

A Very Good Analysis on the state of the Singapore Stock Market in today's Business Times.

The returns in general pale in comparison with Global Markets.

We're confident that all is not lost though if we can get the various Stakeholders together & brainstorm ideas to create a much more Vibrant Stockmarket.

Perhaps the MAS or SGX could take the initiative to start the conversations & chart a mid to long term plan for our markets.

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HOCK LOCK SIEW

Owning Singapore stocks has been a poor bet even for investors with long horizons

WALTH management experts often advise investors not to put any funds they might immediately need in the stock market.

To maximise the benefit of traditionally high returns from owning stocks, and mitigate the inherently volatile nature of this asset class, investors should plan to have as long a holding period as possible.

So, what is a suitable holding period for stocks?

Some might say three years is sufficient. More conservative advisers might suggest five years. But almost nobody would argue that 10 years is not enough time to derive the full benefit of a diversified stock portfolio.

Yet, investors who invested in a portfolio of stocks that mirrored the benchmark Straits Times Index (STI) a decade ago would probably be feeling less than satisfied right now.

During the 10-year period to Aug 20, the STI has climbed just 13.5 per cent. On a dividend reinvested basis, this widely referenced local market benchmark delivered a total return of 60.3 per cent over the past decade.

This return pales in comparison to major market indices around the world.

The S&P 500 index is up 295.3 per cent during the same 10-year period. With dividends reinvested, it has returned 383.8 per cent.

The Nasdaq 100 is up 640.5 per cent over the past decade; and it has returned 729.9 per cent with dividends reinvested.

The more globally diversified FTSE All-World index is up 148.9 per cent over the last 10 years. It delivered a total return of 220.2 per cent.

The MSCI Europe index, which has no exposure to the tech-heavy US market, is up 100.4 per cent over the past decade, and delivered a total return of 179.6 per cent.

Reits the exception

Could it be that the STI fails to include some hot sector in the local market? Not really.

Other major Singapore market benchmarks have delivered similar returns as the STI. For instance, the FTSE Singapore index has risen 16.7 per cent over the last decade. With dividends reinvested, its total return was just slightly ahead of the STI, at 68.2 per cent.

Similarly, the MSCI Singapore index climbed 13.6 per cent over the last 10 years and returned 67.5 per cent with dividends reinvested.

Within the Singapore market, being exposed to a wider selection of stocks, including smaller-cap stocks, would probably not have helped a long-term investor.

The FTSE ST All-Share index, which has 107 component stocks versus the STI's 30, rose 15.1 per



By Ben Paul
benpaul@sph.com.sg
@BenPaulBT

cent over the last 10 years and delivered a total return of 66.1 per cent with dividends reinvested.

Then, there is the FTSE ST Catalyst index, which comprises 170 relatively small cap companies. Over the last 10 years, this index sank 60.8 per cent. Its total return with dividends reinvested was minus 55.9 per cent.

One way investors in the Singapore market could have come close to matching the performance of globally diversified indices like the FTSE All-World index was by focusing on locally listed real estate investment trusts (Reits).

The FTSE ST Reit index rose 40.3 per cent over the last years, and delivered a total return of 152 per cent with dividends reinvested.

Indeed, this STI-beating performance is probably the reason why Reits have become so popular with local investors.

It is also perhaps why seven of the STI's 30 components are now Reits.

Survivorship bias

Some market watchers may well be surprised that the STI has performed so poorly over the last 10 years, especially given the performance of its leading component stocks.

For instance, DBS – the largest of the STI's components, with a more than 18 per cent weighting – has generated quite respectable returns. The stock is up 123.2 per cent over the last 10 years. With dividends reinvested, it returned 230.4 per cent.

Like any stock index, the STI suffers from a phenomenon called "survivorship bias" – that is, many stocks that weighed it down over the years are no longer among its components.

So, to understand why the STI has performed so poorly, it is probably more instructive to study the stocks that have been dropped from the index than the ones that have remained.

Among the stocks that have been pushed out of the STI over the last five years are Sembcorp Marine, StarHub, HPH Trust, Golden Agri-Resources and Singapore Press Holdings.

What do they have in common? At the risk of over-generalising, they are all arguably on the wrong

side of 21st century megatrends such as technological disruption and environmental sustainability.

They have also delivered total returns that partly explain the STI's abysmal long-term performance. Over the past decade, Sembcorp's total return was minus 95 per cent; StarHub's minus 19 per cent; HPH Trust's minus 20.5 per cent; Golden Agri's minus 52.6 per cent; and SPH's minus 12 per cent.

Regulation needed?

So, what can be done to revive the local stock market?

Clearly, what's missing from the local market are companies that are on the right side of big global trends. Yet, even Singapore's homegrown technology companies often look to markets with more liquidity to raise capital.

One often-heard complaint is that local investors are turned off by the poor performance of companies – especially foreign ones – that come to market in Singapore. And, if Singapore wants a more vibrant stock market, it needs tougher regulation to separate the wheat from the chaff.

This column does not pretend to have an easy answer. But it may be insightful to consider what the top tech executives and business owners from Singapore do once they become liquid.

Last month, *The Business Times* reported that TikTok's recently appointed chief executive, Singaporean Chew Shou Zi, was looking to buy a property in Queen Astrid Park for S\$86 million.

The BT report also noted that Razer co-founder and CEO Tan Min-Liang was buying a property along Third Avenue for S\$52.8 million, and that Grab co-founder and CEO Anthony Tan's wife had purchased a property on Bin Tong Park for S\$40 million.

Tommy Ong, who sold his e-commerce marketing platform Stamped.io in April for some US\$110 million, was also reported to be purchasing a bungalow on Cluny Hill for S\$63.7 million; while Ian Ang, co-founder of gaming chair maker Secretlab, had bought a bungalow on Olive Road for S\$36 million.

Why are these risk-takers pouring money into Singapore real estate?

Unlike locally listed stocks, there are tough restrictions and hefty taxes on the purchase of Singapore real estate – especially for foreigners. And, any sign of the residential property market getting overheated is likely to be met with further cooling measures.

Yet, it is perhaps the seriousness with which the real estate market is regulated, to ensure it remains an attractive and viable asset class for Singaporeans of all walks of life, that makes it such a sensible long-term investment.

◀ Can the Straits Times Index hit a new all-time high? Page 36