Malaysia Investment Outlook: How Will 2016 Fare For Investors?

January 26, 2016 | Investment, Ringgit

Written by Iris Lee

While there's no crystal ball when it comes to predicting the investment market, there certainly are signals that point to a few key themes: Sluggish growth in the global economy, higher volatility for stocks and other assets, and heightened political instability and hostility globally.

It's generally quite negative but how exactly do these themes affect investors in Malaysia? Should we buy, sell or hold?

These and other burning questions answered by the industry experts from a commercial bank, an asset management company, and leading financial planning firms in the country below.

1. What can investors expect in 2016?

You may be feeling the 2015 hangover still, but the investment market is not all bleak this year. Sure, there are markets that you should approach with caution, but there are also markets that offer great opportunities.

Danny Chang, head of managed investments and products management, Wealth Management at Standard Chartered Bank Malaysia

Danny Chang, head of managed investments and products management, Wealth Management at Standard Chartered Bank Malaysia, warns against participation in equity markets in Asia, except for Japan, adding that the recommended allocation for Malaysian/Asian equities should just be 15%.

"Assuming a moderate risk tolerance investor with RM100,000, the suggested allocation is RM15,000 locally and RM85,000 overseas," says Chang.

He also reassures investors of this action even with the present foreign exchange pressures that remains an on-going concern for local investors.

"Though the sliding Ringgit remains one of the biggest concerns among investors, the downward pressure on the Ringgit is expected to ease and bottom out against regional peers by second half of 2016," he adds.

However, **Tan Keah Huat, executive director of Apex Investment Services Berhad**, a Chartered Member of Financial Planning Association of Malaysia (FPAM) cautions that the foreign exchange pressure will still likely result in weakness in earnings growth, capping the upside for the market for this year.

He expects that the returns on investment for local listed companies may be capped as these companies are expected to experience earnings pressure this year. So whatever upside we may see locally will be limited in any case.Looks like no matter how we look at it, our earnings will be challenged this year. It's just about how we make the best of it. Don't worry though, It's not all doom and gloom!

Chang believes that the present overall sentiment towards the Ringgit is excessively negative. While we will still struggle with it, the extent of it is overstated and a financial crisis-like situation is unlikely.

Linnet Lee, CEO of FPAM, forecasts a generally weaker environment for investors but not due to global markets. Instead she sees that the rising local costs will pressure many investors. She foresees that those who were on the borderline of just having a bit more money to be utilised for investment will instead have to reduce their overall investment allocation as they struggle to meet their rising costs.

"With the cost of goods and services increasing by about 10% to 20% for many daily essentials, the rising cost may eat into investment funds, and investors will likely scale back on their investments to meet their increased monthly expenses," says Lee.

2. In light of these, what are some of the investment products to go for this year?

Investment this year should take on the double Ds – diversify and defend. The age-old adage of not putting all your eggs in one basket has never rang truer in this economy.

"In this time of market uncertainty, it pays to review your asset allocation to ensure that you're well diversified in terms of asset classes, currencies and geography," **Yap Ming Hui, independent financial advisor from Whitman Independent Advisors** reminds investors.

With a balanced portfolio that suits your risk appetite and investment time horizon, one can explore moderate risk investment opportunities. Some of the investment instruments that Yap identifies are the Real Estate Investment Trusts (REITs), diversified unit trust funds or dividend paying shares.

Yap Ming Hui, independent financial advisor from Whitman Independent Advisors

Tan agrees and suggests mixed asset funds that emphasises on defensive stocks to be ideal for this year.

Both diversification and defence seem to be the way to go for investors but of course, how your investment portfolio is balanced depends a lot on your risk appetite and investment objective.

A lot of us may think that we don't have the funds to adequately diversify but in reality diversification does not always equate to high capital. The simplest and most affordable form of diversification is to go through professional investment managers via a unit trust fund. With as little as RM1,000, you can gain access to various unit trust funds, which also offer the flexibility to enter and withdraw whenever you wish.

"For beginners, stay broad and consider global balanced funds that invest in both global stocks and bonds, or global equities, but still within your risk tolerance." Chang says about these investment staples for a new investment portfolio.

For high net worth investors with a bigger risk appetite, Tan suggests private mandates as they would allow the fund manager to focus on fewer stocks but with catalysts and greater upside potential. Stock selection is paramount to get good returns, but volatility must be expected with such strategy.

"We believe there are ample opportunities for bottom-up stock-picks in 2016. This strategy worked well for our high net worth investors last year and we believe this year could offer similar opportunities," Tan adds.

3. How about investments to avoid?

Going back to basics, Yap reminds all investors, especially those who just started out in their investment to always avoid investing in products they do not understand.

"With the challenging market conditions, avoid leveraging products that could hit you like a double whammy in tough market conditions. Examples of leveraging products are borrowing against property or bonds to invest in shares or margin financing," Yap says, adding that it's important to ensure a balanced portfolio that does not overexpose into selected asset classes to reduce risk. Leveraging exposes you to risks in financing your loan as well as the market risk of your investment. In these market conditions, it's best to minimise your risk wherever you can.

Linnet Lee, CEO of FPAM Image from sme.org.my

The same sentiment is also echoed by Lee from FPAM. She emphasises that investors should look at rebalancing their portfolios now. A balanced investment portfolio should be based on the investor's risk appetite, purpose of investment and duration of investment.

"A well-balanced portfolio crafted based on the above criteria is a systematic way of making investment profits," says Lee.

Furthermore, the changing market values can inevitably cause the portfolio's allocation to drift from its original plan, which is why periodic reviews are extremely important. Rebalance your holdings as often as needed to keep it consistent with your goals and bear in mind the investment costs that could bite into you returns. If you haven't done it recently, now's a good time to do it!

Chang advises that to minimise risk, diversified global or Asian equities should be considered first before investing directly into a single country equities fund or single sector fund, such as technology stocks fund.

Investors should also approach funds that have significant exposure to commodities like gold and oil, as they may underperform. In view of the sliding Ringgit, Tan urges investors to be careful with investments in regional funds using depreciated Ringgit. As we've yet to see the Ringgit bottom out, any earnings on their funds may be eroded when translated to Ringgit at a later stage if the currency appreciates.

4. What is the investment trend moving forward?

It is undeniable that investment is no longer just an option but a need for Malaysians who would like to achieve their financial goals and ultimately, financial freedom.

According to Yap, his firm has seen more people recognising the importance of investing their money and have started to delve into investment at an earlier age. However, he reiterates that without sufficient knowledge and experience, investment results can be uncertain and frustrating.

Having said that, Tan expects more investors to become more discerning and to pay closer attention to fund managers who offer consistent performance.

"Currently investors' choice of funds has been driven by marketing and sales, but investors will become more discriminating in their preferences for fund managers," Tan shares his observation in the shifting behaviour of Malaysian investors.

Transitioning into 2016, Chang reassures that the global equity bull market will return, and "the European and Japanese equities are still the preferred markets as they are likely only in the mid part of their economic recovery."

Tan Keah Huat, executive director of Apex Investment Services Berhad

For those who are worried about the weakening Ringgit against US dollar, Chang also said that the US dollar strength will likely become less broad based.

"We anticipate recovery of Asian currencies (including the Ringgit) in later half of 2016. Investors must take into account market volatility in 2016 as we enter the late stage of the US economic cycle, hence we recommend higher allocation into bonds and alternative strategies as we approach the end of cycle, to benefit from different source of return and lower volatility," adds Chang.

Gold prices are also expected to stabilise in the first quarter of the year, Chang says, as gradually tightening labour markets in the US and Germany put modest upward pressure on inflation.

As uncertainties still shroud the currency economic situation, Tan foresees investors to continue to sniff out opportunities in unit trust funds given ample liquidity in the economy and wealth creation that his firm has experienced in recent years.

Investing is necessary to keep financially afloat today, as not investing poses a bigger loss due to the rising inflation. Market sentiment may not be as positive as we'd like it to be but the risk of not investing is even greater in this sort of environment. Investing is a must – investors will just need to be more cautious in the present climate. Though it has not been easy in 2015, experts anticipate things to pick up again in 2016 and we are likely to see the bottom of this commodity cycle soon. As such, now is actually a pretty good time to start investing!

Image from Canadian Business