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ETF interest among retail investors still low

Lack of familiarity affects visibility of funds among Malaysians

by **Tho Li Ming**
FD@bizedge.com

Retail investors have more choice when it comes to exchange-traded funds (ETFs) listed in the country: In early June, CIMB launched two new funds — the CIMB FTSE 40 Malaysia and the CIMB FTSE Xinhua China 25. However, retail-investor participation still lags behind institutions, says industry players.

Zainal Izlan Zainal Abidin, CEO of iVCAP Management Sdn Bhd, issuer of the largest ETF in the country, the MyETF Dow Jones Islamic Market Malaysia Titans 25, says the take-up rate is relatively low at the moment. "The initial take-up rate was good and we had to increase subscription of the units to over 200 million from 140 million. About 30% of the participation rate came from retail investors. Subsequently, retail investors' participation appeared to moderate, partly due to the global financial crisis in the later part of 2008.

"Currently, trading volume is in the thousands rather than the millions. It could be better. This could be due to their (retail investors') general lack of familiarity with ETFs as an investment instrument relative to the unlisted unit trust structure," he added.

Malaysia's number of ETFs, at five, is meagre compared with Singapore's 49 and Hong Kong's 51 (as at January this year). Zainal says the low number of ETFs available on Bursa Malaysia does not help visibility. "It offers them (investors) limited choices of underlying themes, from both geographical and sectoral perspectives. We believe investor demand may be enhanced when there are more ETFs offering exposure to various countries, regions, industries and so on."

Datin Maznah Mahbob, CEO of the funds management division at AmInvestment Bank Group, which issues the ABF Malaysia Bond Index Fund and FBM KLCI ETF, said that response from retail investors has varied between the funds.

"The current take-up rate of retail investors for the FMB KLCI ETF has been very encouraging. They make up 58% of accountholders. This is a steady incremental improvement since the fund was launched three years ago. In terms of total fund size, retail investment represents a healthy 30%.

"For the ABF Malaysia Bond Index Fund, while retail investors hold 59% of the total accounts, they only take up less than 1% of the total fund size. The take-up has been low due to the numerous alternative investments such as bond unit trust funds, fixed deposits and other bank investments available in the market."

In light of the current volatile market conditions, ETFs can be used by retailers as an inexpensive way to gain exposure to the stock market and to minimise volatility.

"Because ETF units are traded on the exchange, the transaction charges are also lower, and include brokerage commission, stamp duty and clearing fee. There are no front-end sales charges that are usually charged by unlisted unit trusts, therefore investors typically save some money. In addition, the annual management fee for an ETF is normally lower than that for a unit trust," explains Zainal.

Using equity and bond ETFs as core investments in a portfolio allows the investor immediate exposure to a broad market, whereby the portfolio's performance does not deviate widely from the market's, says Maznah. "It (the portfolio) can be rebalanced occasionally to take advantage of the market cycle since bonds and equities historically display low correlation to one another, that is, when the asset performances are not moving in tandem. In addition, using equity and bond ETFs as core investments would help to reduce portfolio risk due to the diversification they offer.

"Also, in order to generate additional incremental returns, other ETFs representing specific country, style or sector exposure may be used as satellite investments for shorter-term tactical strategies; or as a cash-management tool to 'equitise' cash, whereby investors can 'park their excess liquidity' by investing in ETFs on a short-term basis in the market to gain instant market exposure while evaluating their long-term investment decisions.

Investing via ETFs saves time and cost, as compared with picking individual stocks or investing in a fixed-income instrument," adds Maznah.