The risk-return trade-off

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INSIGHT

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THE banking system is flush with cash, with total deposits of almost RM2.59 trillion as at the end of June 2025, according to Bank Negara Malaysia's (BNM) latest monthly statistics.

Some RM943.3bil are held by individuals, while business enterprises hold RM876bil.

Together, the two account for over 70% of total banking system deposits.

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Foreign currency deposits, other deposits, and savings deposits accounted for 11.1%, 10% and 9.2% respectively.

With the current overnight policy rate sitting at 2.75%, down from 3.00% on July 9, the current rate of interest paid on either fixed deposits or even savings deposits must have dropped from the level seen in June 2025.

For fixed deposits, BNM's statistics showed the weighted average rate for one to 12-month deposits at between 2.1% and 2.48%, while for savings deposits, the weighted average rate was just 0.48% as at the end of June this year.

Investment returns

It is rather obvious that investment returns correspond with the risk one assumes when making that investment decision.

For deposits in the banking system, they can be said to be close to risk-free as savings are guaranteed for deposits of up to RM250,000 per depositor per bank by Perbadanan Insurans Deposit Malaysia.

As one moves into riskier asset classes, the expected returns will also be higher.

Hence, buying a government bond paper is always seen as a risk-free asset, as the government is unlikely to go bankrupt.

For higher yield, investors typically buy corporate bonds, and those that are rated highly tend to give slightly higher returns than government papers, as there is still a default risk.

Lower-grade papers may give investors even higher returns due to perceived lower credit quality as default risk rises.

Hence, for some investors, taking on lower-grade papers or unrated investment instruments suggests that they have a higher risk appetite, which is rewarded in the form of higher returns.

Stock market investment is another form of riskier investment alternative, as there is no guarantee that one would be able to generate a return, whether in the form of dividends or capital gains, or both.

Hence, investing in the market is seen as riskier, and stock market investment typically carries a risk premium on top of the risk-free rate.

Other forms of investments may also include those in cryptocurrencies or commodities like gold, where investors purely bank on capital gains, as these assets have no income characteristics.

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As can be seen here, investments carry risks, and higher return expectations are generally related to higher risk due to the potential of capital loss.

It is unrealistic to assume that one could generate a high yield on a low-risk asset.

Cash Trust

Cash Trust products offered by some promoters are not a recent phenomenon, but it has been a while now since potential investors have been exposed to them.

This product is marketed as a high-yield product with a low-risk character, making it very attractive to investors. However, any finance professional will tell us that there is no such thing. There must be a catch.

How could promoters of Cash Trust deposit accounts dangle the carrot of investment returns in the high single digits or even low double digits of up to 12% to 15% without taking any risk?

Worse, these products are bundled in presentation materials shown to investors as part of estate planning, which is typically set up for the long term and to ensure that the needs of the beneficiaries are met.

In essence, a trust is created when an individual transfers assets to a trustee to manage the assets under the trust for the benefit of the beneficiaries of the trust itself.

Trusts are typically used for estate planning, protection of assets, or even for charitable purposes. A trust that is created is legally binding as defined under the Trustee Act 1949 (Act 208), while registration and regulation are governed under the Trust Companies Act 1949 (Act 100).

There are many types of trusts, including charitable trust, living trust, unit trust, family trust, private trust, and, of course, Cash Trust.

Promoters of Cash Trust products usually invite potential investors to understand wills and trusts and why it is important to have one.

While the overall theme of the presentation is well covered to explain the differences and similarities, as well as the different types of trust, it goes off-tangent when Cash Trust is brought into the picture.

While setting up a trust with proper governance under Act 208 is clear, how the Cash Trust is positioned to potential investors is worrying.

It is promoted as a stand-alone product, which makes a mockery of the overall objective of estate

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Next week, this column will discuss in greater detail the mechanics of Cash Trust accounts and what the authorities ought to do to nip them in the bud, as the risk-return trade-off is clearly misunderstood and wrongly positioned.

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