

Finally, competition comes to unit trusts

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On Monday, Prime Minister Najib Razak announced that effective immediately foreign corporations will be allowed to own 100% of shares in local unit trust management companies. In addition to that, barriers on foreign-owned unit trust companies coming into Malaysia will also be removed. Tiger examines the matter.

It is a well-known fact that Tigers like to stash things. Tiger's friends like to stash the remains of a kijang or hyena in the fridge if they've eaten too much, and Tiger herself has been known to occasionally hide a homo sapien or two in her own fridge when she's tired of vegetarian fare.

There was a time when all Tiger stashed away was money under her pillow, since Tigers are not allowed to enter banks. But the money is now spilling out of her cave much to her consternation, and Tiger is wondering where to put all that.

A human friend of Tiger's had suggested she invest her money in unit trusts, but Tiger has been hesitant so far. The main reason is that upfront fees in investing in unit trusts is still quite high, as much as 6% to 7% in Malaysia. In addition to that, you'll need to pay a yearly management fee of anywhere between 0.5% and 1.9% depending on the type of fund you're investing in. Unit trust management companies also charge an annual trustee fee of between 0.02% and 0.08%.

In the United States, investors usually pay front-end fees (also called 'loads') of around 5%, plus management fees of between 0.5% and 1%. However, in the US there are also several no-load funds, which means you are not paying exorbitant upfront fees for the management of your fund.

Investors in Malaysia however, are getting a raw deal in comparison. Consider this: according to data from the Securities Commission of Malaysia website, the size of the unit trust industry as of April 2014 is RM350 billion, compared to just RM75 billion ten years ago.

So, let's say you collectively paid an annual management fee of 1.9% this year, that means your management fees alone make RM6.64 billion annually for the unit trust industry! And if you're paying this 1.9% plus another 7% upfront fee, and your fund makes an average annual return of 5%, you've actually lost money this year. Clearly, you've nothing to write home about, but your fund manager will be laughing all the way to the bank!

And what would you have paid collectively as upfront fees at 7% for RM350 billion? Nearly RM25 billion. If you move in and out of unit trusts you lose big time.

GRRRRR!!!

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