

Bull or bear – find opportunities in any market condition

Published 3 December 2019

TO BE a successful investor, one must learn ways to court opportunity and make the most of it when it appears. Opportunities are more abundant in a bull market, but there are also great opportunities to be found in a bear market. Learning how to spot it and using the right tools or instruments to profit from it is crucial.

On Bursa Malaysia, you'll find plenty of financial instruments such as call warrants, put warrants and exchange traded funds (ETFs), amongst others. Just last week, the exchange saw the first issuance of leveraged and inverse ETFs in Malaysia. The availability of leveraged and inverse ETFs provides investors a wider range of investment products to diversify their portfolios. Used well, these tools can help you find opportunities in both bull and bear markets to grow your wealth.

Riding the bull market

There are various promising products that perform in tandem with a bull market. ETFs for example, rise and fall in tandem with the asset that they track - be it a financial index, commodity or basket of assets. For example, the FBM KLCI ETF tracks the FTSE Bursa Malaysia KLCI (FBM KLCI) - a market index which includes Malaysia's top 30 largest public-listed companies in terms of market capitalisation. When the index rises, so does the price of the ETF.

There are also leveraged ETFs which use a combination of debt and financial derivatives to double or triple the returns of an underlying index. For example, if the underlying index rises by 1%, a 2x leveraged ETF's daily return will rise by 2%.

Call warrants is another instrument that you can use to hedge against future price increases. For example, if you want to buy shares but do not have immediate access to funds, you can purchase call warrants at a fraction of the price to capture the benefits of an anticipated price rise.

Making the best of a bear market

Although a bear market is often viewed negatively, always remember that volatility, in any direction, presents opportunities to generate returns.

Various instruments are available to help you take advantage of a bear market such as inverse ETFs and put warrants.

Inverse ETFs are designed to provide returns directly opposite to the performance of an index. For example, if an index drops by 1%, a -1x inverse ETF's daily return will rise by 1%. When a stock market is on a downtrend, the value of an inverse ETF is likely to increase.

Put warrants allow you the right to sell shares at a particular strike price. Hence, put warrant holders are able to make money when the price of the underlying share falls below the strike price because they can sell at a higher price.

Similarly, you can also look at various trading strategies such as regulated short selling and intraday short selling which presents opportunities for making profits even in a bearish market.

Find your opportunity with Bursa Malaysia

As Malaysia’s economy grows, Bursa Malaysia remains focused on developing a conducive and liberalised capital market ecosystem to unlock value for businesses and investors alike. Through enhancing access to different types of instruments, we will continue to provide you with cost-effective and transparent channels to find more opportunities in all kinds of market conditions.

As always, staying informed is crucial to staying ahead. This helps you avoid impulsive decisions and refrain from trading based on emotions. When the market is on a downtrend, this becomes even more critical. Markets are unpredictable, but the various investment products and financial instruments you’ll find on Bursa Malaysia when used well, can help to protect your capital and also reap returns.

Whether you are a new or existing investor, you will find plenty of information on Bursa Malaysia that can help you navigate any market with confidence and certainty. We also offer various programmes aimed at building financial literacy to help you make smarter investments in the capital market.

Follow Bursa Malaysia’s investment education programmes on www.bursamarketplace.com and build your skills as an informed investor. You can also learn more about any of the products covered in this article at www.bursamalaysia.com/market/.

Part of a series of articles by Bursa Malaysia to educate, develop and empower everyday investors.