Abstract

In Malaysia, Unit Trust fund investors are subjected to different types of fees and expenses. However, many investors are not aware of such fees. This study concluded that unit trust funds on average would be able to outperform the KLCI during the bear market. Nevertheless, when the front load that funds charged are taken into account, the excess return was completely eliminated and some funs even ended with under-performance. Furthermore, this study also found that the fee an investor pays as front-end load does not constitute all the investment cost as assumed by most investors. It is therefore important that investors should pay more attention to front-end load when choosing a fund to invest in. This front-end load would be part of an opportunity cost and will result in reducing returns investment.

In Malaysia unit trust funds on average are capable of generating better than market's returns when holding period increases. However these returns are found to be reduced by the front-end load that the funds charged and caused an investor to receive less than market returns. This study clearly confirmed that published returns (NAV returns) is not the actual returns investors receive from their investment. Therefore, it may be misleading to investors when unit trust management companies advertise their NAV returns.

In order to achieve better than market performance, investors are advised to choose funds with lower front-end fees and with proven years of performance track record instead of just one year's performance record. Investors are also encouraged to study the fees and expenses breakdown at the funds' prospectuses and find out the front-end load from daily major newspapers.