CHAPTER V

CONCLUSION AND RECOMMENDATION

5.1 SUMMARY AND CONCLUSION

The results of the study shows that most of the funds in the sample could not outperform the market portfolio. Only five out of thirty two funds manage to outperform market using KLSE Composite Index as benchmark. More funds outperformed the market using KLSE Emas Index as a benchmark. Its show that the fund performance are sensitive to the benchmark chosen to measure the normal performance. KLSE Emas Index, which represents the overall market performance should be a better measurement since the fund managers invest in all kind of stocks whether blue chip, second or third liner stocks.

The results also shows that funds managed by different management companies performed differently with the best performing funds coming from the same management company. This means that different management companies have different performances and investors may choose funds based on capability of the fund manager.

The result also reveals that all the funds are less risky than the market portfolio for both benchmarks being study and thus offer security of capital for the investors. The degree of diversification of the portfolio is below expectation and the performance is not consistent over time. The actual return and risk characteristics of the funds are inconsistent with their stated objectives.

When the funds were classified according to their types of funds, the best performers are the Growth funds followed by the Balanced and Income funds. This seems to support the notion that growth funds should be the best performers as they invest in more risky assets that have higher potential for capital gains while the Income funds should earn the lowest returns since they invest in the less risky and more secure assets such as government securities. The risk profiles of the different type of funds shows that the funds do not adhere very well to their stated objectives as their systematic risks are quite different from traditional values. Hence both the returns earned and risks levels observed in the study suggest that the stated objectives of the units trust funds issued to the investors are not always dependable.

When using KLSE Emas Index as a benchmark, the best performers are the Growth funds followed by the Balanced and Income funds. There are positive correlation between these two benchmarks because both results support each other when the funds were classified according to their types.

The results also shown that Micropal ranking conflicts with performance measure such as Adjusted Sharpe Index, Treynor Index and Adjusted Jensen's Alpha. Micropal ranking only measures the return generated by the unit trust funds and ignores the risk incurred by the funds. So, it is not a good measurement for unit trust funds. The better approach should measure both the return and risk of the funds. So, Adjusted Sharpe Index, Treynor Index and Adjusted Jensen's Alpha are the better measurement tools to be carried out.

It was also shown that most of the fund managers could not forecast security prices and could not beat the naïve "buy and hold" strategy. These lackadaisical performance of unit trusts in Malaysia cannot be attributed to the lack of profitable investment opportunities in the economy as the economy has steady growth since

1988. A more relevant explanation could be the regulatory constraint imposed on the amount and the type of investments allowed. The strict advertising code for the unit trust industry also contributed to its slow growth as public awareness is still low. Beside statutory requirements, the management factor is also an important ingredient for a successful performance. Since all unit trusts are subjected to the same regulations, the superior performance of the funds analysed is probably due to their superior management. A pro-active role by management in investment strategies would certainly boost the financial performance of unit trusts.

Another point to note is that the performance of the unit trust funds depends on the timing of the launching. For example, if the fund was launched during the market "super bear". But after three months, the market went up. These will cause the fund manager to perform superiority since they use "buy low and sell high" tactics. In fact, it is only the good luck of the fund managers. A good fund manager are able to increase the net asset value of the fund even though in the "bear" market.

5.2 IMPLICATIONS OF THE RESEARCH

The major implications raised by the research are shown as below:

1. The performance of the unit trust fund are very sensitive to the benchmarks chosen, for example, in the study, some unit trusts underperform the market using KLSE Composite Index as benchmark but outperform the market using KLSE Emas Index as benchmark
2. Unit trust funds should strive to keep costs down in light of the managers' inability to benefit from research activities. It is suggested to the management fees from 5% to 2%.

3. Investors should be cautions of managers' claims of superior performance as many of their claims are over optimistic and not based on satisfactory measures.
4. Unit trust managers should possibly spend more time on defining objectives as regard to risk and return, explicitly stating their fund objectives to the public and formulating portfolios to match these objectives.

5.3 SUGGESTIONS FOR FUTURE RESEARCH

In view of the limitations of the study, the models should be retested in the future using samples of unit trust funds from more management companies so as to be more representative of the unit trust industry. More data fund characteristics should be obtained in the future to give a better and more general insight of their effects on fund performance and risk levels.

Beside the analysis should include Second Board Index as an alternative benchmarks to study since some funds recently also invest in Second Board stocks.

In future research, the selection of the funds should be carried out in such a way that the number of funds from government sponsored funds should be more than private funds since the net asset value of government funds are very much larger compared to private funds. Thus, the whole unit trust industry in Malaysia can be represented.