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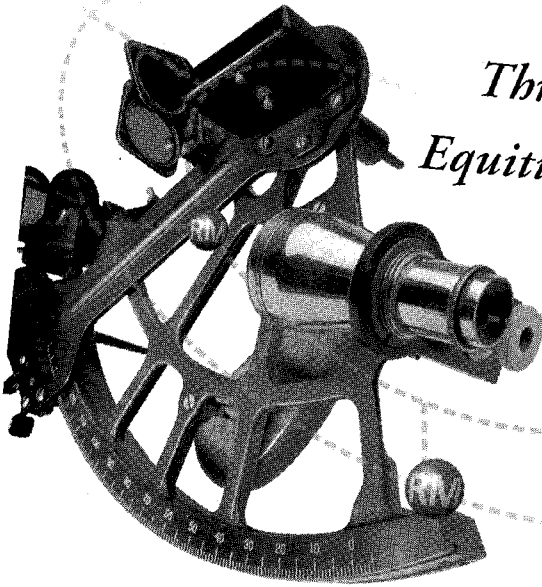
*Through Malaysian
Equities and Unit Trusts*

*Edmond Cheah
Wong Boon Choy
Rajen Devadason*



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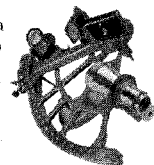


PUSTAKA PERDANA



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A sextant is a precision tool that a ship's captain or navigator uses to help him chart a course in the open seas. It measures the altitude of celestial objects, and in so doing helps determine the sailors' position on the globe.



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PREFACE

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This book's purpose is to clear away the cobwebs of doubt and ignorance from every key aspect of equity and unit trust investing, as it relates to the

Malaysian investor, financial planning student, and unit trust sales agent. Our ultimate aim is to help Malaysians, and others interested in the domestic unit trust arena, gain an understanding of applicable and profitable investment approaches. Along the way we have tried to instil an awareness of the numerous – often mutually exclusive – pitfalls which await the greedy and ignorant.

With that crucial foundation of investment lore set down, we hope our readers will swiftly gain an awesome operational knowledge of Malaysian unit trusts. We have tried our best to make this book an enjoyable read. We trust reading it doesn't put you to sleep. But having said that, do realise that this is a meaty book that contains a great deal of material that has the potential to improve your material well-being.

In other words, it isn't bedtime reading. In either sense!

We hope you will put down this book in about a week's time with a fresh mental framework of investment principles and unit trust knowledge that will help *you* prosper in our country, Malaysia, during the first one-third of the 21st century. Throughout our writing of *Financial Freedom – Through Malaysian Equities and Unit Trusts*, we nurtured the not-so-secret hope that this book would become the definitive text on the subject. Have we succeeded?

Only you can decide. But not on the basis of some warm, fuzzy mental afterglow which you might experience on finishing the last page of this big book; rather by putting into practice the profitable guidelines we've sardine-jammed into it.

Why bother putting practical work clothes on these guidelines? Whether you're an investor, student of finance, or a unit trust professional, chances are very good that you can relate to these questions:

- Is there a way for me to confidently build wealth for my family's future without taking on the habits and blood pressure of a professional speculator?
- Aren't unit trusts too boring a vehicle for me to bother with?
- What on earth does 'dividend equalisation' mean?
- Why shouldn't I immediately book a trip to Disney World in Florida, if my unit trust fund declares a bonus issue?

We believe that taking the trouble to learn the answers to questions like these will pay incredible dividends to you in the decades ahead. Before we lay ourselves wide open to accusations of promoting excessive materialism, here's why we think achieving those monetary gains is important:

Simple arithmetic shows us that all it takes to *legally* end up with a million ringgit is to set aside RM500 each week (assuming no interest is earned) for 38½ years. But there are two minor problems with that particular route to millionairehood: 18 months short of 40 years is an awfully long wait; and, by the time 2040 AD, or so, rolls around, RMI million is likely to only buy a small car and a single-storey terrace home with not a sen left over for petrol, toll charges, weather-resistant paint and utility bills.

And that assumes true inflation averages a mere 4% a year throughout that future period. Of course, none of us knows if tomorrow's long-term inflation rate will be higher or lower than that. But whatever it turns out to be, we've got to stay ahead of it or face being crushed in its awful wake.

For in the words of the astute (if somewhat unknown) George Gobel, "If inflation continues to soar, you're going to have to work like a dog just to live like one."

Ensuring a better-than-canine quality future is something each of us desires, whether or not we expend conscious thought on it today. But merely harbouring that desire is not enough. You need to take personal responsibility to grow your hard-earned ringgit faster than inflation erodes it, if you genuinely hope to achieve *Financial Freedom*.

In our opinion – and despite our professional backgrounds, we don't think we are biased when we say that – for most honest, hardworking, regular people, unit trusts are the most *user-friendly* mode of growing today's tiny seeds of hope and promise into a golden crop. Your potential harvest: future wealth.

Yet effort is still needed if you are to genuinely benefit from unit trusts. Though the following pages contain a wealth of information, a modicum of get-up-and-go on your part is required to act upon even a tiny fraction of what you glean here. Please make the effort to act; we promise your life will be all the better for it.

The bottom line: we hope this book provides you with the framework for formulating a successful strategy for a lifetime of direct equities and 'indirect' unit trust investing.

The rest, as usual, is up to you.

In our earlier volume, *Financial Freedom – Your Guide to Lifetime Financial Planning*, we attempted to help Malaysians caught in the anguishing aftermath of the 1997 currency Meltdown. We've been heartened by the incredible reader interest – even hunger – exhibited by runaway book sales, which in turn have swollen our *Financial Freedom* charity fund.

We never did, nor shall we ever, claim to have all the answers. But the feedback we received from readers of that earlier book suggests that our guidance in probate, insurance, risk tolerance, liability management, goal-setting, saving and investing was useful. To the many of you who wrote, e-mailed or spoke your words of approval and encouragement, thank you for providing the emotional support needed to write this sequel.

This book, *Financial Freedom – Through Malaysian Equities and Unit Trusts*,

is a very different work from its predecessor, being uncompromisingly focused on equities and unit trusts. Between the three of us, we have 40 years of experience in the exciting realm of managed investments, where things are often not as they seem. Because of that, we chose to grab – as much for fun as for profitable enlightenment – among other things, the chance to debunk seven of the most prevalent unit trust myths circulating the industry. Two of us have the privilege of working for KL MUTUAL, Malaysia's largest private unit trust company with more than RM4 billion under management. From that vantage point we have watched and tried to contribute toward the growth of our still toddling domestic industry. We hope this book enhances that legacy.

While it is our heartfelt desire that each of you reads this book from cover to cover, pragmatism suggests that many of you will only be interested in certain topics. So we fashioned Chapter 1 – our shortest chapter – as a road map to the whole book.

A great deal has already been written about pooled investments in the developed world. And while there are tremendous areas of similarity between the more sophisticated industries of US mutual funds and UK unit trusts, and Malaysia's nascent unit trust industry, there are also major differences.

These stem from deep-seated character disparities between the more efficient capital markets and Malaysia's developing one. *The inefficiencies inherent in a younger market can be mined for great profit.* By extension, it is obvious that the Efficient Market Theory (EMT) – which insists that supernormal profits cannot be extracted from the stock market because current share prices always reflect all available information – is more applicable in the West than out here in the Wild, Wild East.

Certainly in Malaysia, as in other pockets of the developing world, value-added investment advice generating high long-term gains does stem from expertise. Even in the EMT-indoctrinated West, as we shall see, super investors like Warren Buffett, George Soros and Peter Lynch have successfully thumbed their wealthy noses at the so-called efficient market.

The present condition of the Malaysian capital market is somewhat similar to that of the US in the early 20th century. So consider this nugget from

what is effectively a literary time capsule from the then-and-there to the here-and-now:

In his 1923 investment classic *Reminiscences of a Stock Operator*, author Edwin Lefevre records a fictionalised biography of an actual super stock speculator Jesse Livermore (thinly disguised in the book as Larry Livingstone). In that rollicking account, Livermore describes – through writer Lefevre – an early period of massive losses in 1901: “I harp on this topic (of losing money) so much to show what I had to go through before I got to where I could really make money. My old shotgun and BB shot could not do the work of a high-power repeating rifle against **big game.**”

Livermore found out in the US at the start of the 20th century, what most of us in Malaysia only came to grips with in the 1980s and 1990s: that most of the time, the big players in any stock market have a huge edge over small, retail speculators and investors.

Thankfully, what evens the Malaysian playing field today is that good unit trust fund managers – as opposed to mediocre ones – wield heavy artillery on behalf of the subset of small investors who choose to ride with them instead of going it alone.

We hope you enjoy this book. We also wish, more than anything else, that through it, you learn to profit from the better investing skills of others. Should you act correctly upon the knowledge gained, you will grow wealthy in the decades ahead.

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Rajen Devadason

August 1st 2000

PS. If this book proves useful, those of you with Internet access might wish to visit <http://www.klmutual.com.my> for updated information on Malaysian unit trusts, and invaluable insights on localised financial planning issues.