
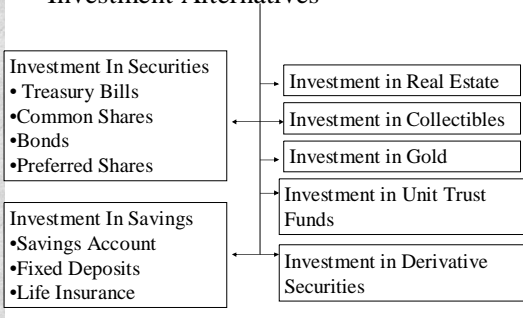


Investment Alternatives



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Investment Alternatives



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graph LR; A[Investment Alternatives] --- B[Investment In Securities]; A --- C[Investment In Savings]; A --- D[Investment in Real Estate]; A --- E[Investment in Collectibles]; A --- F[Investment in Gold]; A --- G[Investment in Unit Trust Funds]; A --- H[Investment in Derivative Securities];
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Investment In Securities

- Treasury Bills
- Common Shares
- Bonds
- Preferred Shares

Investment In Savings

- Savings Account
- Fixed Deposits
- Life Insurance

Investment in Real Estate

Investment in Collectibles

Investment in Gold

Investment in Unit Trust Funds

Investment in Derivative Securities

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Characteristics of investment in financial assets

- Divisibility
- Marketability
- Liquidity
- Holding period may vary
- Information availability

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Investment in Savings – Savings Account

- A form of deposit account
- Money kept in account earn interest or bonus
- Interest rate depends on the discretion of individual bank

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Advantages and Disadvantages of Investing in Savings Account

Advantages	Disadvantages
<ul style="list-style-type: none">■ Money saved in kept in custody of banks■ Income earning – interest■ Easily withdrawn■ Convenience	<ul style="list-style-type: none">■ Earn low income■ Savers need to be disciplined

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Investment in Savings – Fixed Deposits

- Similar to savings account but it requires a definite sum of money to be placed with a bank for a fixed period of time
- Earns interest
- Interest must be clearly displayed in premise ob bank

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Advantages and Disadvantages of Investing in Fixed Deposits

Advantages	Disadvantages
<ul style="list-style-type: none">■ Interest earned on fixed deposits is higher than savings account■ Safe■ Low risk	<ul style="list-style-type: none">■ Need to be withdrawn after the maturity period, if not, no interest is earned

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Investment in Savings – Life Insurance

- A legal contract between the life insurance companies and policy holder
- A long-term investment as it involves the coverage of risk related to life
- An investment alternative primarily purchased for insurance protection

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Advantages and Disadvantages of Investing in Life Insurance

Advantages	Disadvantages
<ul style="list-style-type: none">■ Provides financial security■ Used for retirement purposes■ Tax advantages	<ul style="list-style-type: none">■ Difficult to decide what to do with the money received■ Long period of time taken to accumulate savings■ Inflation effect

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■ Types of insurance companies include:

- Whole-life policy – payment of fixed-sum by insurance company on the death of holder
- Endowment policy – provides death coverage within stipulated period and acts as savings for the policy holder
- Term insurance – sums insured is payable only in the event of death or permanent disability within stipulated term of policy

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Investment in Securities – Treasury Bills

- A money market instrument issued by the Government
- To raise short term funds to finance the government
- Usually at denominations and multiples of RM10,000, with maturity of between 91 to 270 days

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Advantages & Disadvantages of T-Bills

Advantages	Disadvantages
<ul style="list-style-type: none">■ Low risk as it is issued by the government■ Secured income in the form of interest payment	<ul style="list-style-type: none">• Significant amount of money required to invest as it is in large denominations

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Investment in Securities – Common Shares

- Also known as equity securities as investing in C/S entitles investor to ownership/ equity position in the firm
- Shares could be privately-held or publicly-held
- Shares are sold to raise capital
- Investors are entitled to dividend payments, equal vote, equal voice in the management of the company

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Investment in Securities – Bonds

- Are fixed-income securities in which the issuer has agreed to pay income payments that are fixed by contract
- Issuer (company) is the borrower and bondholder is the creditor
- Has maturity date

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Investment in Securities – Preferred Shares

- Issued by corporations
- Also known as hybrid securities as it is a combination of common shares (dividend payments) and bonds (fixed-income)

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Investment in Real Estate

- Involves land and structures built on the land
- Types of land:
 - Residential Properties – dwelling for personal living or rental purposes
 - Agricultural land – for crop planting, dairy farming, animal farming and orchards
 - Commercial properties – made up of shophouses, banks and other financial services, hotels, urban centers and shopping complexes
 - Industrial properties – used for manufacturing and warehousing of industrial and consumer products, include factories, warehouses, industrial parks estates
 - Recreational properties – used for leisure activities like golf courses, amusement parks, resorts

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Physical Characteristics of Real Properties

- Immobility – can never be changed from its geographic location
- Long Life – may contain considerable varying age at any time
- Indestructibility – durable and stable investment since it does not depreciate in value

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Economic Characteristics of Real Properties

- Scarcity
- Appreciation in value – in good economic conditions real properties are sought after
- Fixed investment – investing involve large sums of money and long period of time

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Advantages and Disadvantages of Investing in Real Estates

Advantages	Disadvantages
<ul style="list-style-type: none">■ Financing is fairly easy to obtain■ Normally appreciates in value■ Provides direct rental income■ Value tends to increase with general price level■ Safe investment, secured return	<ul style="list-style-type: none">■ Involves great sums of capital■ Time and energy consuming to manage real properties■ Involves large sum of money to maintain■ Changes in loan arrangements may be time consuming■ Renting risks

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Investment in Collectibles

- Includes items like antiques, old stamps, art works, old coins and jewellery
- Subject to bid-ask spread risk and fads (stylistic)

Advantages:	Disadvantages
<ul style="list-style-type: none">■ Price increase may mean high rate of return■ One way of diversifying investment■ Can contribute to aesthetic enjoyment■ Display of wealth■ Can be sold during difficulties	<ul style="list-style-type: none">■ Require time and energy to gather collections■ Must have good contacts■ Need special skills and knowledge■ Require large capital

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Investment in Gold

- Indicates gold coins, bullion and any other form except jewellery
- Either direct or indirect gold investment
 - Direct – buy outright as bullions or coins
 - Indirect – buy gold certificate, gold mining stocks and mutual funds

Advantages	Disadvantages
<ul style="list-style-type: none">• good hedge of inflation• provide high returns• Provides physical enjoyment• Provide hedge against political risk	<ul style="list-style-type: none">• incur foreign exchange and gold price risk• No dividends or interest payment• Need special knowledge

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Investment in Unit Trust Funds

- Pools together funds so that investments can be made on an economic scale to purchase stocks, bonds and other investment instruments
- Provide benefit of diversification in the investment especially for investors with small capital
- Managed by professional fund managers
- Involves trust between:
 - Unit trust management company
 - The trustee (custodian) of all assets
 - Unit trust holders

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Advantages and Disadvantages of Investing in Unit Trust Funds

Advantages	Disadvantages
<ul style="list-style-type: none">■ Less risk■ Provides stable and steady returns■ Managed by professionals■ Good way to invest in stock market■ Good hedge against price volatility■ Can be a source or collateral	<ul style="list-style-type: none">■ Lesser profit■ Unit holders are indirect investors■ No capital appreciation

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Investment in Derivative Securities

- An investment in which the performance is determined by the performance of another instrument
- Value depends on the value of underlying instrument such as commodities prices, exchange rate, interest rate and share prices
- Examples include options, futures and warrants

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■ Options

- Financial derivative/ equity derivative
- Are contractual instruments where two parties enter into an agreement to give something of value to another
- Options contract gives a holder the right to buy/ sell a certain amount of underlying financial asset at a specified price for a specified time period
- Owner of option is known as option purchaser/ holder and the seller is the option writer
- If option holder chooses not to buy/ sell the instrument, he or she can allow the option to expire

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1. Call option

- give holder right to buy, not the obligation to buy an underlying asset at specified number of shares at specified price within specified time
- Valid for less than one year

2. Put option

- Give holder right but not obligation to sell an underlying asset at a specified number of shares, at a specifies price within a specified time period

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Investing in Options

<p>Advantages</p> <ol style="list-style-type: none">1. Much smaller investment is needed2. Loss may be known in advance3. Provide large gains in relation to buying shares4. Reduce risk5. Able to participate in the movement of the market	<p>Disadvantages</p> <ol style="list-style-type: none">1. Must have expertise and knowledge to understand mechanism of trading in options
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■ Futures

- Actually means investing in the future
- Involves future contract to be traded
- There are two types:
 - Commodity futures
 - Financial futures

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1. Commodity futures

- Involve future delivery of tangible commodity like crude oil, rubber, grains, textiles, petroleum etc
- Contract spells out:
 - Characteristics
 - Time & place of delivery
 - Quantity to be delivered
 - Price to be delivered
- Commodities traded on commodities market KLCE

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Investing in Commodity Futures

Advantages	Disadvantages
1. Offer high rates of return	1. High risk
2. Good hedge against inflation	2. Involves high capital
3. Can invest indirectly	3. Must have expertise and knowledge
	4. Unknown/ unpopular
	5. Time consuming
	6. Loss potential
	7. Must maintain diversified holding of commodities

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