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**Investment Benefits  
of Crude Palm Oil Futures  
Trading On The Malaysia  
Derivatives Exchange**

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## ABSTRACT

This research project is aimed at analysing the potential benefits of considering Crude Palm Oil Futures as an alternative investment. The commodity-based had been found to provide diversification benefits if being considered as a part of well-diversified portfolios. However, all the studies were done on the capital market of developed countries. Hence, this study attempts to carefully analyse the risk and return characteristics as well as its correlation of returns with stocks and bonds. Furthermore, the effectiveness of CPO futures as a stand-alone or part of a portfolio is determined. In doing this, this study selected Kuala Lumpur Composite Index and RAM Quantshop Malaysia Government Securities All Bond Index to represent the well-diversified portfolio of stocks and bonds respectively. Then, 4 efficient portfolios were formed and their performance was analysed. This study utilizes the monthly data and computes the monthly mean returns for all assets. The findings of the study show that CPO futures does have weak correlation of returns with both stocks and bonds. It also reduces the risk of portfolio consisting of stocks and bonds. However, due to a rise in the 3-month Malaysian Government Treasury Bills, which is a proxy of risk-free rate, the results for the portfolio measures are mixed. Nevertheless, a portfolio with CPO futures in it does show some strong performance in all measurement indices during all time periods. Finally, this study finds that there are no significant differences of monthly mean returns of each portfolio during pre- and post crisis period.

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