

Capturing Malaysia's Highest Momentum Stocks

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Momentum investing has gained traction amongst investors as a strategy to capitalise on prevailing market trends to ride the market's natural upward momentum. It typically involves going long on equities and investing based on technical indicators that measure momentum such as moving averages and price signals. These steps would involve comprehensive and detailed research which some investors may not have the resources and time to do.

However with the listing of the country's first momentum-based smart beta exchange traded fund (ETF), local investors will finally have access to a local momentum strategy by investing in the TradePlus DWA Malaysia Momentum Tracker ("Malaysia Momentum Tracker" or "the Fund"). In just a single trade, investors can now gain exposure into 20 of Malaysia's highest momentum stocks which have consistently notched higher gains and demonstrate powerful relative strength.

IIII \ What does Momentum Mean?



Momentum Factor

Captures companies with the highest upswing momentum. Basically, it refers to the tendency of winning stocks to continue to do well in the near term and reach higher highs.

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IIII \ How Does it Work?

As the first ETF in Asia Pacific to track the Nasdaq Dorsey Wright (NDW) Indexes, the TradePlus DWA Malaysia Momentum Tracker offers investors turnkey access to relative strength strategy empowered by NDW's global technical research by tracking the Dorsey Wright Technical Leaders Malaysia Index.

By scouring the universe of stocks listed in Bursa Malaysia, the smart beta factor applies a screening filter to select companies which exhibit the highest price momentum. This involves measuring the relative strength reading of the stock by calculating the ratio of the closing price of each stock to the closing price of the benchmark on a daily basis.

Each of this company is then assigned a momentum score, where they are then ranked and weighted equally in a customised index. Only 20 stocks with the highest momentum scores are then included as component companies of the index.

To derive momentum, the smart beta factor focuses on prevailing price movements and ignores insignificant movements such as small price fluctuations, timing factors as well as trading volumes. This ensures that the Fund only select companies that truly demonstrate relative strength characteristics.

IIII \ Trend is your Friend

Some investors may be cautious about entering the market when it is trending upwards, but sometimes it is better not to go against the market's direction and just ride its momentum. As aptly put by astute investor, George Soros, "It does not follow that one should always go against the prevailing trend. Most of the time we are punished if we go against the trend."

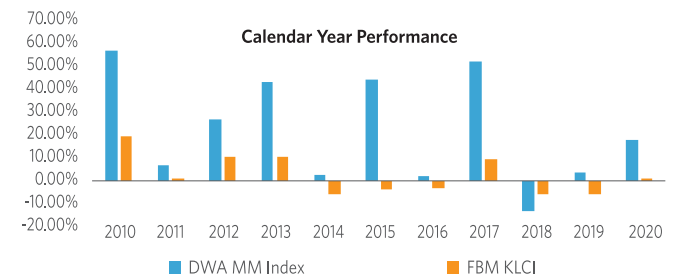
The Malaysia Momentum Tracker provides investors a momentum strategy focused on the performance of the domestic market through local companies that many are already familiar with.

Through extensive back-testing, this strategy has shown a strong historical trend by vaulting higher than the broader market and amplifying returns in a portfolio.

This can be seen in 2017 when markets were buoyed by synchronised global growth underpinned by a Goldilocks environment, where the Dorsey Wright Technical Leaders Malaysia Index leaped 51.9% compared to the benchmark FBM KLCI that rose 9.5%.

In 2014 and 2015, the Malaysia Momentum ETF even bucked the broader market direction and posted positive returns even though the benchmark KLCI closed in the red. This can be attributed to the smart beta factor which sidesteps the market-cap value of the stocks and instead invest in stocks based on its momentum attribute.

Chart 1: Strong Track Record for Malaysia Momentum Strategy



Index (Returns in MYR)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD
DWA MM Index	56.74%	7.03%	26.60%	43.07%	2.75%	44.15%	1.95%	51.89%	-13.14%	3.65%	17.76%
FBM KLCI	19.34%	0.78%	10.34%	10.54%	-5.66%	-3.90%	-3.00%	9.45%	-5.91%	-6.02%	0.94%

Source: Bloomberg, Lipper, as at 31 July 2020. Past performance is not indicative of future performance

Table 1: Top 10 Holdings of the Dorsey Wright Technical Leaders Malaysia Index

No	Company Name	Weight (%)
1	Kossan Rubber Industries	9.38
2	Top Glove Corp Bhd	7.22
3	Hartalega Holdings Bhd	6.75
4	Globetronics Technology Bhd	6.07
5	Bursa Malaysia Bhd	5.70
6	PPB Group Bhd	4.61
7	Syarikat Takaful Malaysia Keluarga Bhd	4.54
8	Kuala Lumpur Kepong Bhd	4.48
9	MISC Bhd	4.46
10	IOI Corp Bhd	4.44

Source: Nasdaq as at 31 July 2020

IIII \ A New Way to Invest in Malaysia

With the Tradeplus DWA Malaysia Momentum Tracker, investors can position themselves to ride along with the recovery of the domestic market. By investing in stocks with the highest price momentum, investors would be able to gain exposure to companies that would truly reflect the recovery of the domestic economy. While the broader market direction has been somewhat lacklustre with mounting pressures from both internal and external forces, the strategy aims to sniff out opportunities using the momentum factor tilt to find trends and capitalise on them.

It may even be an opportune time for investors to gradually build their exposure into equities through a momentum strategy, as valuations have turned attractive following the indiscriminate sell-down of local stocks in Bursa Malaysia post COVID-19. The strategy has historically done well and performed even better during improving / recovery periods. Coupled with its low-cost attractiveness as an ETF, the Malaysia Momentum Tracker also provides investors the opportunity to capitalise on the movement of 20 stocks at a fraction of owning the full 20 names if they were to trade them on their own.

Warning Statement:

A copy of the Prospectus can be obtained at Affin Hwang Asset Management's ("Affin Hwang AM") dedicated website at www.tradeplus.com.my. Investors are advised to read and understand the contents of the Prospectus dated 9 July 2020 for the TradePlus DWA Malaysia Momentum Tracker before investing. There are fees and charges involved when investing in the fund stated herein. Investors are advised to consider and compare the fees and charges as well of the risks carefully before investing. Investors should make their own assessment of the risks involved in investing and should seek professional advice, where necessary. The price of units and distribution payable, if any, may go down as well as up and past performance of the fund should not be taken as indicative of its future performance. The Securities Commission Malaysia has not reviewed this material and takes no responsibility for the contents of this material and expressly disclaims all liability, however arising from this material.

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