

# personal **WEALTH**

## Staying upbeat on Singapore

A panel of nine fund managers look back at past crises that affected the city-state, examine what is holding back the local bourse and give their top local stock picks for the long run. Most of them remain sanguine about the outlook for local stocks.



Daniel Chan, founder and managing director of DCG Capital



Tan Teng Boo, founder and CEO of Capital Dynamics



Wong Kok Hoi, founder and chief investment officer of APS Asset Management



Chua Soon Hock, founder and managing director of Asia Genesis Asset Management



Hugh Young, managing director of Aberdeen Asset Management Asia



Dennis Lim, senior managing director of Templeton Emerging Markets Group



Jeffrey Lee, managing director and CIO of Phillip Capital Management



Ng Soo Nam, head of Asian equities at Columbia Threadneedle Investments



Victor Khoo, co-founder of Lumiere Capital



# Personal Wealth

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# Staying upbeat on Singapore

A panel of nine fund managers look back at past crises that affected the city-state, examine what is holding back the local bourse and give their top local stock picks for the long run. Most of them remain sanguine about the outlook for local stocks.

| STORIES BY KELVIN TAN |

Over the past five decades, Singapore — the investment hub of Southeast Asia — endured several perilous but fleeting financial crises that caused hard-hitting downturns in the local economy and bourse. As the city-state celebrates its 50th year of independence, *Personal Wealth* looks back at the trials and tribulations that have shaped Singapore's financial industry since the 1970s.

To reminisce about the past as well as look ahead to the future challenges for Singapore and the local equity market, which has been looking dreary in recent years, *Personal Wealth* invited nine fund managers to share their insights in this SG50 special issue.

The diverse panel of investment experts includes the younger generation of home-grown money managers such as 38-year-old Victor Kho — co-founder of boutique fund management firm Lumiere Capital — as well as local investment veterans Daniel Chan, 63, founder and managing director of DCG Capital as well as former managing director and chief investment officer (CIO) of local fund houses UOB Asset Management and Lion Global Investors; Wong Kok Hoi, 59, founder and CIO of local institutional-focused APS Asset Management; retired hedge fund manager Chua Soon Hock, 56, who is founder and managing director of Asia Genesis Asset Management; Dennis Lim, in his mid-50s, who is senior managing director of Templeton Emerging Markets

Group at Templeton Asset Management; Jeffrey Lee, 53, managing director and CIO of Phillip Capital Management; and Ng Sgo Nam, 50, head of Asian equities at Neo Threadneedle Investments.

For a diversity of views, *Personal Wealth* included two non-Singaporean fund managers in the panel. They are Malaysian Tan Teng Boo, 61, founder and CEO of regional fund management firm Capital Dynamics, who has been a frequent visitor to Singapore since the 1960s; and Briton Hugh Young, 56, managing director of Aberdeen Asset Management Asia, who has been residing in Singapore since the early 1990s.

Read on for a blast from the past, along with the fund managers' views on the outlook for Singapore equities and their recommended local stock picks for the long term.

**What are some of your fondest memories of Singapore in the 1970s?**

**Tan:** I have been a regular visitor to Singapore over the past decades. In fact, I got my long hair cut at the Paya Lebar Airport back in 1974. That was a time when guys with hair long enough to touch the shirt collar were not allowed to enter Singapore. Those were also the days when one ringgit equalled one Singapore dollar.

In the early 1970s, going to People's Park was like going to some parts of Johor Baru in Malaysia [in the present time]. The first oil crisis in 1973/74 hit Singapore hard. I remember going down a pitch-dark Orchard Road as street and building lights in

Singapore at that time were all switched off because of surging oil prices and a supply shortage.

**Chan:** I started work in 1977 as an investment analyst with UOB at its proprietary investment unit. At that time, the local stock market was very small. It was tiny. [Equity] research was all paper-based. There were no computers. It was all based on published research and annual reports of companies. I did research based on published numbers. It was very manual and everything was done using calculators.

In the late 1970s, the old form of the current UOB Tower One [at Raffles Place] was an octagonal golden colour building. That was where I worked. At that time, the Singapore River was full of bumboats and it was smelly. But there were good eating places by the river. [It took 10 years from 1977 to 1987 to clean up the then heavily polluted Singapore River, which today is an attractive waterfront attraction for both locals and tourists.]

Along Standard Chartered Bank [Building], the whole stretch was all stalls serving hawkers food. I remember the Char Kway Teow and Wanton Mee were very good at that hawker place. It was not like the modern hawkers centres, which are airy and comfortable. Back then, the tables were small with tiny wooden stools and it was a hot and sweaty experience eating in those hawkers lanes. But the food was better back then.

**Soon Hock, where were the traders' corners at Raffles**  
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Chua: We had a great time during the 1980s. Opportunities were plentiful and promotions were fast.



Chan: The Pan-El Crisis was a very big event that allowed the local banks to be prominent players

# Market crash in 1985 causes recession in Singapore

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Place back in the 1980s, when the Singapore International Monetary Exchange (SIMEX) started derivatives trading?

**Chua:** In the early 1980s, in the basement of Singapore Land Tower, there were food joints and drinks bars where most local traders would go. In the evening, they were swamped by traders and brokers. It was like one big trading family in the 1980s. We were young, loud, boisterous and silly. The frequent coffee breaks with fellow practitioners were at Killiney, across from OCBC Building, where we shared market stories. Then, there was this serene small hawkery centre by the Singapore River, where I went for my daily lunch. My favourite was a stall tended by a smiling old uncle who sold Kway Chap and Teochew porridge. [Chua was one of Singapore's top traders in the 1980s. He worked at Salomon Brothers, Banker's Trust, SIMEX and Koch Capital before he became chief strategist at Sanwa Bank in the 1990s.]

Tell us about the Singapore stock market, local fund sector and financial industries back then?

**Lim:** Back in those days, Malaysian stocks used to trade on the Singapore [exchange's] Central Limit Order Book, or CLOB and they were retail punters' favourites. Settlement was T+7, which gave these punters plenty of time to take positions without actually settling trades. They simply had to reverse the trade within a week.

**Chan:** In the late 1970s and 1980s, the local stock market was a real speculators' market. At that time, all kinds of funny things were going on. There were syndicates operating and manipulating stock prices, drawing in both speculators and investors. You could see those activities happening by looking at wild price swings of stocks. Retail money just got sucked in by the lure of making a quick buck. Such purchases during those times were more for speculating than investing.

**Lee:** In those days, the fund management industry was still at a nascent stage. There were few foreign fund managers and the industry

was dominated by the big four local banks. Few professionals had the CFA charter, as there was little accreditation in the industry. I remember I was among the first few batches of charter holders; today, Singapore has one of the world's largest concentrations of CFAs.

**Chua:** As local Treasury practitioners and bankers, we had a great time during the 1980s. Opportunities were plentiful and promotions were fast. Foreign banks expanded rapidly. Dealing rooms were filled with fellow Singaporeans as Treasury managers, senior traders and entrance level dealers. Some locals made it big time to the very top as foreign banks' CEOs, such as Fock Siew Hua, Lim Ho Kee, Ho Tian Yee, Steven Sng and Eric Kang. The competition among banks' Treasury dealing rooms was intense and healthy, producing many good traders and salespersons. Singaporean Treasury professionals earned a good reputation and were high in demand. Tokyo was aggressively hiring our professionals when the Nikkei stock index soared in the 1980s. I left for Salomon Brothers, Tokyo in late 1985.

**Wong:** The market then was very much retail-driven. It culminated in the [December 1985] Pan-El crisis, in which brokers that were heavily involved with Pan-El and other speculative contracts went bust. Investors literally 'lost their houses'. I don't have fond memories of the episode, but it left a deep imprint on me as a young investor and it has since shaped my investment style. Subsequently, there were interesting enterprising Singapore IPOs like contract manufacturers such as Venture Manufacturing, Natsel Broadway and JTT. Investors made good money from them, but these stocks have fizzled out in recent years.

What was the mood like during testing times such as the Pan-El crisis in 1985 and Black Monday in October 1987?

**Chua:** The worst and most memorable crisis was the 1985 stock-market crash, which led to a recession, Pan-El's bankruptcy and a short panic in the Singapore dollar. [During the Pan-El crisis], the firm, quick and reso-

## 1973/74 global oil crisis

The global oil crisis of 1973 started in October when members of Arab oil cartel group, the Organization of Arab Petroleum Exporting Countries (OAPEC), imposed a surprise oil embargo on the US, the UK, Canada, Holland and Japan. The move by the oil-producing Arab nations to stop supplying oil to these developed countries was in response to the US' involvement in the Yom Kippur War, which saw Syria and Egypt wage a military offensive against Israel from Oct 6 to 25, 1973. The US was accused by the Arab nations of supplying arms to Israel during that brief military conflict.

Within six months, global oil prices almost quadrupled from US\$3 a barrel to nearly US\$12, when OAPEC's oil embargo ended in March

1974. The impact of a steep rise in oil prices created a global recession and caused economic hardship for many oil-importing countries, including Singapore. The open economy of Singapore often makes it vulnerable to external economic shocks and, during the oil shock of 1973/74, the city-state's real GDP slumped from 11.5% in 1973 to 6.3% in 1974 while the consumer price index surged more than 20% over those two years.

The oil price shock also caused global stock markets to plummet over a 24-month period. Singapore's stock market barometer, the Straits Times Industrial Index, sank nearly 75% from 1973's peak of 578.2 to as low as 148.1 in 1974.

lute intervention by MAS, under Dr Goh Keng Swee and his lieutenant Koh Beng Seng, who hiked the interbank rate with an element of surprise to 100% in a day, helped resolve the matter fairly quickly. Confidence was restored and respect gained from foreign bankers and investors despite some noise in the international media. The Singapore dollar went forward as a hard, solid, appreciating currency in the years to come.

**Lee:** During the Black Monday crash in October 1987, everyone thought capitalism would collapse, following the crash. It did not. The Pan-El crisis in 1985 forced the closure of the Singapore Stock Exchange for the only time in history.

**Chan:** The Pan-El crisis was a very big event that allowed the local banks to be prominent players in the stockbroking world. The crisis was caused by all these forward contracts. The stockbroking firms got quite exposed and, when the music stopped, things unravelled and the banks became the dominant players. The October 1987 crash due to portfolio insurance was quite scary, as I re-

member watching the US market [when The Dow Jones Industrial Average fell 22.61% in a single day]. But the recovery was quite fast.

After Black Monday, the local stock market recovered and began a decade-long bull cycle from 1988 to 1997, which saw the Straits Times Industrial Index more than triple in value as money flowed to Asia. Hugh, you started Aberdeen Asset Management Asia in the early 1990s in a small office above a pub called Buzz at Boat Quay. Tell us about your experience in those days?

**Young:** Well, I was a younger man back then, more footloose, and there were only three of us in the office to start with. My best memories are of the work hard/play hard sort. We were much more of a boutique firm at a time when the investment management industry was smaller altogether. We had fun building the business. Today, we have more than 200 in the Singapore office and close to 500 staff regionally; so, inevitably, we have become more corporate.

The choice [of a location for Aberdeen Asset Management Asia] then was really be-

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Lim: I have experienced and witnessed a number of crises... From a Singapore perspective, the worst was the 1997 Asian financial crisis.



Lee: For every crisis, there were clear warning signs of hubris and overconfidence, but the precise trigger to the collapse was unpredictable

# 'Asian financial crisis worst of all crises'

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tween Hong Kong and Singapore. Hong Kong was larger, but it was more of a trading market. Singapore was closer to the then-budding markets of Southeast Asia — the Tiger Economies — and had the virtue of being a quieter place. Both from our style of long-term investment and an ease-of-living perspective, I haven't regretted the decision to set up here. If you travel as much as I still do, Singapore is in a league of its own.

**Soo Nam, you started your fund management career in the mid-1990s. What is your recollection of that era?**

**Ng:** It was a lot more 'happening' in the Singapore market back then, with more M&A activities, flow of IPOs and corporate manoeuvrings. There was also a greater pace of news flow and the more depth in terms of investor participation. I like to think that I've had the best part of the Singapore market from 1995 to 2004, and a large part of that was managing the Schroder Singapore Trust. That period also spanned the Asian financial crisis and dotcom bust, both watershed events that not only shaped the investment landscape but also our fortune as fund managers. The Singapore market has not offered the same scope for intellectual and psychological challenges in the last 10 years. I was glad that I saw this coming and built my career on Asia-Pacific ex-Japan rather than Singapore per se. That's how we should see the Singapore market going forward, as an integral part of the region rather than as a standalone market. In this vein, I feel the future of the Singapore fund management industry would depend much on how we succeed as a centre for managing Asia-centric funds.

**What was your experience during the Asian financial crisis of 1997/98?**

**Lim:** I have experienced and witnessed a number of crises, including Black Monday in 1987, the Tequila Crisis in 1994, the dotcom [stock] bubble burst in 2000 and the global financial crisis in 2007/08. From a Singapore perspective, the worst was the 1997 Asian financial crisis. It started in Thailand and quickly spread to the rest of Asia. There were real concerns that many of the listed companies in Thailand,

Indonesia and elsewhere would not survive the crisis. Foreign investors got hit twice as hard as a result of massive currency devaluations in many Asian countries. Malaysia even implemented controls, locking foreign investors in. It took several years for the region to recover.

**Lee:** I would rank the Asian financial crisis as the worst among all the other crises. Asian conglomerates, which had grown rapidly through foreign-currency debt, were brought to the brink of collapse, following the removal of unsustainable currency pegs. Additionally, there was also a high degree of political uncertainty in neighbouring countries. Nonetheless, looking back at the various crises, they occurred with a certain regularity, as market cycles have always been driven by human foibles and weaknesses. For every crisis, there were clear warning signs of hubris and overconfidence, but the precise trigger to the collapse was unpredictable. The most important thing is to be prepared and to be on top of them when they occur. You will find that it is lonely and uncomfortable to sell into greed, and equally lonely and uncomfortable to buy into fear. This is the most important discipline to master, and experience is the best teacher.

**Ng:** I started running the Schroder Singapore Trust in March 1998, when the Asian financial crisis started a second plunge, which was sharper than the first. There was a doomsday feel to the ensuing months. It was like a baptism of fire, so to speak, testing every aspect of what it takes to be a good fund manager, namely your nerves, analytical and imaginative powers, the feel for market behaviour, decision-making skills, ability to manage stress and forward-looking flair. Thus, I think the best time for anyone to start managing money is at the height of a crisis, because you will get to find out very quickly [whether] you are cut out for the job. And you can decide whether to move on or stay on. If you come out of it priming for the next fight, you and your team are made for the job, and that's a springboard of confidence that can propel you forward for the years ahead. Not that I came out of it feeling invincible, but I came out of it knowing where my vulnerabilities lie and be-

## 1985 Pan-Electric crisis

In late November 1985, Pan-Electric (Pan-El) Industries, a Singapore-listed marine salvage firm with a market capitalisation of \$230 million and businesses in hotels and properties through 71 subsidiaries, became insolvent after amassing colossal debts of \$453 million in arrears to 35 banks and an estimated \$140 million to \$160 million of unsettled forward contracts.

Pan-El shares, which were hugely popular with stockbrokers and retail investors in Singapore, were pledged by the defunct company as collateral for bank loans. To hedge their positions, the banks then sold Pan-El shares as forward contracts to Singapore's stockbroking firms, which rolled over the contracts to other stockbrokers. The collapse of Pan-El, whose shares became worthless overnight, created a systemic crisis in the local financial industry that threatened to bring down the whole of Singapore's stockbroking industry, owing to the defaults of Pan-El forward contracts held by overleveraged brokers.

To put an end to the systemic risk and avert insolvency in the local stockbroking industry, the Singapore and Kuala Lumpur stock exchanges were closed for three days from Dec 2 to 4 in 1985. Singapore's central bank, with the help of the four big local banks, had to come up with a so-called "lifeline" fund consisting of a \$180 million credit line underwritten by local banks while imposing a three-month moratorium on loan recalls to stockbrokers.

insure of how to handle them.

In September 1998, Malaysia introduced capital controls and declared the trading of Malaysian shares on Singapore's over-the-counter CLOB exchange to be illegal. Trading of CLOB shares at the time was suspended, creating anguish for 172,000 CLOB investors. What are your thoughts of that saga?

**Wong:** The CLOB crisis must have been the 'mother of all crises' with regard to the local stock market because it involved more than 100 counters and there was no recovery. Almost overnight, political differences spilled over into the stock market, where prices more than

This was the only time that the Stock Exchange of Singapore had to close because of a systemic financial crisis. The move dented Singapore's reputation as a financial centre, and local equity prices slumped significantly when the bourse reopened and spooked investors dumped stocks en masse. The Singapore Straits Times Industrial Index, the old stock market barometer, sank nearly 14% that month.

The Pan-El crisis led to regulation tightening of the local stockbroking industry in March 1986, with amendments and new rules introduced to the Securities Industry Act, which provided an improved framework to curb stock speculation, create more transparency in reporting by listed companies and ensure that local stockbrokers protect themselves against credit risks.

In the aftermath of the Pan-El crisis, major shareholders Peter Tham, Tan Kok Liang and Malaysian businessman and political leader Tan Koon Swan were arrested and sentenced to jail. Tham, a local stockbroker and director of Pan-El who fled Singapore before the company went bust, was extradited back to the city-state in 1986 and charged with 26 counts of aiding Tan Kok Liang to create fictitious share-trading transactions. He served 10 years in prison. For his part that led to the collapse of Pan-El, Tan Koon Swan was charged with abetting criminal breach of trust in 1986 and jailed for two years.

halved. Although the share certificates were legal tender to the Malaysian companies listed on CLOB, the Malaysian government declared them illegal and trading had to be suspended. Singaporean investors are gentle creatures. In other countries, there might have been a class action taken up to sue perhaps the regulators or governments for damages. The whole saga was surreal.

**Chan:** The CLOB crisis was like daylight robbery. Investors who invested in Malaysian shares on CLOB had to take a big 'haircut' at the end. At that time, when I was with UOB Asset Management [UOBAM], we had a fund





**Khoo:** We recovered the losses from the financial crisis within a year because we were able to buy quality companies... and many others at low single-digit PERs

called the UNIFund, which invested in Singapore and Malaysian stocks. For the Malaysia part, we had to suspend redemptions for a long while.

**In the late 1990s, leading up to the technology and Internet stocks debacle of 2000 to 2002, tech fund launches were all the rage. Daniel, what were fund launches like back then?**

**Chen:** Fund launches were a big deal at that time. We had press conferences, events and seminars on the new funds. That is not the format for fund launches anymore. At UOBAM, one of our biggest fund launches was the UOB Global Telecoms Fund in July 1999. At that time, the TMT (technology, media and telecom) investment theme was very hot and the fund raised a few hundred million dollars in a short time after launch. We had seminars and we would sit in front of a huge crowd talking about the new fund. The telecoms fund did very well when it was launched until the Internet stock bubble burst (in early 2000). At that time, stocks like Nokia were all the rage. During those days in the run-up to the dotcom bust, stock valuations were crazy. Investors were valuing loss-making companies, which were traded at crazy valuations based on eyeballs [or number of Internet viewers]. It was not surprising that crash came.

**After the dotcom bust, local stocks entered another bullish phase, with the Straits Times**

**Industrial Index surging nearly three times from 2003 to 2007 before free-falling during the 2008 global financial crisis. How bad was this crisis compared to those in previous years?**

**Chan:** That 2008 crisis happened when I was at Lion Global Investors. I remember watching the news. I thought it could go either way — a binary situation. If the US Federal Reserve didn't rescue the financial system back then, all hell would break loose. The central banks had no choice but to step in. The alternative would be a global depression. [The global market slump] also reflected the typical investor mindset and psychology. At that time, when there was great fear, they should be buying but they dared not. But when stocks are rising with momentum, they want to jump in. In 2008, everything was so cheap back then, even if you were investing in the Asian markets. At the end of the day, value investing is the way to go. Trying to forecast markets, whether they will go up or crash, is hard to get right. As investors, you have to rely on fundamental analysis and pick the right businesses and buy when they are cheap. Know what you are doing and not just speculate and hope for the best. That is the only way that works [for stock investing].

**Ng:** Of the crises, the 2008 global financial crisis was the toughest because the systematic linkages were the most extensive, compli-



**Ng:** My approach has always been to stick with the fundamentally strong companies that can sustain their competitive edge through the crisis

cated and global in nature. The ultimate endgame was really hard to pin down. What was really tough was to convince fear-stricken investors to hold their nerve so they could ride through the crisis. To liquidate investments at the height of a crisis is absolutely the wrong thing to do. Of course, some were forced to sell, driving home the stern lesson that we must not put ourselves in danger of ending up being a forced seller in the first place.

Herd instincts are part of equity markets, but in times of crises, it develops into a manic stampede, where forced sellers are dragged along by short sellers. The momentum players then plunged into the game while weak fund managers caved in. The drumroll can be deafening, as there will be a lot of people who will conjure up all sorts of reasons to tell you why 'the apocalypse' is just around the corner. But the truth is that there have been powerful rebounds in every crisis. It is therefore of utmost importance that you are able to hold your own and not be sucked into the stampede. The ability to do that will depend partly on your behaviour pre-crisis, like the way you might be leveraged or the type of companies you are invested in. My approach has always been to stick with the fundamentally strong companies that can sustain their competitive edge through the crisis, so that they can participate fully in a rebound.

**Victor, your value fund was launched in late 2007 and it felt the full brunt of the 2008 crisis. How did you cope with the immense pressure back then?**

**Khoo:** The launch of the Lumiere Value Fund in late 2007 coincided with the peak of the Asian markets. This was when the Hang Seng Index was over 30,000 and our very own Straits Times Index was hovering around 3,800. The eventual magnitude of the 2008 financial crisis took most people by surprise. In early 2008, we were still holding a significant part of our portfolio in cash because most stocks were still quite pricey, as general valuations had only just started to come off on the back of a multi-year bull market between 2003 and 2007. By mid-2008, we started to find a number of good-quality companies that were trad-

ing at price-to-earnings ratios of six times and below. As the crisis escalated, however, stocks that we were buying at six times PER quickly went to four times and then two times just within weeks. Some even went below net cash. In December 2008, our portfolio back then was trading at an average PER of 3.2 times, price-to-net tangible value of 0.5 times, with a dividend yield of 9%.

As much as it was painful that the stocks we bought earlier had dropped to such unbelievably low valuations, it was hard not to be excited about the opportunity to buy so much business value for so little. Back then, I remember that our motto was 'why waste a good crisis!' So, by end-2008 and early 2009, we were in research overdrive, as it was very obvious that stock valuations and company fundamentals had been severely disjointed and there were opportunities for multi-baggers everywhere we looked.

We also studied the 1997 Asian financial crisis closely and were able to pull out multiple case studies of companies whose stock prices went up multifold from the depths of the crisis despite their reporting declining earnings or even severe losses from 1997 to 1999, as all the bad news had been overly discounted. Thus, we strongly believed that if we played our cards correctly, the situation could actually work out very well in our favour — which it subsequently did, as we recovered the losses from the financial crisis within a year because we were able to buy quality companies such as OSIM, ARA Asset Management, Petra Foods and many others at low single-digit PERs, giving us a two- to fourfold return over a 12-month period.

This experience was quite surreal, but we were also very fortunate to have long-term investors who stuck with us throughout the crisis. I think both sell-downs in 1997 and 2008 were quite similar in magnitude because, during times of extreme fear, most investors will think of the worst-case scenario and sell everything to hold cash regardless of fundamentals. However, I believe our economy was better prepared to handle the 2008 crisis and the Singapore banking system was in no danger of collapse.

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## Black Monday crash of October 1987

On Black Monday, Oct 19, 1987, stock markets around the world nosedived, losing significant value over a short period of time. The contagious equity bear market started in Asia and quickly spread to Europe and the US, leading to a double-digit, one-day price slump in many international bourses. The Dow Jones Industrial Average, for instance, lost 22.61% in a single day, and that sellout remains the biggest one-day percentage fall in its history. The Straits Times Industrial Index also took a big tumble, falling 35.1% in value in two days on Oct 19 and 20.

Stock market observers and finance academics believed that systematic computerised selling done by institutional investors, who were doing portfolio insurance, was the reason for the big sell-off on Black Monday. Portfolio insurance is a hedging strategy of institutional investors to protect the value of their portfolios of shares against market slumps by short-selling equity futures. Systematic short-selling of equity futures by traders implementing portfolio insurance exacerbated the decline in stock prices on Oct 19.



# Local stock market lacks depth and breadth

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**It has been more than six years since the 2008 crisis. What are some of the challenges and frustrations you faced when investing in the local stock market, which has turned in dreary gains in recent years?**

**Lee:** One of the challenges of the Singapore market is that it is still very much driven by government-linked companies, and there are few entrepreneurial local firms that have found enduring success in expanding globally. Additionally, a string of privatisations of companies over the years have further limited options for investors. For instance, Cerebos [Pacific], Natsteel Broadway, Omni were all privatised, while China-related companies such as **Want Want** have also relisted in Hong Kong at higher valuations.

**Chan:** The Singapore stock market has a lot of stocks, but many of them are tiny penny stocks without much quality, so the breadth is very limited. Other than a few big government-linked companies, banks and good property developers, you are not left with many to choose from. That is a bit frustrating, whereas Hong Kong has the hinterland of China and that makes a huge difference. There is a lack of good-choice and good-quality companies in Singapore.

**Lim:** The biggest challenge is the depth and breadth of the market. Take away the banks and a half dozen blue chips and the rest of the market is relatively small and illiquid compared to Hong Kong and China.

**Wong:** I think many problems and challenges surfaced after SGX's [Singapore Exchange]

IPO. As a listed company, it had to satisfy its shareholders by maximising its returns. It increased clearing fees dramatically many years back and reduced them somewhat last year. It lowered its standards for IPOs, leading to "scam" and fraudulent S-chips companies and others such as **Blumont** and **Liongold**, which led to heavy losses for the less sophisticated investors. It had tolerated listed companies with bad governance even when it received complaints from serious institutional investors. I know of a company, still listed, that the SGX has yet to take action on, even though it violated the prospectus [rules] as soon as it was listed more than 10 years ago. When SGX did take action on yet other misbehaving companies, it was often too late.

It is sad that the strong reputation that SGX used to enjoy has been adversely affected after its listing. I think the interest of its shareholders, investors, the regulator and brokers are often conflicting and difficult to balance. And the empirical evidence has shown that this is the case.

Although many other stock exchanges are listed elsewhere, I have my serious doubts about the notion of listed exchanges. In the case of Singapore, the reputation of SGX has diminished. It is therefore no surprise that trading volume has been lacklustre in recent years.

**Chua:** Loh Boon Chye, the new CEO of SGX, a highly successful veteran practitioner, should be able to address some of the important and technical issues accumulated in SGX. And in years to come, perhaps SGX could attract more issuers, investors, better products and liquidity to our bourse.



Wong: It is sad that the strong reputation that SGX used to enjoy has been adversely affected after its listing

**Young:** Strange though it may sound, we haven't found Singapore frustrating at all. Others complain of lack of depth to the market. We have run a dedicated fund here for almost 20 years and what we've seen is that bigger and better-run companies go regional or international. So, with them, we are not strictly investing only in Singapore any more. Almost by definition, these companies have to learn to survive and adapt. At home, there are some companies that Warren Buffett terms as having "wide moats", or good franchises that are well guarded. We still see attractive total return prospects over the long term in Singapore.

**Ng:** As a standalone market, the major challenge is that it lacks breadth and depth. For example, it has a thin technology sector and online businesses are almost non-existent. It is unrealistic to expect that this will change. But if we look at it in the context of investing in the region, the local market has some unique strengths such as its REIT [real estate investment trust] sector, its well-run banks and some very attractive companies that are leading players in their respective industries.

**Khoo:** Between 2001 and 2008, we were already investing actively in the Singapore markets. Back then, the local scene had a good selection of high-quality and fast-growing companies that were available at low valuations. We are talking about strong consumer companies such as **OSIM**, **HTL** and **Sincere Watch** when they were compounding earnings at 20% to 30% a year, yet traded at low valuations of four to six times PER. Today, the Asian consumer story has become rather overplayed, so valuations are no longer cheap. Many of the cheap companies today are either too small or don't show as much promise. There was also a spate of privatisation of companies such as **Unilever**, **Armstrong** and **MMI** over the past few years, which also removed many good companies from the listed space. Some of the promising Chinese companies we owned back in 2008 and 2009 such as **Si-huan**, **Time Watch**, **Hongguo** (now known as **C Banner**), **C&O Pharmaceutical** and **Sinomem** were either taken private or chose to relist in Hong Kong, where their valuations today are many times higher than what they were able to get in Singapore.

**Is that why the STI is still below its 2007 peak, when many other bourses have already surpassed their 2007 highs?**

**Ng:** It is a narrow market, and if one or two major sectors are not doing well, the index will be dragged down. For example, the offshore and marine sector (which includes the likes of **Keppel Corp** and **Sembcorp Marine**) is going through a down cycle with the collapse in oil prices. The property sector has also been affected by policy-dampening and concerns on oversupply. However, there are a few bright spots, such as the banking sector. The REIT sector may not look like it has done well, if you just compare their share price performance. But they have not disappointed in delivering a consistent stream of dividends. Arguably, 2007 may not be a fair comparison, as valuations were not cheap back then after a multi-year rally. Over the 10-year period till end-June this year, the Singapore market has actually done quite well, with the MSCI Singapore Index returning slightly more than 100% on a dividend reinvested basis.

**Lee:** To put this into context, Hong Kong is still below its 2007 peak. And while it appears that Thailand, Indonesia and even Malaysia have done well relative to Singapore since 2007, their performance is less impressive if we take their weaker currencies into consideration. In addition, there has been a divergence between GDP growth and stock-market returns in Singapore. Singapore's stock-market is lower than where it was in 2007, even though real GDP increased from US\$180 billion in 2007 to more than US\$300 billion [\$412.7 billion] today. One possible reason is that some growing sectors, such as our airport and ports, are not listed. Another factor is that the Singapore market does not have enough local institutional support. A lot of retail investors have also been disillusioned by losses in the penny-stock scandals, with market trading volume dwindling to below \$1 billion a day from its peak of nearly \$3 billion a day in 2007.

**Young:** Singapore is a mature economy that is increasingly constrained by high costs and self-imposed caps on labour when it's trying to undergo a transition. The weakness in the global economy doesn't help. Other economies have had more protection in terms of

## 1997/98 Asian financial crisis

The Asian financial crisis, which started in Thailand in 1997 with the collapse of the Thai baht, spread like wild fire across Indonesia, South Korea, Hong Kong, Malaysia, Singapore and the rest of Asia. The region's currencies and financial markets nosedived over a two-year period, owing to massive fund outflows from foreign investors and short-selling by global speculators.

Leading up to the crisis, Asian economies such as those of Thailand, Indonesia and South Korea — fuelled by hot money from foreign investors — were experiencing current account deficits, weakening export growth and high levels of debt.

As the US Federal Reserve started to hike interest rates from 1994 from 3% to 5.25% in less than 12 months to put a lid on inflation, hot money flows started to flow out of Asia and gravitated towards the US, causing a sharp rise in the value of the greenback from 1995 to 1996. The strong US dollar also slowed the export growth of Asian countries, whose currencies were either pegged to the greenback or on a managed float system. Capital fund outflows and

deteriorating exports led to a drain in the foreign reserves of Asian countries such as Thailand.

In May 1997, the Thai baht, which was pegged at 25 to the US dollar, came under immense pressure from short-selling currency speculators, who realised that the Thai central bank lacked even foreign reserves to defend the baht. In early July 1997, Thailand was forced to abandon the baht-US dollar peg because of insufficient foreign reserves. It floated the currency, allowing its value to be determined by market forces. The collapse of the baht caused a contagion that led to significant weakness in other Asian currencies, a slump in regional bourses and a severe economic downturn in several Asian nations. The Straits Times Industrial Index lost nearly 40% in value over a six-month period from July 1997 to January 1998 and the local economy slumped into a short recession in 2011/98. Countries such as Thailand and Indonesia even needed bailouts from the International Monetary Fund to prevent the collapse of their financial systems.



The collapse of the baht in 1997 caused a contagion that led to significant weakness in other Asian currencies



government stimulus and the credit cycle, so investors have tended to look at these higher-growth opportunities. But economies and markets are not the same. Besides, as active investors, we're not looking to time our entry or exit into markets but into individual companies. So, I'm not sure what you can glean from index comparisons with 2007. Since that time, many companies have in fact traded higher.

**Kho:** The Singapore market has always been perceived as a safe haven. Over the last few years, when international investors were generally quite bullish on the Asian region's demographics and economic growth, Singapore was sidelined, as it wasn't growing quite as fast as its neighbours such as Thailand and the Philippines. Singapore's time to outperform is when things are turbulent and the shine comes off some of its Asian counterparts. Meanwhile, investors in the Singapore market may just have to contend with collecting a dividend yield while they wait.

**Chua:** Singapore policymakers have been wise to restrain the property bubble from getting out of hand in the past few years. Inevitably, it has resulted in fewer economic activities and curbed excessive liquidity locally and internationally from flowing into our properties and related markets. As such, it is no surprise from a macro angle that our local stock market did not surpass the 2007 peak, unlike many others. Singapore has already become one of the most attractive and expensive cities in the world, and cannot afford to let property prices zoom higher from excessive liquidity and funds coming here, especially from China. We need to guard our cost-competitiveness. I am for the intake of more cheap foreign labour in the roles of construction workers, carpenters, painters, electricians, plumbers, factory workers, maids, waitresses, counter-assistants and drivers at the bottom of the food chain to lessen our labour shortage issue and for more successful foreign entrepreneurs and capital providers from the top, but not more PMETs [Professionals, Managers, Executives and Technicians], as this is where the opportunities are for locals and further nation building. This labour and capital arbitrage is needed. Once this is further addressed with reduced levies, the local bourse should head upward and make new highs. Maybe some of the property re-

straining measures, especially on locals, should be taken out if China, the largest Asian economy, were to slow down significantly, which I think it will soon.

**Name your favourite Singapore stocks that you think will do well in years to come.**

**Chan:** If you want something that is safe and going to be around for years to come, you can own a bank in Singapore, whether it is **United Overseas Bank**, **Oversea-Chinese Banking Corp** or **DBS Group Holdings**. In terms of valuations, DBS is a reasonably good bet for the long term. Singapore will remain a major financial centre in the region, and that will benefit a bank like DBS, whose balance sheet looks quite strong. It also has a strong franchise and will continue to benefit from the Asian growth story.

In terms of world-class companies in Singapore, there are a few. **Keppel Corp** is a world-class oil rig builder, but I am not sure whether it is a good time to buy that stock. So much has changed in the energy market, with developments in shale gas, Iran and renewable energy. So, I hesitate to buy the stock. At some stage, it may be of good value but not yet.

**SIA** is another world-class player, but do you want to invest in the airline business, which has lousy economics? The company is struggling. The Middle Eastern carriers are giving it a real hard fight. In the manufacturing space, **Venture Corp** is quite a good name. My fund is not invested in Venture, but we still keep an eye on it.

**Lee:** I like **Straits Trading**. While most people will know the company from the familiar Straits Trading Building on Battery Road, few of us will remember that the company was founded in 1887 as a tin smelter and has experienced various business transformations over the years. Today, driven by a charismatic CEO, the company has spun off its property and non-core assets (including the Straits Trading Building), and is evolving into a manager of real estate assets. It owns a valuable stake in **ARA Asset Management**, which will benefit from the continued growth in the local REIT market, as well as stakes in ventures with companies such as **Far East Organization**. We think the market has yet to fully realise the firm's metamorphosis and is still undervaluing its shares.

## Singapore investors 'clobbered' by CLOB saga in 1998

In September 1998, in the aftermath of the Asian financial crisis, Malaysia undertook drastic measures to stem fund outflows by implementing capital controls. It also declared the trading of Malaysian stocks on Singapore's Central Limit Order Book exchange to be illegal, after Bank Negara Malaysia asserted that CLOB shares were borrowed by speculators for their short-selling activities on the Kuala Lumpur Stock Exchange. That move triggered a suspension of all Malaysian CLOB shares — worth nearly US\$4.8 billion in value — held by some 172,000 investors, many of whom were Singaporeans.

In the months that followed, there were discussions between the stock exchanges of Singapore and Malaysia to allow all CLOB shares held by Singaporeans to be transferred to accounts in the Malaysian Central Depository for eventual trading on the Malaysia bourse. The Malaysian counterpart, fearing a big slump in the KLSE if the liquidation of CLOB shares was done en masse by Singapore investors, dragged its feet on the share migration. In early 2000, a deal was brokered between the two exchanges, in which



In 1998, Malaysia declared the trading of Malaysian stocks on Singapore's CLOB exchange to be illegal

shares of CLOB investors were to be released on a staggered basis. CLOB investors had to pay high administrative fees imposed by Malaysia to have their shares released earlier. The staggered transferring of CLOB shares to the KLSE was completed only in September 2003. Many weary Singapore investors, who were "clobbered" by the CLOB saga, even chose to sell their Malaysian stocks at a loss instead of waiting for prices to rebound.



Young: Banks across the region will benefit from rising wealth and scope for credit intermediation

I also like **Del Monte Pacific**. It is a 120-year-old brand that has become synonymous with premium canned fruit and vegetables, and it is a favourite of many consumers, including myself. After Campbell and Kraft, it is the third-largest centre-of-the-store-brand in the US. I feel the market has oversold the stock, as it has been concerned about its borrowings after its US acquisition, while underestimating the potential growth from the US market.

**Ng:** Singapore has its fair share of fundamentally strong companies. I'll just pick two that are likely to remain industry leaders. My first pick is **Global Logistic Properties**. It has a leading position in China's modern logistics sector, which I believe has good growth opportunities, given demand from domestic consumption and the development of the e-commerce sector. The fund management platform that the company is building is underappreciated by investors. I expect its earnings growth to accelerate, driven by its strong development pipeline in China as well as stronger fund management fees.

I also like **DBS Group** for its strong franchise and regional exposure. The bank continues to make good progress in commercial and retail banking, leveraging its strong deposit franchise in Singapore. Its performance in Hong Kong is also improving under its current strategy. Besides, it is also leveraged to rising interest rates and should therefore benefit from the anticipated (US Federal Reserve) policy direction as it embarks on the path of interest rate normalisation in the next one to two years.

**Young:** It's tempting to name a penny stock that no one will have heard of, but we don't invest like that. The companies that have served us well in the past are likely to serve us well in the future, provided they stick to their business plans and don't overreach. We've been invested in **OCBC** for nearly 20 years, and it keeps on delivering growth. Banks across the region will benefit from rising wealth and scope for credit intermediation. Another stock is **Jardine Strategic Holdings**. It is the holding company [of **Jardine Matheson Holdings**], with interests spanning hotels, property and autos across Asia, hence a broad proxy, for consumer growth. It isn't meaningfully "Singaporean" but the businesses are conservatively run. We like that.

**Kho:** One of the Singapore stocks we like is **Interplex Holdings** [formerly known as **Amtel**

**Engineering**], a precision engineering company serving customers in the auto, industrial, medical, industrial, data storage industries and enterprise server sectors. Over the past few years, it was plagued by rising labour costs and declining demand in its traditional key markets of data storage, printing and consumer electronics. However, it has since managed to diversify into newer and faster-growing segments such as auto and network and enterprise servers. It also embarked on an automation drive two years ago, which allowed it to reduce headcount by a third. In late 2014, it acquired **Interplex**, also a precision engineering company, but serves a totally different set of customers, thus giving the company cross-selling opportunities. Both **Interplex** and **Amtel** generate strong cash flows and we expect them to pay down their debt arising from the acquisition quite quickly within a few years.

**Are you optimistic about the local stock market over the long term?**

**Lee:** How can I not be optimistic about the local market? Singapore has always proven time and time again its ability to surprise its critics and reinvent itself. For instance, in 1986, when the Singapore economy was in recession and the property market was in the doldrums, the idea of a REIT market was mooted. Since then, it has grown into a \$70 billion market, the largest REIT market in Asia ex-Japan and approximately 10% of the local market capitalisation. The local REIT scene, which boasts a strong regulatory framework and competitive tax regime, has attracted Hong Kong, European, South Korean and US companies to list or consider listing their property portfolios as REITs here. Our REIT market has triumphed over Hong Kong, an accomplishment that can be attributed to the enterprise and foresight of our government. **Phillip Capital Management** has also capitalised on this growth by establishing the first local public unit trust investing in Singapore REITs. This has been a rewarding experience not only for our local clients but also our Japanese and Asian clients, who are hungry for sustainable yields.

Furthermore, Singapore is moving up the value chain, becoming a leader in advanced manufacturing, urban solutions, applied health sciences, wealth management, aerospace and logistics and embracing the vision of becoming a smart nation. It is only a matter of time before these endeavours are reflected in our stock market.

CONTINUES NEXT PAGE



# Local firms well-managed, have good governance

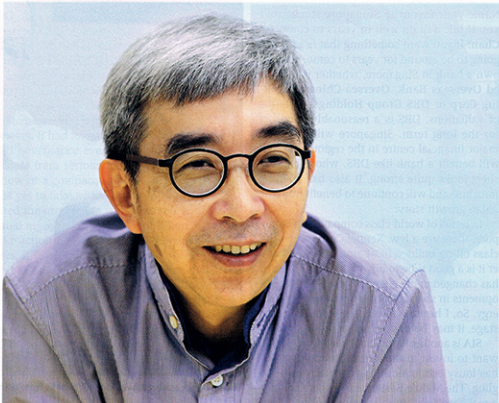
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**Chua:** It is overall a steady and reliable market but not too exciting. If the global markets become more volatile, which I think will happen soon, the Singapore market will then do better on a relative basis. Lowering property curb penalties will also help and cushion us from an expected economic slowdown from China. Over the long term, not many nations will be able to compete with us if we have a combination of strong, dedicated, wise sacrificial leaders with clarity in overall well-thought-out policies and excellence in execution, and with Singaporeans being cooperative, hardworking and hungry.

Our stock market over the long term, however, will depend on the quality of our leaders and people in spirit and in truth. So far, I think we are producing very competitive global Singaporean graduates from our universities. With good job opportunities and exposure, plus room for initiatives and risk-taking, I am confident Singaporeans will step up to the plate as a nation of world beaters. Getting their hands dirty to gain understanding, making and learning from mistakes, then creating and availing themselves of opportunities for initiatives with risk-taking are the keys for our graduates, especially those who in future are to be leaders. Integrity of hearts, with skillful hands, are the evergreen qualities needed.

**Ng:** I am optimistic, as most of the companies here are very well managed. Barring industry-specific headwinds, they should continue to deliver steady profits and cash flows. I expect moderate but reliable returns, and the dividend-paying culture is also reasonably good. Thematic and industry factors will continue to exert a strong influence here and across the region; thus, not every sector will do well and we need to remain selective. We also need to open our investment options to the entire Asia region rather than Singapore alone.

**Young:** Yes, I am optimistic. The stock market has had some bad press recently because, in regional terms, it seems to be losing out on IPOs. There is also a lack of liquidity in smaller countries, which affects spreads, and so far the broking community's perspective, these developments aren't good. We are, however, less affected by such operational factors. Our engagement is more with individual companies and, indirectly, with regulators, over aspects of governance, transparency and minority rights. Here, we find the exchange is very receptive.



Tan: Singapore needs to find her own style, competency and uniqueness

Companies are better run because of their oversight. In the long run, that counts.

**Kho:** Over the past decade, interest in the Singapore stock market has largely been centred around China [S-chips], the offshore oil and gas industry and REITs. With the blow-up in the S-chip sector and downturn in the O&G industry over the past few years, the only leg standing is the REITs segment. Now that the interest-rate cycle has bottomed out and property prices are near the top, we are not too optimistic.

**Lim:** Singapore is a very good place to invest because regulations are clear and the rule of law is rigidly enforced. Investors don't have to worry too much about corporate governance, transparency, reporting standards and conflicts of interest. If SGX can attract some big and high-growth companies from Vietnam, Myanmar and other neighbouring countries to list here, then the market could get very interesting.

**Chan:** I think it is going to do okay, but it is not going to be very exciting. Not only is Singapore going through a slow growth phase, the

region too is experiencing a slowdown, especially with the drag from China. In terms of valuations, the PEBs of the local stocks are not high, but they are not screaming cheap either. So, you have to look from the bottom up. If the markets are volatile, it may throw up some opportunities. For the moment, we are quite light on Singapore.

**Wong:** I see headwinds in the short term. We might get a blip after the election, though.

**Tan:** While small economies such as Switzerland, Norway, Sweden and Denmark offer valuable lessons, Singapore needs to find her own style, competency and uniqueness. Singapore needs to move on from just relying on the many government-linked companies and the multinationals for growth and development. This is a very difficult journey, as it means that Singapore has to trust her own people, entrepreneurs and businessmen to take the lead in the next phase of her development. Many, such as **Creative Technology** and **Olam International**, have tried and failed. Even globally branded SIA is seeking all kinds of ways to stay relevant. There are smaller ones such as **BreadTalk** and **Stamford Land** that still evolving, but they are still far from being globally competitive companies.

Eight years after the 2007 peak, the STI is still struggling to reach new highs. The Frankfurt DAX, the Standard & Poor's 500 and other indices have already gone past the 2007 peak, but the Singapore market is still some way below its 2007 peak. The Singapore stock market has been underperforming, not only in relation to other markets but also in relation to the country's successes. Valuations, however, are not absurdly high. With a global environment in which investors are looking for safe choices and yields are so low, the underperforming STI is sending some messages of concern. In the shorter term, the best one can hope for is a sideways trading trend. In the longer term, the STI has to go lower first before embarking on a new rally.

Finally, what do you like best about Singapore?

**Lee:** I'm passionate about Singapore. I love the clean air and water, the parks, the stable and effective government, and the strong rule of law. The sights and smells have changed from when I was growing up roaming around the coconut plantation, the starfruit and rambai trees that we had in Taman Tampines Tiga, which was in the Eastern part of Singapore in the 1960s, but the memory will always live on. Singapore will always be home for my family and me.

**Wong:** Singapore is a safe and ideal place in which to raise a family. It is also not a bad place to build a career in investing, but it's perhaps more difficult to build a bigger career or a large investment business.

**Chan:** I like the food here. You can have fine dining or good and affordable Tze Char [Chinese style wok-fried] food. The food in Singapore is something unique. I think we have a wider range of food compared with countries such as Hong Kong. I like Italian food as well as good Chinese food like the Cantonese cuisine at Imperial Treasure [at Great World City]. I like a Tze Char stall called Kimly [Live Seafood] at Boon Lay Way. It is not air-conditioned but has good-quality food, similar to Malaysian-style Tze Char food. Near my office at Zion Road Hawker Centre, you have a good Char Kway Teow stall. Food aside, I also like the good infrastructure that we have in Singapore.

**Lim:** The food. I travel frequently and the thing I miss the most when I am away is the variety of food in Singapore. Nowhere else in the world quite measures up.

**Chua:** I like being able to go out with my son at midnight and still get my roti prata or Hokkien mee, quickly and safely. My children were well taught in schools, going through rigorous competitive education in a drug-free and safe environment as well as having opportunities to mix with many races and being able to travel globally and easily with a well-respected Singapore passport. This is a great place with religious freedom and harmony in place. The attractive international transport and communications hub facilities and English language have been a strong plus in connecting with my investors, prospering my former fund management business and also facilitating my regional mission outreaches to the poor and needy. The government has done excellently in law and order, and an unmatched public housing in the world for Singaporeans, who responded with the highest level of cooperation.

**Kho:** Singapore has a stable regulatory environment, which is good for all businesses, not just for fund managers. The fact that we are domiciled in Singapore has also given many of our international investors comfort, so we are thankful for that.

**Ng:** What I like best is its reliability. We have strong government and the most solid political and policy environment when I compare across the region. There are many things that we might be beginning to take for granted because we have been enjoying them for so long, such as our personal safety, the quality of medical services and the education system, and the general orderliness that add up to our comfortable everyday life. Of course, there are areas that we can still endeavour to do better in, but I can think of no better place to live than here.



In general, the panellists have an optimistic outlook for the local stock market

Illustration: KONG YUEN



# Guarding against the paradox of success

[BY TAN TENG BOO]

Singapore celebrates her 50th anniversary of independence this year. In that time, the small nation with no natural resources has emerged from being a relatively poor Asian country with a highly uncertain future to being one of the world's wealthiest nations with a bright future seemingly assured.

In celebrating her 50th year, the presence of Lee Kuan Yew would have made a huge meaningful difference to the whole anniversary atmosphere and celebrations. Perhaps it was meant to be that he would not be around. Perhaps his demise this year was meant to send a powerful message to Singaporeans that, when the state of affairs seems to be the most secure and certain, that is when they are the most uncertain. Perhaps this message would be the greatest contribution to the continuance of the successes that Singapore has achieved in the last 50 years of triumphs and tribulations. After all, he was constantly worried about the issue of what Singaporeans would be like after his death.

It is difficult for many emerging nations to achieve what Singapore has over a relatively short period of 50 years. Economywise, there are many superlatives to boast of, many of which her neighbours are envious of. Nation-buildingwise, although this is still work in progress for a young nation, Singapore today is remarkably more cohesive and blended than 50 years ago. However, in this five-decade journey, there have been many periods and times when Singapore had to undergo great uncertainties, painful restructuring, deep soul-searching and even questioning her continued survival. Given her success today, it is easy for Singaporeans to have the perception that the past 50 years were more or less plain sailing. That could not be further from the truth, though.

As Singapore embarks on the next 50 years, the next three to five years will prove to be challenging, uncertain and hence crucial, given local and global factors. After spiking sharply in 2009 and 2010, Singapore's real GDP growth has slowed down sharply in the last four to five years. The average growth from 2011 to 2015 has been much slower than it was from 2003 to 2007. Even the Composite Leading Index has struggled to stay consistently positive after 2011. The current downturn in this leading index needs close monitoring.

## Strong external economy vital

One of the reasons for this relatively weak performance is the weak global economy. Exports from Singapore, either in US or Singapore dollars, have remained flatish. Owing to weak global economic conditions, this trend is unlikely to improve anytime soon. On the contrary, there are justified worries that the global economy may weaken further in 2016 and 2017, as the ageing US recovery is expected to falter by then and the economies of the eurozone, Japan and China are unable to offset any US weakness.



Mourners gathered outside City Hall for the funeral procession of Singapore's first prime minister Lee Kuan Yew on March 29. LKY's greatest contribution to Singapore was ensuring the continuance of successes the city-state achieved in the last 50 years, says Tan.

For a small, open economy, the state of the external economy is fundamentally vital. Singapore's ASEAN neighbours do not offer much hope either. Thailand is still gripped by political paralysis. President Jokowi faces an increasingly tough job in restructuring Indonesia. Vietnam is still torn between more market reforms and a planned economy. The Philippines will have an election in 2016 and, if history is any guide, the 90 million Filipinos may see another cowboy being elected. Then, there is Malaysia, a rich promising nation that has been paralysed by too many empty promises and self-inflicted wounds.

Locally, there are also concerns. The first involves the important property market. The Monetary Authority of Singapore had very early on taken measures to cool the property market down, even though the bubble was just beginning. This was a wise decision, as the subsequent years saw property prices rising strongly, thanks to relentless local and foreign buying. Owing to the early pre-emptive measures, the Singapore property market has been cooling down in the last two years and, so far, it has been gradual and under control. The continuation of a soft landing in Singapore's property market can be easily upset by any major external event or crisis, though. Interest rates have been low and liquidity has been more than ample for a very prolonged period.

Thanks to sustained economic

growth, Singapore has been enjoying more than full employment (see chart). Except for a short period in the US-led global financial crisis in 2008, the city-state's unemployment rate has been hovering remarkably at the full employment rate for eight to nine years. To meet the strong demand, foreign workers have flooded in and the small nation had to suddenly deal with all kinds of sociological problems associated with crowded places, public transport, manners, cultures and so on. This led to strong negative reactions from the local citizens and a strong political message that enough is enough. With restrictions on more foreigners, Singapore's full-employment economy is bumping against a major constraint. Without robust and sustained productivity growth, Singapore's economy would expand at a snail's pace.

## Improving productivity

The government has always been harping on productivity improvements and finding all kinds of ways and solutions to sustain and improve them. Even now, with a GDP per capita of US\$56,319 (\$77,430), the government's mantra is rightfully productivity improvements. It is getting to be difficult to achieve the ambitious productivity improvement target of 2% to 3% a year that it wants until 2020. Launched in 2010, the Productivity and Innovation Credit scheme was a major step to sustain Singapore's productivity growth. At the halfway

mark, productivity improvements need improvements. To be sure, the last few years have been a very difficult period to manage any economy, let alone a small ship such as Singapore that will easily rock with any global waves or tsunami. Yet, the city-state has not encountered negative productivity growth in the past 30-plus years except during recessions. Either the government's plan is not working and needs re-strategising or the local and global landscape is such that one has to live with this trend until it improves. Can it or are there other structural factors at play?

Another worrying trend is Westernisation among Singaporeans. Unfortunately, it has generally been the negative and superficial values of Westernisation that has rubbed off on Singaporeans. There is a pervasive sense of complacency, especially among the younger generation and, in the course of their interactions with the locals, many are not familiar with why Singapore has succeeded so well. Getting a job with a higher salary is pretty easy. Not working for months after the last job or graduation is common and apparently entitled. Staff turnover across industries has risen.

Singaporeans are generally not hungry anymore and work-life balance has tilted a lot towards life, probably too much. Before the 2008 US-led global financial crisis, the minds of workers in Australia on an early Friday afternoon were already elsewhere. On an anecdotal basis, one can see the same trend in Singapore nowadays. For an individual, it is hard to scientifically quantify such observations and trends, but the government may want to deeply research and closely examine the sociological causes of the current negative productivity growth.

A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker, or productivity.

The Singapore government knows this for sure. Knowing its importance is one thing, being able to achieve it is another. The government has in the past been able to achieve its productivity targets but, as mentioned, prevailing global economic conditions can hamper even the best-laid plans.

Prevailing global economic conditions, where there is insufficient aggregate global demand and competitive currency devaluations through quantitative easing abound, may require Singapore to tweak some of her policies and measures, at least for the shorter term.

## Securing Singapore's future

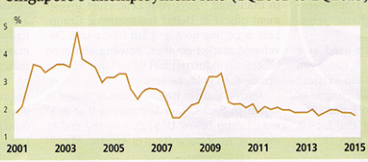
The SGD has been overvalued against the USD, in terms of purchasing power parity, for many years. It is perhaps time for the SGD to weaken, like it did from 1997 to 2001. Inflation is no longer a problem. A weaker SGD can buy some breathing space for the Singapore economy as she tackles other key issues such as achieving productivity growth, creating an innovation-based economy, rising cost of doing business, and improving export competitiveness for her goods and services.

Singapore is already a high-income country. She needs to ensure that she does not get into a "high-income trap" like Japan, France and Italy did, where the economy stagnates and the population thinks that working less is working smart. As Thomas Edison said: "Opportunity is missed by most people because it is dressed in overalls and looks like (hard) work".

Unlike a past decade, Singapore in the coming years faces more political uncertainties than before. Who will succeed Prime Minister Lee Hsien Loong and be an effective leader must surely be a question that many are asking quietly. There are many capable technocrats around, but being a prime minister of a small but highly successful nation demands a lot more than that. While Singapore does not face the same sickening situation like in Malaysia, where all kinds of local politicians are perpetually quarrelling with one another, as a young nation, there is no easy way out for the successful evolution of the city-state's political structure.

Talking with the younger Singapore generation nowadays is mind- and eye-opening and anxiety-creating. Confident and articulate, they believe that a bright future for them is assured. They take it as a given. Yet, when probed further, they struggle to offer the factors of their country's success and to ensure continuity of this world-class success. Seemingly open-minded, the truth is that they have unwittingly become close-minded. It is this paradox of success that one needs to guard against.

## Singapore's unemployment rate (1Q2001 to 1Q2015)



Tan Teng Boo is founder and CEO of Capital Dynamics, an independent fund management and investment advisory firm with offices in Malaysia, Singapore, Australia, Hong Kong and China. The 61-year-old Malaysian has been a regular visitor to Singapore over several decades.



# Hong Kong's rise as Asia's wine cellar

BY ABBY SCHULTZ

After you have bought a case of 1990 Chateau Le Pin for about US\$50,000 (\$68,842), where do you put it? As any collector knows, a bottle of fine wine must be stored under exacting conditions to retain value. The temperature cannot vary much beyond 13°C, and the humidity must hover around 70%. Collectors throughout much of Asia can hardly bring their dearly won auction wine home and relegate it to a cupboard where it will suffer from humidity and heat.

And there are bigger issues if you live in China: If you try to bring your case of Le Pin home, say hello to a tax bill of more than US\$20,000, over 40% of the total value.

But there is an easy solution. Since the Hong Kong government abolished import duties on wine in 2008, the city's status as Asia's wine hub has improved like a fine Bordeaux, with a proliferation of auctions and, not surprisingly, an explosion of wine storage facilities, in part to serve mainland clients.

Today, there are 29 facilities certified to store fine wines in Hong Kong — up from just six in 2010, according to the Hong Kong Quality Assurance Agency (HKQAA), a six-year-old quasi-government group that was the first in the world to certify wine storage facilities.

Hong Kong's status as a wine "freepoint" has "attracted some of the mainland wine consumers as well as investors to keep their wine in Hong Kong," says Paulo Pong, managing director at Alaya Group, a wine merchant. Customers who live in China are among those who store wines at his firm's facility in Kwai Chung, which is strictly for customers and Alaya inventory.

## An industry was born

Hong Kong's love of wine stretches back way before taxes were lifted. Before opening Crown Wine Cellars in Shouson Hill in 2003, Gregory De'Eb, general manager and a former South African diplomat, discovered Hong Kongers owned up to 17% of all the rare and fine wines held in the big storage companies in the UK. "This made us potentially, per capita, the most prolific wine collectors of rare and fine wine the world has ever seen," says De'Eb, speaking in the company's plush, low-ceilinged library and private dining room, 60ft underground.

De'Eb learned Hong Kong collectors did not leave their wines abroad to simply appreciate in value — they were avid connoisseurs who were willing to fly their wines back home for gatherings where "the best of the best" was consumed. "It was an intelligent market, it was an educated market and it was a very large ownership market," he says. De'Eb and Jim Thompson, Crown's owner, realised that if only 10% of Hong Kong collectors with wine in the UK moved their wine home, an industry would be born overnight.

But De'Eb wanted to draw customers in with superior facilities. That was not too hard once he realised most UK and European storage at the time was in big, supermarket-style warehouses that were not climate-controlled or, arguably, even secure. He saw an opportunity to not only create optimal storage conditions in Hong Kong, but to also introduce electronic inventory systems to track bottles coming in and out.

Eventually, De'Eb began working with the HKQAA to certify storage facilities that met rigorous conditions. Simon Tam, Christie's head of wine, China, and a member of the HKQAA's technical committee, says certification



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is "absolutely very necessary" for the business as it ensures the bare minimum standards are met. "Certainly, auctions can't exist without proper storage," Tam says, and he argues the city would not have become a world-class wine hub without it.

## Different options for different tastes

While you have a choice of more than two dozen facilities in Hong Kong, the offerings vary in price, style and services. For an extra delivery fee, you can have wine sent from storage to your home or to restaurants in town, and some facilities allow you to visit your locker and pick a bottle out yourself.

At Crown, storage is strictly "white glove" with all services handled by the staff. You can store a few dozen bottles or a few dozen cases in one of the 1,000 sq ft concrete bunkers or in concrete storage units of varying sizes set up in the company's Tuen

Mun facility. Crown stores about one million bottles between the two facilities, valued in excess of US\$2.5 billion, and all of it is fully insured by Crown (customers pay a per-bottle fee). The cost of delivering six bottles to your favourite Hong Kong Island restaurant would be HK\$90 (\$16) from Shouson Hill and HK\$300 from Tuen Mun.

One address that is hard to get into is the aptly named 13 Degrees, a slick but small storage facility on the 30th floor of Hing Wai Industrial Centre in the heart of Aberdeen, a structure that accommodates deliveries of 20ft containers filled with wines from clients in the US.

Lower wine taxes and a proliferation of auctions may have laid the groundwork for Hong Kong's wine hub status, but that is not why Nicholas Tung created 13 Degrees. His father, Paul, a long-time collector of Bordeaux's great premier vines, became worried in 2008 that the

owners of the storage facilities that held his wine in Europe could get swept up in the global financial crisis and go bankrupt. He asked his son to search for an alternative in Hong Kong, but, dissatisfied with the options and the cost of building a climate-controlled facility solely for his own collection, told his son to create a business.

Today, 13 Degrees remains a relatively small facility that caters for Tungs' friends and family, who rent about 30 of the 55 rooms. You have to pass through two doors — one closes before the other opens to limit the outside air — before you get to a hallway with the storage rooms. The thickly insulated units are separated by plaster walls with a steel sheet between them, for added security. The facility holds about 80,000 bottles, and an adjacent climate-controlled warehouse, used by Cuvees, an affiliated wine distributor and online retailer, and where some collectors store their wines, holds up to 500,000 more.

According to Tung — an avid Champagne collector — renting a room at 13 Degrees costs about 20% more than any other storage site in Hong Kong. A standard 36ft room rents for HK\$4,680 a month, while a 66ft room rents for HK\$7,580 — and the company only takes customers on referral.

The price includes service from the 13 Degrees' trained staff. If, say, you would like a few bottles of 2000 Chateau Lafite Rothschild sent to Petrus at the Island Shangri-La hotel for dinner, 13 Degrees will wrap the labels with cling film before they leave storage to ensure Hong Kong's legendary humidity does not damage the bottle before your meal. Tungs says: "We don't have that many clients, so we are able to be a little bit more service-based." — © 2015 Dow Jones & Co, Inc

## commodities

# Wall Street bets gold price to drop below US\$1,000

BY IRA JOSEBASHVILI

Gold has precious few friends these days. Prices for the metal recently tumbled to their lowest level in five years and investors are betting there is more pain to come. Money managers turned collectively bearish on gold, the first time that bets on the metal's decline have outnumbered those on rising prices since the US Commodity Futures Trading Commission began keeping records in 2006. Some banks are expecting gold to trade below US\$1,000 a troy ounce this year for the first time since 2009.

Gold is currently at US\$1,085 an ounce, down more than 7% on a year-to-date basis. Those looking for reasons to sell gold can have their pick. Most investors expect the US Federal Reserve to raise interest rates this year, on the back of a US economic recovery. That is bad news for gold, which

pays no dividend, costs money to own, and therefore struggles to compete with yield-bearing assets, such as bonds, when interest rates rise.

One consequence of rising rates is a stronger US dollar, and that is another negative. Gold is priced in US dollars, and becomes more expensive to foreign buyers when the greenback appreciates. Although the US dollar has already had a sizeable rally, market watchers believe higher rates in the US will make the greenback more attractive to yield-seeking investors, pushing it higher and weighing further on gold.

Gold traditionally has been used as a hedge against inflation, which has been muted in the US and virtually non-existent in other major economies, to the chagrin of central bankers in Europe and Japan. The metal's reputation as a haven also took a beating in July, when prices kept sliding

even as Chinese stocks saw their biggest declines in years and Greece's financial crisis raged.

Finally, gold is a commodity, making it part of an asset class that has been savaged by investors amid fears of ample supply of raw materials and falling demand from China. The Standard & Poor's GSCI index, which tracks the performance of 24 commodities, hit its lowest level in 13 years in July.

"There are more attractive assets to invest in than gold," says Aul Lele, chief investment officer at Deltec International Group. Lele is betting gold will fall lower, despite developed market equities, housing, and even beaten-up industrial metals all have a better upside than gold, he says.

Jeffrey Currie, head of commodities at Goldman Sachs, said last month that gold would drop below US\$1,000 by the end of the year. Analysts at Bank of America Merrill

Lynch are also calling for a drop below US\$1,000, as rising interest rates and a lack of inflation create "the most bearish cocktail for gold in the past 43 years".

To be sure, there are more moderate views. But they are at best less bearish, rather than bullish. Analysts at HSBC believe that Fed rate increases are largely priced into gold. At the same time, they think the US dollar will begin declining once the central bank starts increasing rates, buoying prices. Big price declines and rising bearishness can often signal a bottom. Lower prices, for instance, may finally spark demand for gold from emerging market buyers, who have preferred to buy their gold on the cheap.

"Low prices may contain the seeds of the next rally," HSBC says. Still, they expect gold to drop as low as US\$1,025 an ounce before turning around. — © 2015 Dow Jones & Co, Inc