETF listed on Bursa Malaysia in January last year.

i-VCAP is a wholly owned subsidiary of fund management company Valuecap Sdn Bhd, which in turn is equally owned by Khazanah Nasional Bhd, Permodalan Nasional Bhd and Retirement Fund (Incorporated).

The other two ETFs listed in Malaysia are ABF Malaysia Bond Index Fund, which was listed in July 2005, and FTSE Bursa Malaysia Large 30 Index ETF, which was listed in July 2007.

Zainal Izlan said ETFs were particularly suitable for investors less savvy in picking individual stocks and managing risk.

The sharply lower prices present some investment opportunities, and for investors who want a diversified exposure to several sectors and stocks, an exchange-traded fund (ETF) can be an option.

An ETF is essentially a unit trust fund, except that it is traded on a stock exchange. It represents a basket of securities and is designed to

track the performance of an index. Investors can buy and sell units of an ETF during trading hours.

i-VCAP Management Sdn Bhd director and chief executive officer Zainal Izlan Zainal Abidin said investors could start investing in ETFs now but they should be prepared for a medium- to long-term investment horizon.

"No one can tell if we have seen the bottom (but) starting to invest now means taking advantage of the relatively lower share prices.

"We believe this is the right time to invest in ETF but investors should not jump in with a large investment. They should accumulate gradually, build up their holdings step by step,

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Quick take on ETF

- An ETF is essentially a unit trust fund, except that it is traded on a stock exchange. It represents a basket of securities and is designed to track the performance of an index. The performance of an ETF usually corresponds to that of the index it tracks.
- Unlike unit trust funds, investors can buy and sell units of an ETF at anytime during trading hours like trading a stock through brokers or via online trading if available. In Malaysia, an ETF is traded in a board lot size of 100 units, similar to listed shares.
- Instead of buying shares of each and every stock, ETF allows investors to gain exposure to a basket of securities with just a single purchase of ETF units. ETF offers portfolio diversification like unit trust fund.
- ETF incurs a lower management fee as a result of passive management. Brokerage fee is up to 0.7% compared with unit trust fund's sales charge of 3% to 5%.
- Since an ETF is traded like a stock, the price of each unit is determined by the supply and demand of the market, and in general, will be traded closely to the market value of the underlying basket of securities.
- An ETF is valued according to its net asset value (NAV), which is the fund's assets minus its liabilities divided by the number of outstanding units. At the end of each trading day, the NAV will be calculated. The increase in NAV means the increase in the value of one's holdings.
- Investors should also look at whether an ETF is traded at a premium or discount to the indenture.
- Most ETFs pay dividends. However, investors should study the prospectus of the particular ETF on its dividend policy.

fund management firm Kumpulan Sentasa Cemerlang Sdn Bhd.

"They are a few big-caps that already give you exposure to the KLCI. Investors can try to pick five to six good, liquid stocks individually — stocks that can outperform the index," he said.

"The tendency of local fund managers is picking individual stocks (on Bursa Malaysia); ETFs are to give us a broad-based exposure to foreign markets and commodities, for example," he added.

Choong pointed out that ETF units were generally not as liquid as the shares of individual companies.

On that note, i-VCAP's Zainal Izlan said retail investors who were not looking at sizeable investment should not face any problem in buying or selling ETF units in the market. "Currently, the liquidity of ETF may not be as good as some stocks. But retail investors can trade almost immediately."

He said for investors who were keen on a sizeable investment in ETF (say, one million units) but have difficulty buying it from the market, they can always approach the participating dealers, who will assist in creating more units in the ETF by buying more shares of the underlying stocks, Zainal

is generally riskier, especially when the market is volatile (like) now. But an ETF gives exposure to different sectors and counters. It helps risk exposure management," he said.