

Leveraging On Collective Investment Vehicles For Wealth Optimization

📅 May 2021



“What if I lose money?”

“The stock market is DANGEROUS!”

“I do not know how to invest.”

Do these statements sound familiar? This mindset is typical for many Malaysians, and their very conservative nature and trust in fiat currency often leads to them keeping most of their savings in fixed deposits (FD). Although many understand that collective **investment** vehicles are essential to any comprehensive financial plan, there are also many hurdles that prevent people from doing so. Here are some common problems that contribute to this mental block:

Poor investment literacy

On average, **investment literacy** among Malaysians is relatively low compared to other countries with a more advanced and robust economy. Many people lack basic knowledge about capital markets, as well as banking products and services. Thus, this leads to a heavy reliance on FDs, while others unfortunately get caught up in investment scams. This knowledge gap can often be the main reason for many Malaysians being reluctant to invest.



Information overload

Many often look to get involved with the stock market just by doing basic research on Google or attending stock trading courses to discover the fundamentals. However, they can quickly find themselves being overwhelmed by the large amount of complex information and contradictory advice available on the internet. Worse still, some even hire unlicensed “gurus” or end up using suspicious investment platforms.

Lack of time

Investment isn't a random game of chance – it requires deep homework and monitoring. As most people are busy with their daily life activities, it'll be difficult for everyone to be able to do research and monitor their investment portfolio regularly, especially if it contains exposure to equities and derivatives which can be highly volatile.

Without enough time, they may not be responsive enough to respond immediately to drastic change in financial markets, which may cause them to lose opportunities or suffer losses during market corrections. This can be compounded if investors are trading in overseas exchanges that operate in different time zones.

Limited capital

One of the biggest challenges most investors face is having limited capital available to invest, making certain financial instruments too expensive and beyond their reach. For example, the share prices of gigantic companies like Facebook, Apple, or Tesla are often much too expensive for a new investor to buy and own.

Leveraging investment through collective investment vehicles

The lack of capital can often be resolved by leveraging collective investment vehicles coupled with proper advice from financial professionals. Collective investment vehicles provide facilities for investors to participate and invest in a wide variety of investment asset classes with the help of fund management institutions.

Examples include **unit trusts**, private **retirement** schemes, and even funds available via government agencies and statutory bodies such as EPF and Tabung Haji. It also includes exchange traded **real estate investment trusts** (REITs) and passive management vehicles such as exchange traded funds (ETF). Collective investment vehicles can be either actively or passively managed.

Benefits of investing through collective investments

There are many advantages when investing in collective investments, namely:

Diversification

For example, an equity based unit trust fund can easily invest into 30 to hundreds of quality companies depending on the mandate. It'd be better still if **investors** hold a basket of different kinds of funds with a combination of various asset classes and regions. The

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diversified nature of collective investment vehicles actually reduces the risk and volatility of the portfolio significantly, yet benefits from the return potential of the underlying assets.

Professional management

Investing through collective investments allow you to tap into the expertise of experienced licensed fund managers where they have a wide range of resources to access crucial market information. Professional teamwork between fund managers, investment analysts and their research team ensures that the best efforts are made to safeguard investors' interest in benefiting from market movements. Fund managers are also able to utilise sophisticated financial tools effectively, which aren't able to be executed correctly by the average retail investor.

Low entry costs

Investors can begin buying shares or units with a relatively small amount of money. This is because investment funds can be highly cost-efficient as they make "bulk-purchases" through a huge pool of investor funds. Some funds even allow investors to invest on a regular basis with contributions as low as RM100, which means the investor is actually buying into fragments of quality companies using that small amount of money.

Flexibility

Many fund management companies administer several different funds, such as money market, fixed-income, dividend, balanced and growth funds. They allow investors to switch between funds within their fund with little or no charge. This enables investors to allocate and rebalance their portfolios as per personal needs or changes in market conditions.

Choice of sectors and regions

Investing into collective investments allows you to take advantage of a wide variety of investment sectors and geographical regions. You could invest in a fund that invests in several global regions, which can reduce your exposure against big market swings in any one area. Or you could target specific countries and regions, to take advantage of the growth of their markets and gain more lucrative profits.

Investing through institutions

Would a retail investor or an investment institution have the upper hand in investing? The answer is obvious. When you leverage your investment through collective investments, you're participating in the market through institutional investors. The level of detail and analysis that an institution does is far superior to anything a retail investor can access.

Though there are a relatively low number of investment institutions compared to hundreds of thousands (if not millions!) of retail investors in the market, the decisions made by the institutions often create a greater impact and opportunities compared to the retail as institutional funds are huge and professionally managed.

Summary

Investing through collective investments is meant to seek leverage on the expertise, time and convenience, minimise risk and optimise investment returns through professional and sizeable fund management. And while there are plenty of collective investment vehicles and fund managers, if you remain unsure which ones you should opt for, consider consulting a licensed financial adviser or planner to work out a tailor made solution for you!

About the author

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