

## Can't decide on a stock? Choose ETFs and diversify

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**MUTUAL** funds or unit trusts have become common investment vehicles for many, but there is another investment vehicle that is growing in popularity in many developed markets. It's called the exchange-traded funds (ETFs). Not only do ETFs provide the same benefits as mutual funds or unit trusts, but they also give you the broad exposure to stocks, bonds or commodities while offering lower transaction costs, greater flexibility and higher transparency.

**THE** benefits of ETFs will become apparent very quickly because it can help meet your financial goals, no matter your age, investment experience or investment amount.

### Understanding ETFs

An ETF can be thought of as a “basket” of financial instruments listed on a stock exchange. This basket tracks various market segments and can be made up of company stocks, bonds, or other asset classes like commodities.

Purchasing an equity ETF on Bursa Malaysia allows you to make several investments across a variety of companies. Instead of having to pick individual stocks, you can select a desired investment focus, a particular sector or even buy into listed companies in many countries for wide geographic exposure - just from a single ETF on Bursa Malaysia.

Unlike mutual funds, ETFs involve lower transaction fees because they mirror the market and are “passively managed”. This can have a positive impact on the length of time needed to recuperate your cost of investment. ETFs offer transparency where investors know precisely what securities their fund holds, and the flexibility to be bought or sold anytime during the trading day just like stocks.

### Why diversification is important

Stock markets can be volatile. We've heard the familiar saying, “Don't put all your eggs in one basket”.

Sir John Templeton, a prominent investor, once said, “Diversify. In stocks and bonds, as in much else, there is safety in numbers.”

Investing in ETFs creates instant diversification. This buffers your portfolio against bad news that can otherwise spell disaster for those who do not diversify. And the more ETFs you invest in, the more effectively you spread risk out.

Chong Lee Choo, director at Innovation Lab & Alternative Investment, believes that having the right mix of assets can help investors achieve their long-term financial goals. “An investor who wants to invest long-term for retirement may want to consider investing 70% of their savings in equities, 10% in REITs, 10% in commodities and 10% in bonds.”

Choo also adds that alternatively, ETFs can be a great investment tool for investors who are starting out or those with low capital to invest as ETFs can create diversification with just a click.

### Finding the right balance

There are many types of ETFs that match different investors’ appetites. Investors with higher risk appetites may opt for leveraged ETFs which amplify movements in the market, and thus, their returns. More cautious investors can opt for ETFs that comprise bonds or high-dividend blue-chip stocks which are less volatile, more defensive in nature and provide investors with a regular income.

### **ETFs, the next big investment opportunity in Malaysia**

The Malaysian ETF market is poised for further growth. Last year, Bursa Malaysia saw two “historic first” ETF listings - the first commodity-based Shariah ETF for those keen on a gold-based product, as well as Asia’s first US dollar-denominated Shariah-compliant ETF that provides investors with the opportunity to own a piece of big-name US blue-chip companies such as Facebook Inc and Apple Inc.

Bursa Malaysia is looking to introduce new products that will give investors more opportunities to grow their wealth. One such product is Leveraged and Inverse (L&I) ETFs - powerful hedging instruments that magnify investment returns.

Currently, L&I ETFs are one of the fastest-growing investment products around the world. It is expected that four new L&I ETFs will be making their way to Bursa Malaysia’s Main Market in the coming weeks. These L&I ETFs will broaden the range of investment products that are listed on Bursa Malaysia, especially in the ETF space. They will provide new strategies and tools for the investing public to take advantage during periods of market volatility.

Take charge of your financial future and grow your wealth through investing. ETFs are a good entry point - especially for those who may not have the time, knowledge, or even funds (all you need is roughly RM100 to begin investing in ETFs).

To help you begin your investment journey, find out more about ETFs and other products at [www.bursamalaysia.com](http://www.bursamalaysia.com). You can also view our list of ETFs at <http://www.bursamarketplace.com/mkt/themarket/etf>

*Part of a series of articles by Bursa Malaysia to educate, develop and empower everyday investors.*