THE IMPACT OF MALAYSIAN UNIT TRUST FAMILY MEMBERSHIP ON INVESTORS RISKS AND RETURNS

ABSTRACT

This study examines the effect of unit trust investments within a fund family as opposed to across fund families in relation to the risk and return to the investors in Malaysia. The sample consists of 222 funds in 15 fund families. The study period is between 2003 and 2009. This study focuses on three aspects of risk and return of unit trust investment in relation to investing within a fund family or across families. The first part analyses the diversification benefits in terms of return correlation and its causes. This study finds evidence of unit trust returns being more closely related within fund families than outside the fund families. For this reason, investing in funds managed by the same unit trust family may not lead to a reduction of portfolio risk. It is also found that combining Islamic and conventional funds could bring additional risk reduction benefits. The money market funds stand out as a good diversification to other funds. The second aspect studied is the persistence in fund performance. This is done by examining the hot-hand phenomenon at unit trust fund family level, rather than at the individual fund level. The study finds evidence of short-term (monthly and quarterly) positive performance persistence, or the hot-hand phenomenon. However, the persistence disappears when a longer rolling period of six months and one year are considered. The hot-hand effect is generally associated with the relative superior performance in that industry as a whole. However, this study found weak evidence of hot-hand fund families, provide high excess returns to investors. Finally, this study examines the spillover effects, that is, the extent to which investors’ capital is affected by the existence of a star fund in its family. Surprisingly, the evidence suggests that investors are not responsive to the star performing identity of funds in the same family. The finding suggests that a strategy of star-creation may not be a viable approach to attract market share in this industry in Malaysia. Possible reasons underlying the results are explored and these include families’ past performance, size of the fund family and that the number of funds in the family.
ABSTRAK

ACKNOWLEDGEMENTS

This thesis would not have been completed without the support of many people. First and foremost, I truly appreciate the financial support from the University of Malaya.

My deep gratitude should go to my supervisor Professor Dato’ Dr. Mansor Md. Isa for his constant support given to me throughout my PhD study, even though he left for another country towards the end of my study, he coached me entirely until my final submission of the thesis. I thank him for his constructive advice and guidance, the precious time he spent and his valuable encouragement to me. He is such a dedicated mentor.

I would also like to express my sincere gratitude to my late supervisor Dr. M. Fazilah bin Abdul Samad for her valuable support and guidance. Her encouragement kept me moving forward. She is such a loving supervisor. I would like to thank my supervisor Dr. Nurul Shahnaz Ahmad Mahdzan for her support. I sincerely thank Professor Dr. Idris bin Jajri for his valuable suggestions and advice.

A special note of gratitude goes to Professor Dr. Obiyathulla Ismath Bacha (International Centre for Education in Islamic Finance, Malaysia), Dr. Gurmeet Singh Bhabra (University of Otago, New Zealand), Dr. Piman Limpaphayom (Chulalongkorn University, Thailand), Associate Professor Dr. Rubi Ahmad (University of Malaya, Malaysia) and Dr. Roselee Shah Shaharudin (formerly in University of Malaya, Malaysia) for their constructive comments and suggestions during the University of Malaya’s PhD colloquium and proposal defence sessions.

I am grateful to all my fellow friends who lent their support – thank you for your encouragement and support. A special thank you is extended to Yap Kiew Heong, who was my biggest inspiration for embarking on my doctoral studies. I am greatly indebted to my cousin Teoh Kheng Wan for her encouragement and assistance provided in all aspects.

My final and greatest debt goes to my beloved husband for his unconditional love, support, understanding and patience. Without him, I would not be able to fulfil my dream. I am especially indebted to my parents, who instilled in me the value of education. I would like to thank them for their constant support. I am grateful to my two princesses who spark my life with fun and laughter and keep me sane.
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