

EPF to avoid forex investments

Foreign exchange and currencies too volatile for reliable returns, says fund CEO

By CECILIA KOK

cecilia_kok@thestar.com.my

PETALING JAYA: The Employees Provident Fund (EPF) will not be investing in foreign-exchange (forex) schemes despite claims of high returns, due to the risks involved and the fact that these schemes do not have underlying assets.

"The EPF does not view forex or currencies as a viable investment class because it is a very high risk activity," its chief executive officer Datuk Shahril Ridza Ridzuan said.

"Forex or currencies by their nature are dependent purely on trading. They are not an investment per se – like keeping cash in a capital market and hoping to get interests on it," he said in response to a participant's question at the Star Media Group's PowerTalk: Business Series here yesterday.

"We do a lot of investments in global assets, but we also invest in things like fixed-income, shares and properties.

"We do not view the forex component as the driver of returns.

"The reason for this is simple. Based on our 30 years of investing experience, forex is very volatile, so we cannot rely on it to give us returns.

"Rather, we rely on the underlying assets of our investments to give

us the returns," Shahril said.

He urged Malaysians to also exercise caution and make informed investment decisions.

"I'm aware that many companies out there are offering various forex schemes promising high returns, but you need to understand the kind of risks you are taking, as the only way you make money in forex is through leverage.

"Forex markets are extremely volatile at this point in time.

"You may get the trend or direc-

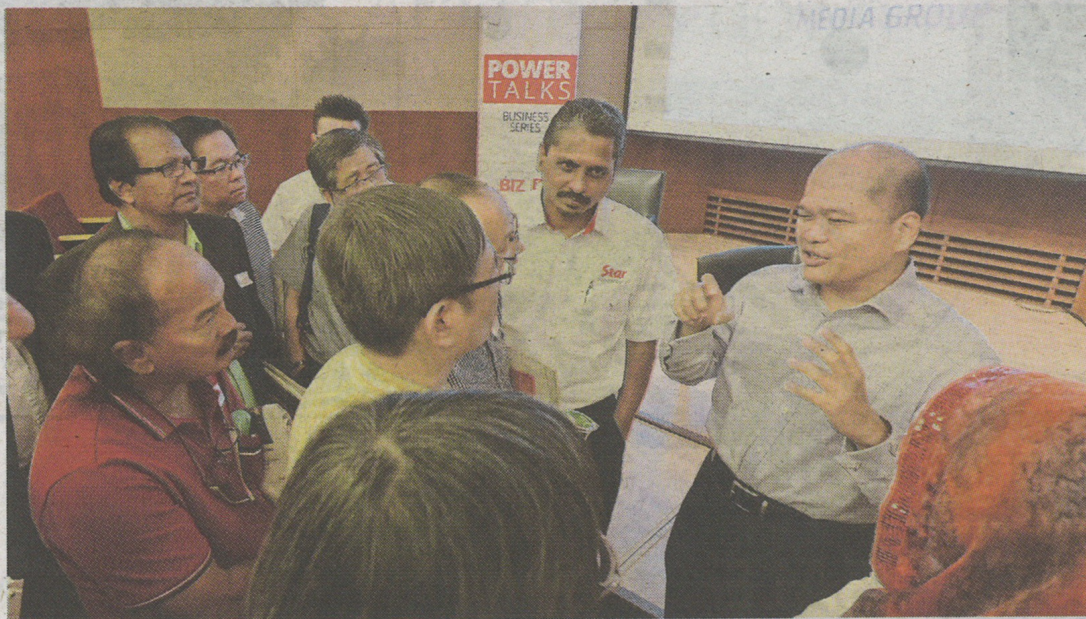
tion right for the short term but there is no guarantee you can get it right for the long term," he added.

Noting that most Malaysians in general still lack financial literacy, Shahril said some had made poor choices by either following blindly the recommendations of their commission-driven financial advisers or getting caught up in the market euphoria and ended up buying assets at the wrong prices.

A case in point, he said, was that among EPF members who had

withdrawn their savings for investments in private unit trust schemes, only a small number managed to do well.

Shahril said a study done by the fund found that the bulk of members (about 40%) who had taken out their savings for reinvestment would have been better off leaving their money with the fund, as the returns that they earned over the years had underperformed than that of the EPF, chiefly due to the wrong choice of unit trust funds.



Working the crowd: Shahril chatting with the audience at the Star's PowerTalk series in Petaling Jaya.

He revealed only a small portion (around 20%) of members were able to generate returns higher than the dividends declared by the EPF, and this was mainly due to their ability to do proper analysis and time the market well.

Another 30% of members, on the other hand, saw their investment performance generally in line with that of the EPF.

Shahril reiterated that the EPF would maintain its target of generating a dividend rate of 2% above inflation for its members over a rolling three-year period regardless of the prevailing market condition.

"A lot of people tend to focus on the nominal dividend rate – but it is not something that one should be focusing on.

"What one should look at is the spread," he explained in reference to the gap between the dividend rate and inflation, as measured by the consumer price index (CPI).

He pointed out that there was no point in having high nominal dividend rates if the CPI was equally high, thus rendering the spread to be zero or negative, as that would imply that one's money did not, in fact, grow.