Why Iâ??m still investing in Singapore (and not just the US)

Description

When I tell people about some of my recent investment wins, including several 20% â?? 48% gains in recent months, they tend to assume Iâ??m talking about growth stocks in the US.

Image Credits: Author generated, using AI.

Except that Iâ??m referring to Great Eastern (48%), DBS (25%) and Keppel DC REIT (20%), our locally listed SGX stocks. While others were flocking to shiny US stocks and artificial intelligence, I looked for strong, undervalued companies that were being neglected by the marketsâ?¦and my efforts have yielded me pretty good results in a short period of time (all under 1 year).

Iâ??ve always maintained that **as an investor, we cannot afford NOT to invest in our home market.** I started my investing journey in my early 20s with just Singapore stocks and bonds, and then started diversifying into the US and Chinese markets in my late 20s.

In this article, Iâ??ll share **how Iâ??ve been building my portfolio to get capital gains and passive income from investing in Singapore.**

1. Invest in fundamentally strong but undervalued companies.

A core criteria in my investing is to focus on strong, stable companies with a defensible moat and steady growth. The Singapore market has many such names, including DBS, CapitaLand, Jardine Matheson, Keppel, and more.

CapitaLand, for instance, is known as a strong property developer and asset manager not just in Singapore, but also in China, Australia and now has operations in more than 260 cities globally. Or Keppel, which operates in more than 20 countries worldwide, providing critical infrastructure and services for renewables, clean energy and more.

Image Credits: Authorâ??s own compilation.

As these companies grow their presence in Asia, I get capital gains from holding their stock. Of course, if you donâ??t have time to analyse and pick individual stocks, an easy way to get exposure would be through the **Nikko AM Singapore STI ETF**, which gives you access to the top Singapore companies and automatically rebalances its constituents semi-annually.

2. Conduct scuttlebutt research.

Investing in Singaporean companies also gives you the chance to conduct due diligence locally to find out deeper insights and on-the-ground realities that arenâ??t always captured in its annual reports or on the news.

This is also known as the â??scuttlebutt methodâ?•, first coined by Phil Fisher in his book â??Common Stocks and Uncommon Profitsâ?• (see my list of recommended investing books here). This can involve talking to the companyâ??s customers, employees, and doing physical, on-the-ground research to find out if the narrative being promoted by the company is indeed taking shape.

Why do customers continue to use the companyâ??s products/services? What would motivate them to switch to a competitor? How difficult would it be for them to switch to the competition? Asking these questions help us to really assess the companyâ??s moat and the potential switching costs involved, which makes for a more sticky business.

It was my scuttlebutt research that led me to invest in DBS above our other 2 local banks. And while all 3 have done well lately â?? fuelled by the rise in interest rates â?? DBS has outperformed its competitors by a large margin. When I travel to other Asia countries, I also see the DBS logo on buildings and bank branches more often than I do for OCBC and UOB, which reaffirms to me that DBSâ?? growth in Asia is faster and more widespread than its competitors.

Gains in DBS vs. OCBC vs. UOB for the last 5 years:

DBS	OCBC	UOB
48%	28%	15%

Compiled by author, accurate as of 8 August 2024 closing day.

Hereâ??s another example: Grab (NASDAQ:GRAB) was just named as a top stock pick by The Motley Fool in April 2024 for its paid subscribers. But as a local here, Iâ??m not as convinced because of what Iâ??m seeing being practiced here.

In fact, when Grab IPO-ed back in 2020, I mentioned on my Instagram that I would not buy in because I felt it was priced at overly optimistic projections, given the on-the-ground struggles Iâ??ve seen Grab here in Asia. Singapore is just one of Grabâ??s many markets in Southeast Asia, but when I travel to Malaysia, I like to ask the drivers and locals questions to see if their usage of Grab is as strong as what the narrative seems to suggest.

It is harder for me to conduct scuttlebutt research for US stocks â?? which is why I extended my recent US trip in Q1 this year to a grand total of 10 days so that I could at least spend some time checking out the businesses of several US stocks that I was interested in, including Shopify and Costco.

3. Dividends.

Aside from capital gains, I also invest in Singapore stocks for passive income in the form of dividends.

When I first started investing in the early 2010s, my capital was small and hence the dividends I received was puny. It was easy to dismiss a 6% yearly dividend when your portfolio capital is small, but over the years, the size of my investments grew as the underlying businesses grew and expanded.

Letâ??s not forget our local Real Estate Investment Trusts (REITs), which have been a mainstay for investors who seek passive income â?? since REITs are mandated to pay 90% of their earnings to investors as dividends (source:DBS, 2024).

Although our local REITs suffered a beating in share prices and valuations in recent years, with interest rates likely to be cut in the near term, I believe that Singapore REITs are starting to trend upwards again.

Source: Screenshot from FundSupermart as of 8 August 2024

Which is why I recently invested over $50,000 into the NikkoAM-StraitsTrading Asia ex Japan REIT ETF because I felt it was oversold, and based on publicly available information on SGX, the trailing 12 month distributions â?? *currently yielding an approximate 6% at todayâ??s levels* â?? **were sufficient indication for me personally to get paid while I wait for the recovery in the REIT sector without having to worry about rights issues.**

4. Zero taxes or forex risks.

Trending on Reddit and social media these days is the S&P 500 and its long- term attractiveness for investment. But if youâ??re not based in the United States, I believe that itâ??ll be a mistake to blindly follow this trend without knowing what youâ??re setting yourself up for in the future.

Thatâ??s because for foreign investors like you and I, the US government imposes 30% withholding taxes on dividends and up to 40% estate taxes on your US assets.

Table A—Unified Rate Schedule

Column A Taxable amount over	Column B Taxable amount not over	Column C Tax on amount in column A	Colu Rate amo
$0	$10,000	$0	
10,000	20,000	1,800	
20,000	40,000	3,800	
40,000	60,000	8,200	
60,000	80,000	13,000	
80,000	100,000	18,200	
100,000	150,000	23,800	
150,000	250,000	38,800	
250,000	500,000	70,800	
500,000	750,000	155,800	
750,000	1,000,000	248,300	
1,000,000	– – – –	345,800	

US taxes for non-US investors are not to be scoffed at.
Image Source: Internal Revenue Service

Watch this video if youâ??re unsure of how US taxes work for non-US citizens.

But here in Singapore, we do not have to pay such taxes on our local investments. I donâ??t get taxed for capital gains or dividends (unlike my friends over in the US), and if anything unfortunate were to ever happen to me, my entire Singapore portfolio will go to my loved ones as an inheritance without any tax bills to be paid.

To reduce our yearly taxes, we can also make use of the Supplementary Retirement Scheme (SRS) where you can contribute up to $15,300 every year (or $35,700 if youâ??re a foreigner) and invest that in our local bonds, stocks or ETFs.

Other than tax concerns, another issue I had with buying beaten-down US stocks back during the March â?? April 2020 pandemic crash was the fact that the SGD-USD rate was at an all-time high and not in my favour.

Source: Screenshot from Google Finance

But when we invest in Singapore, this wonâ??t be a problem since weâ??ll be investing using SGD. When youâ??re trying to build a diversified portfolio of bonds and equities, this is also why it makes more sense for most people to do it locally without taking on any FX risk that may erode your investment returns.

Some examples are government bonds captured in the **ABF Singapore Bond Index Fund**, which tracks a basket of high-quality AAA-rated bonds issued primarily by the Singapore Government and quasi-Singapore government entities. Otherwise, corporate bonds issued by stable, blue-chip issuers such as NTUC Income or Temasek can be accessed through the **Nikko AM SGD Investment Grade Corporate Bond ETF** without having to lock up so much cash in a single, institutional bond alone.

TLDR: Donâ??t underestimate the potential gains you may make investing in Singapore.

In recent years, most young investors I meet at events have been telling me that they own US stocks or cryptocurrencies, but few speak of our local SGX investments.

I can understand why. The majority of financial influencers on social media talk about these things, especially given how well the US markets have done in the last year.

If you look over at Reddit, the same narrative is being propagated â?? invest in the S&P 500 using dollar-cost averaging and ignore everything else. As such, new investors may believe that investing in the US is the only way to go.

But this is a form of **recency bias**, where investors expect similar returns from the past to repeat in the future. And in my opinion, the most popular (or most echoed) wayâ?¦may not always be the best way. Especially if youâ??re trying to beat the market.

> As an investor, you want to look where others are *not* looking.
> Iâ??ve used this approach for years and it has worked fantastically well for me.

This is why my exposure to Singapore stocks and bonds continue to form a core foundation in my investment portfolio. While many younger investors are flocking to US stocks and cryptocurrencies for quick capital gains, I maintain a balanced approach in the way I invest â?? which includes being vested in my home country (Singapore) for undervalued stocks and passive income through dividends. And what better time than now with Singaporeâ??s 59th birthday coming up! Majulah Singapura!

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