Kenanga Investors

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Young millennials leaning towards higher risk for higher rewards

Smart Investor (July/Aug Issue)

By Caleb Khew

With alternative investments sparking interest among the younger generation, it is important not to get carried away without understanding the risks

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Conventional Investments often do not attract younger millennials who seek the faster and higher returns that alternative investments can provide. While this mantra may go against traditional investment mindsets, Ismitz Matthew De Alwis, Executive Director and Chief Executive officer of Kenanga Investors Berhad believes that there is some merit to allocating a portion of investments portfolios to such instruments. We sat down with him to chat about alternative investments and how young millennials should kick start their investing journey.

Smart Investor: Should alternative investing be a part of your investment portfolio? Why or why not?

Ismitz Matthew De Alwis: Today's markets pose a challenging macro environment for investors and their advisors to find the right return/ risk combinations. From unexpected election results to deadly pandemics, it is getting increasingly difficult for investors to rely on the basic building blocks of investing alone. Alternative investments offer investors traits that are not commonly found in conventional investments such as equities or bonds. These typically include one or more of the following attributes: long term, high risk, or illiquid investments that are associated with higher returns; low correlation with traditional assets to deliver diversification benefits; inflation-hedging benefits; and scalability (the ability to absorb large investment sums). Alternatives will thus encompass a wide range of asset classes, including private equity, real estate, and private equity infrastructure funds, secondary funds and private debt funds.

For Kenanga Investors, we believe that alternative investments would not only offer our clients opportunities for higher-yield performance, but would function to potentially hedge increasing market volatility. Our line of alternative investments typically utilizes unconventional fund structures produced through a combination of strategic collaborations and in-house expertise leveraging on the many facets of our investment bank parentage. We began our alternative investment journey at a time when the locally invested traditional unit trust market had already reached a plateau in search of new local strategy. That was followed by many other investment houses offering some form of regional thematic investments to their investors but we did not see a keen effort dedicated to affluent investors interested in investment opportunities uncorrelated to the market. The investment industry and society as a whole need to navigate the challenges of the next decade and beyond to continue to deliver sustainable value for our investors and to do this, we foresee that innovation via alternative investments will create opportunities for our investors beside sustainable investing ideas.

Ismitz Matthew De Alwis, *Executive Director & Chief Executive Officer*

SI: What is the number one rule to follow when looking to invest in alternative investment?

IMDA: The number one rule for investors to follow is still the same as conventional investment strategies – always do your own research. Alternative investments still follow the same fundamental rules as conventional investments, which is we invest in companies or products. In the perspective of alternative investments, we should always determine its suitability to our risk appetite and investment goals.

SI: The importance of investing at an early age is well-known. However, how wise is it for millennials who are looking to start investing to dive into alternative investments right away?

IMDA: Longevity concerns increasingly are or should be at the heart of client-advisor conversations, even if the investors, especially a millennial, is years ahead of retirement. Ideally, the focus should be on growth as younger investors have the single most valuable resource on their side – time. Compound interest and dividend reinvestments are proven methods of building long-term wealth. However, today, there are many more investment opportunities beyond traditional offerings. Millennials are taking advantage of these new alternative investments, focusing on social and environmentally charged causes, and technology, despite having less money than previous generations (due to inflation) and are challenging the traditional practices held by their predecessors. Some are putting off big commitments like home ownership or marriage and have turned their focus inwards, preferring to invest for themselves and for the communities they live in.

As such, the question is no longer, if they should; rather it has become, how can millennials invest wisely using alternative investments? At our firm, we found retail clients demanding access to the same asset classes and investment strategies as high net worth or institutional clients which saw us developing an alternative line of products to cater to this need. Our clients have found advice and guidance to otherwise hard to access or hard to understand investment ideas that would have left them second guessing themselves. Much like the launch of the Kenanga Global Unicorn series, our clients were able to tap into growth opportunities of near-to-IPO companies through our connections with a venture capital partner based in the US. The basic principles of investing still apply – diversification, risk management, and research. Selecting a few different alternative investments will provide a better chance for long-term success. Precious metals and real estate are two options with tangible properties, and eco-friendly stocks supporting solar and wind energy can be solid options as well. The key is to balance a few slow-growing investments with carefully selected additions.

SI: What types of alternative investments would you say are suitable for millennial investors? Are there certain types of investments that are more suited to various individual characteristics?

IMDA: Cryptocurrency is, of course, a highly discussed topic among millennials. No doubt, the nature of cryptocurrency (low fees, unaffected by fluctuating interest rates and a global market place without geographical restrictions) and the fact that it has also found its place in popular tech culture has made the world of crypto very attractive to younger investors. Moreover, cryptocurrencies make use of blockchain technology, which is considered as secure and protects the identity of the user. On the flip side, crypto is also known for its outrageous volatility; with bitcoin at one stage falling from its April high this year from concerns about regulation from the likes of U.S. and China.

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ETFs are ideal for investors with a smaller capital. It is made up of a collection of securities that tracks an underlying index. As ETFs are bought and sold on an exchange like shares, they are priced and traded throughout the day. ETFs have the combined benefit of stocks, unit trusts and index funds:

- **Easy access to diversification** – an investor can own a basket of securities e.g.; an entire market, country or region with a single trade
- **Flexibility** – buy and sell during trading hours just like a stock
- **Low cost** – low management fee and zero upfront fee
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However, just like stock trading, investors must keep a focused eye on their trades throughout trading hours. Community investing has become a subcategory of socially responsible investing where individuals choose to put dollars to work locally for housing, job opportunities, education, and community services. This is in direct relation to crowdfunding infrastructure which allows retail investors to invest directly in products, enterprises, and causes that are relevant to them.

To date, 10 equity crowdfunding (EFC) platforms have been registered with the Securities Commission Malaysia. ECF allows these small businesses to offer equity in their companies to investors, who in turn invest in the idea they see potential in. Malaysian ECF platforms have seen significant growth in line with the government's call for financial services providers to embrace technology to develop a more inclusive, innovative and efficient capital market. As of December 2019, RM73.74 million investments were raised, with 80 successful campaigns and 77 successful issuers. The investment demographic revealed that 46% of the participants were below the age of 35 and 52% of the investment came from the retail sector.

Precious metals are another popular choice as they are historically popular and inherently easier to understand. Alternative investments are often plagued with high transaction fees, low turnover rate and niche technical understanding, however, precious metals like gold and silver have often been brought up in history for its value and functionality that provides greater appeal towards the general public.

SI: What percentage of an investing portfolio should be dedicated to alternative investments? Can you outline what a typical breakdown would look like?

IMDA: There is not definite answer to a set percentage that should be dedicated towards an investing portfolio. However, experienced investors generally recommend allocating between 10% - 30% of their portfolio towards alternative investments. Some investors even allocate as high as 40% - 50% of their portfolio due to their personal risk tolerance, goals and experience in alternative investments. As a general rule of thumb, investors should always invest an amount not too small that its impact will be negligible, but as sufficient amount that can have an impact without risking too much on the portfolio.

"Tune out the noise in the market and focus on reputable news and reports so that you can have a clear gauge of what to expect."

SI: Finally, what advice would you give to millennial investors who are looking to start their investment journey?

IMDA: Instead of relying on supposedly 'dependable industry hearsay', reviewing information on your own is a wise choice. Tune out the noise in the market and focus on reputable news that reports so that you can have a clear gauge of what to expect. New millennial investors should also seek advice from professional financial advisors/planners to help steer them towards their goals and prevent them from straying too far from their preferred risk tolerance.

We also advise millennial investors to not put all their eggs in one basket as evidenced by the 2008 US Housing Bubble, where investors and experts were convinced that real estate was solid, and their investments were secured. Last year was also another good example of unpredictability. The market will always be riddled with volatility regardless of the type of investments made. Thus, investors should also priorities diversification and risk-hedging to prevent losing all their investments from one market crash.

Lastly, new millennial investors need to learn how to walk away from a bad investment decision. It is not surprising that people make bad decisions from rational behaviors as observed from the introduction of the concept of currency. If a budding investor is not sure where to start, seek advice from professional asset and wealth managers with a steady hand on developing trends in the market.

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Source:

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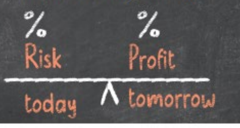

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