



FUND MANAGERS' ABILITY IN MAKING INVESTMENT DECISION:
COMPARATIVE STUDY BETWEEN MALAYSIA AND USA

BY

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ABSTRACT

Malaysian Central Bank has encouraged local investors to invest abroad. The question that arises is whether the markets abroad are beatable? This comparative study is to see how fund managers deal in making investment decisions in Malaysian and USA market. 20 unit trust funds were selected in both markets from 2002-2005. Sample of funds were being appraised in terms of volatility, diversification, fund ranking, consistency in performance and forecasting ability for market timing and stocks selection. This study found that Malaysian unit trusts return is more volatile than the United States funds, the same goes with stock markets. All funds are under diversified and have inconsistency in performance over time. Funds ranking using Sharpe and Treynor's index showed that 80% of the United States unit trusts outperformed the market compared to only 40% in Malaysia. Fund managers forecasting ability as measured by Jensen alpha index surprisingly showed that 90% of the United States fund managers are able to make the correct forecasts as compared to 40% by Malaysian managers. Therefore, it can be deduced that it is easier for the United States fund managers to beat their market. In conclusion it is recommended for fund managers and investors to invest abroad because it is proven that the market abroad is more beatable even though it is inconsistent.

1.0 INTRODUCTION

In March 2005, Malaysian Central Bank has encouraged Malaysian investors to invest abroad instead of focusing only in domestic market. Investing abroad sounds quite promising. It provides a wider degree of diversification and vast access to an established and efficient market. World stock markets offer a wide range of opportunity from a various degree of market efficiency. Developed countries such as the United States, Great Britain, Europe, Hong Kong, Japan, Taiwan and Australia with strong IT support and huge market capitalization provide a great challenge for investors. Developing countries such as Malaysia, Philippines, East Asia and other Asian countries are growing and provide an attractive market especially for foreign funds. Investing abroad is very important in obtaining a high degree of diversification for fund investment.

In Malaysian market, unit trust industry has raised RM88.45 billions or 78.5% of RM112.7 billions fund raised and managed by Licensed Fund Management Companies. This huge amount shows how important the fund managers' task is in managing public wealth. Any investment decision made by fund managers will influence investors' wealth. The fund managers' performance can be seen in the funds' achievement managed by him and showed in the funds' growth and income distribution.