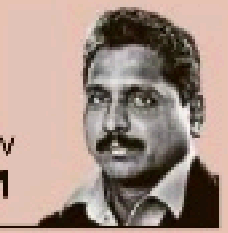

The alternative view
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Perils of depositors

Hot stock market and low FD rates recipe for money going into risky investments

DURING the 1993 bull-run, an occasional stock market investor bought shares in DRB-Hicom Bhd which went up as high as RM10 share then. A few months later, the price came down and like most novice investor he did not cut his loss.

He had an opportunity to realise most of his money in 1996 when DRB-Hicom hit RM9.60. But he opted not to sell as he felt that he could afford to carry the risk. Moreover, most of his spare cash was in fixed deposits (FDs) where the rates were an average of 8%.

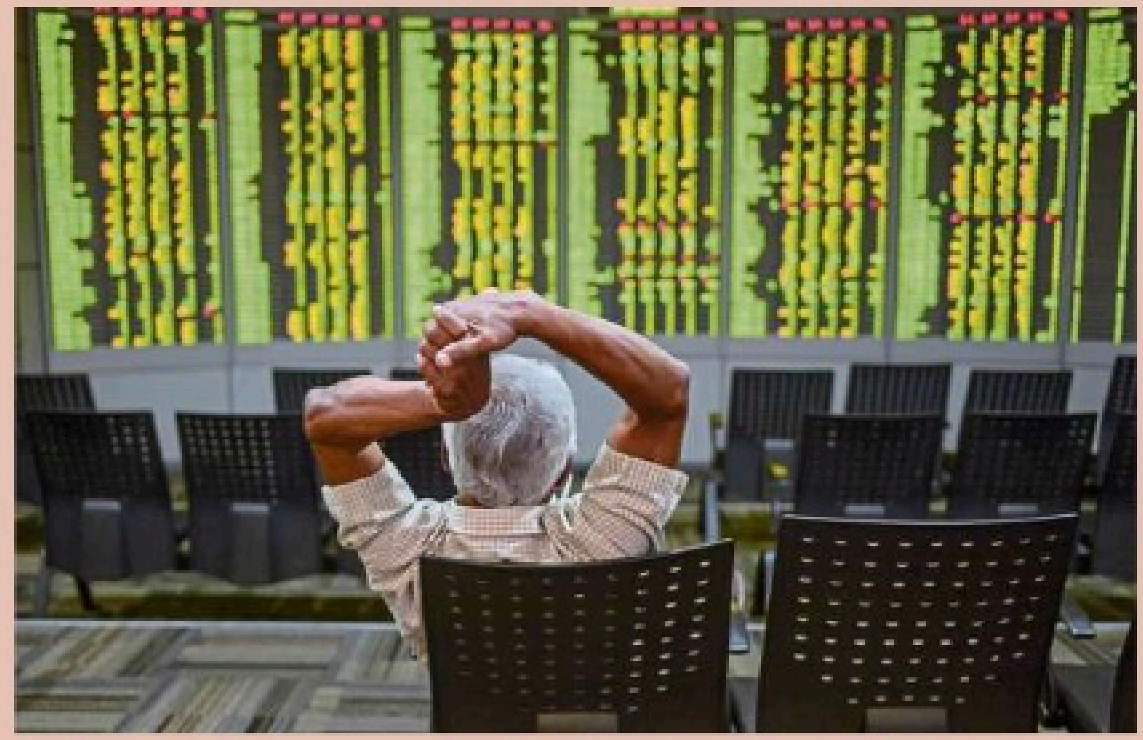
Two years later he was hit with a double whammy. The stock market rout in 1998 resulted in most of his equity losing almost all their values, including DRB-Hicom. After September 1998 when Malaysia imposed capital controls, bank's lending rates started to come down.

Consequently, FD rates declined fast. By 2000, average FD rates were down to 3.6%, a decline of more than 50% from the rates offered in 1998.

Coming back to the current environment, the stock market is roaring and FD rates are coming down. This is on the back of a weak underlying economic environment.

The average FD rates were hovering between 3.5% and 4.5% over the last two years. Pensioners who depend on risk-free returns from FD will now have to reckon with lower rates of anywhere between 2% and 2.9%.

The FD returns are the lowest in recent years. Bank Negara has dropped the overnight policy rate (OPR) to help businesses with their cash flow and help keep unemployment low. But the casualty are those keeping money in banks for risk-free returns.



Market lure: With FD rates being low, people are putting less money as deposits in banks. The booming stock market looks attractive in comparison. — AFP

The OPR is down 100 basis points this year and could be reduced further. This means, the FD rates could also come down.

As of end-April, there is RM773bil in fixed deposits and savings held by individuals in the banking system. Business enterprises have a further RM634bil out of the total RM2.1 trillion in savings and deposits held by the banking system.

The deposit and savings base among individuals has grown by more than 150% from RM302bil in 2007 to RM733bil in April 2020. For businesses, the growth between January 2007 and April 2020 is less at 127%.

However, the rate of growth of FD in the banking system has been coming down over the years. It used to be almost 11% year-on-year growth in 2007. Now it is down to about 5.5% year-on-year growth.

This shows individuals, who are mostly the older group and occasional investors and businesses are putting less money as deposits.

If risk-free FD rates do come down further, would this prompt more of the pensioners and occasional investor to put money in unproductive sectors or speculative investments such as the stock market?

Bursa Malaysia is experiencing an unprecedented run anchored by glove stocks. The market capitalisation of top four glove stocks – Hartalega Holdings Bhd, Top Glove Corp Bhd, Kossan Rubber Industries Bhd and Supermax Corp Bhd – have increased by RM70.56bil year-to-date.

There are so many other companies such as Comfort Gloves Bhd and HLT Bhd enjoying scintillating runs in their share prices riding on the huge demand for gloves due to the Covid-19 pandemic.

But not all the glove companies or those that provide support services to the sector warrant the same valuations as the top four glove manufacturers. The big difference is the top four cater for healthcare services and have the power to determine pricing. The same cannot be said for the rest of the players.

Wealth created

What's amazing is that so much wealth has been created by the run on glove companies. Never before in the history of the Bursa Malaysia has one sector generated paper wealth of more than RM70bil in just three month.

The buzz on the stock market is chatter at coffee shops. It's common to see people looking into their phones and comparing charts on stock prices. Every stock that has some kind of link to Covid-19 pandemic is moving up.

All a company has to do is to announce that they have a tie-up to supply Covid-19 related equipment. It can even be a rapid test-kit. The price of the stock moves up the following day.

The shares of glove companies went into a temporary reversal earlier this week when brokerages capped a limit on margins extended to those buying the shares. But on Thursday the glove companies roared back when Credit Suisse put a new and higher target price on Top Glove, surpassing the previous estimates by Maybank Investment.

Some of the money that has perennially been placed with banks as deposits could very well find its way into the stock market. With FD rates set to be low for the next few years, there would be some who are tempted to switch to the stock market.

And like in most cases, they would get their hands burnt when the hard reality of the weak underlying economy is reflected in the earnings of companies.

There are stocks and funds that give out more than 5% dividends. But these are mundane stocks where the price hardly moves.

The Employees Provident Fund (EPF) has been regularly giving out healthy dividends. Contributors can put in as much as RM60,000 per year into the EPF. Permodalan Nasional Bhd also has funds that are open to all Malaysians that give a return of more than 5% per annum.

Granted, that leaving money in FD will only result in lesser returns because inflation rate is much higher. The bigger concern is the FD rates will likely remain subdued for several years to come.

However, the occasional investor wilting to temptation and putting that risk-free cash into the stock market is not a wise choice. They will end up losing.

It's better to do some homework and invest directly into reputable funds that have a track record of offering steady returns.

The vews expressed are the writer's own.