

ABSTRACT

This research is aimed at studying the investment performance and ranking of unit trust funds in Malaysia using different benchmarks as market portfolio to analyze how sensitive the benchmarks affect the funds performance. Two different benchmarks used in this study are KLSE Composite Index and KLSE Emas. Other studies include : the degree of risk diversification, the systematic risk of the funds, whether the funds adhere to their stated objectives and whether fund manager have the ability to predict security prices. Finally, the performance measurement tools are compared with Micropal ranking systems which is independent fund analysis company responsible to rank Malaysia unit trust performance since January, 1996.

The findings revealed that for the thirteen year period from January 1984 to December 1996, most of the funds in the sample of thirty two private unit trust funds performed worse than the market portfolio. More funds outperformed market portfolio using Emas Index as benchmark compared to Composite Index. It was also shown that the funds were not very well diversified portfolios but systematic risks were lower than the market portfolio.

In summary, the funds did not adhere very well to their stated objectives and hence could not be relied upon by investors as qualitative guide post for investment. The research also showed that only few fund managers could forecast security prices and manage to outperform the naive "buy and hold" strategy. But there are some fund managers showing significantly poor forecasting ability because they underperform the market risk-free rate.