CHAPTER 5
CONCLUSION AND RECOMMENDATIONS

5.3 Summary and Conclusion

Over the past 10 years, when NAV is used as a base for year on year (YoY) calculation, the average funds outperformed the KLCI during the bear market in 1994, 1997, 1998 and 2000. Small Cap funds category average NAV return for ten YoY is better than market portfolio. However, when actual return is used as a base for YoY calculation, the average funds did not outperform the KLCI YoY for the past 10 years under study.

This study concluded that unit trust funds on average would be able to outperform the KLCI during the bear market (similar to findings by Ong) because fund managers can choose to hold more cash than equities. However, due to the front load that funds charged, the excess return was completely wiped out and some funs even ended with under-performance.

This study also found that, the fee that an investor pays as front-end load does not constitute all the investment cost as assumed by most investors. The effective cost of investing (ECI) would be much larger than the front-end load. The amount paid as front-end load (service charge) would be able to generate cumulative future growth and stream of income if invested from the beginning. Therefore, investors should pay more attention to front-end load when choosing a fund to invest in, as this load would be part of an opportunity cost and result in reducing returns from their investment.

When a holding period of more than 3 years is considered, all seven categories of funds under this study based on both NAV returns and actual returns on average out-performed both the KLCI and Emas. However, when holding period increases to more than seven years, only average NAV returns is higher than KLCI. This showed that unit trust funds on average are capable of generating better than market returns when holding period increases.

However these returns are 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 the investor when unit trust management companies advertise their NAV returns.

All seven categories of funds showed that the effective cost of investing increased as the holding period increased. The findings confirmed the alternative hypothesis 2. Although Small Cap funds registered the highest ECI for ten years holding period, these funds still able to generate higher than market returns for the same period. Investors should be more cautious about front-end load when investing for longer term.

The age of the fund is an important factor in the performance of the fund. The result in this study shows that newly launched funds are able to perform better than the middle aged and seasoned funds which contradict with Lee [2000] finding. The superior performance could be due to competition, better trained fund managers or lesser front-end load. For example, none of year 2000 top ten funds is more than 5 years old. Further study is needed to confirm the hypotheses. Therefore, this study is unable to confirm that newly launched funds are capable of generating better performance than their fund peers.

This study concluded that past performance of the fund is not a good predictor for future performance. This is especially true when using one year's returns to predict long-term performance. As the study shows, none of the 1991's or 1996's top ten funds repeated their performance in 2000. Therefore, the superior performance occurs merely by chance and is very difficult for the superior performance to repeat itself. Nonetheless, SBB Retirement Balanced fund, Utama SSSB Premier and OSK-UOB Small Cap funds are able to position themselves in the top ten position since the funds inception. However, upon close scrutiny there are still a few fund managers who are able to deliver such repeated returns. Overall, investors should be cautious when UTMC promote their funds based on past performance.

In short, in order to achieve better than market performance, investors are advise to choose funds with lower front-end fees and with proven past few years of performance instead of just one year of performance. Investors are also encouraged to study the fees and expenses breakdown at the funds' prospectus and find out the front-end load (which is the different between manager's sell and NAV) from the daily major newspaper.

5.4 Suggestions for Additional Research

Currently most of the unit trust funds peg their bid price at NAV. As such, this study assumed that all the unit trust funds peg their bid price at NAV. However, prior to 1997, only 38 of the total 76 funds pegged their bid price at NAV. The difficulty in obtaining NAV price for all funds prior to 1997 and hence the limitation of the data used in this study may result in a more precise impact on the effective cost. The additional research, if possible, should attempt to use NAV data for all funds prior to 1997.

This study is based on the assumption that all equity based unit trust funds are benchmarked against the KLCI or EMAS index. Therefore all unit trust funds in this study are categorized based on the nature of the funds rather than the objective of the funds. Different unit trust funds have different objectives in their investment strategies. Future studies could also segregate out the different categories of unit trust funds into the respective categories such as balance category (to achieve a balance between income and growth), index tracking category (to track the performance of specific index), growth category (to obtain maximum growth for the fund), etc.

5.5 Policy implications

Returns published by management companies are not actual returns that an investor would obtain by investing in a specific fund. The Securities Commission as a watch-dog for the unit trust industry should impose a regulation whereby returns published should also be accompanied by actual returns taking into account net of average fees charged by the fund.

The current disclaimer of "Investors are advice to read and understand the prospectus before investing. There are fees and charges involved when buying and selling units" is not sufficient. Most investors are not aware of the quantum of fees that they need to pay. The cost of going into a fund is something most investors do not actually consider. The reasons why investors did not consider the Effective Cost of Investing is because there is lack of awareness on such cost or fees involved.

Industry players contended that market forces will drive costs down as investors become more sophisticated and as the industry becomes more mature. However, the awareness of effective costs must take place before investors become more sophisticated and mature to drive the cost of investing in unit trust down. Securities Commission should embark on educational programmes to increase the awareness of such costs to the general public.

The Securities Commission should adopt the policy imposed by SEC in US on disclosure about fee in a table format in all prospectuses. Currently SEC rules require that the prospectus include a fee table containing certain specific information about the sales charges, operating expenses and other fees that an investor will pay as part of investing in a fund. (See example in Appendix)