Comprehensive's Guide to

STI ETF

How to invest in Singapore's blue-chip companies effortlessly.

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Table of Contents

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Table of Contents

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What Is the Straits Times Index?


FACTSHEET

STRAITS TIMES INDEX (STI)

FTSE
THE INDEX COMPANY

The Straits Times Index (STI) is the most globally-recognised benchmark index and market barometer for Singapore. With a history dating back to 1966, it tracks the performance of the top 30 companies listed on the Singapore Exchange ranked by market capitalisation. The STI adopts FTSE's international methodology for compiling stock indices and has been designed to be tradable to meet the needs of both domestic and international investors. It is also the headline index of the FTSE ST Index Series, a family of indices created by Singapore Press Holdings (SPH), Singapore Exchange (SGX) and FTSE Group (FTSE), that aims to offer a wider set of investment choices and opportunities by segmenting the Singapore market.

The Straits Times Index (STI) is a blue chip (major companies) index of the top 30 companies listed in SGX (Singapore Stock Exchange).

It is the most widely used indicator to represent the general Singapore stock market. When the media mentions that the Singapore stock market went up or down, they are taking reference from STI.

The STI dates back to 31 Aug 1998 when it was first introduced. It was constructed jointly by Singapore Press Holdings (SPH), SGX and a professor from NUS. In 2008, the STI was revamped, and FTSE provided their methodology to calculate the index constituents.

The STI components would be reviewed quarterly and are based on the capitalization-weighted approach. This means that the top 30 companies with the highest market value (stock price multiplied by the number of shares) are selected into the index.

The current STI constituents and their relevant index weight are shown in the table:

Stock Code	STI Constituent	Index Weight (%)	Stock Code	STI Constituent	Index Weight (%)
D05	DBS Group Holdings	18.7	M44U	Mapletree Logistics Trust	1.9
O39	Oversea-Chinese Banking	11.7	Y92	Thai Beverage	1.7
U11	United Overseas Bank	10.5	V03	Venture Corporation Ltd	1.6
Z74	Singapore Telecommunications	6.5	G13	Genting Singapore	1.5
J36	Jardine Matheson Holdings Limited (USD)	5	ME8U	Mapletree Industrial Trust	1.4
9CI	CapitaLand Investment Limited	4.2	U14	UOL Group	1.4
A17U	Ascendas REIT	3.4	BS6	Yangzijiang Shipbuilding Holdings	1.3
C38U	CapitaLand Integrated Comm Trust	3.3	S58	SATS Ltd	1.2
S68	Singapore Exchange	3.3	BUOU	Frasers Logistics & Commercial Trust	1.2
BN4	Keppel Corp	3.1	C52	ComfortDelGro	1.1
F34	Wilmar International Limited	2.6	C09	City Developments	1.1
C6L	Singapore Airlines	2.6	AJBU	Keppel DC REIT	0.9
H78	Hongkong Land Holdings	2.5	U96	SembCorp Industries	0.8
N2IU	Mapletree Commercial Trust	2.2	C07	Jardine Cycle & Carriage	0.8
S63	Singapore Technologies Engineering	2	D01	Dairy Farm	0.5

What Is An Exchange Traded Fund (ETF)?

Most investors would understand a fund or a unit trust. It is where individuals pool their money together for a fund manager to decide where to allocate the capital and make returns on behalf of the investors.

An ETF works in the same way except for a two main differences.

#1 – An ETF is traded on a stock exchange

This means an ETF can be bought and sold just like a stock. There is no requirement to invest into the fund via a financial advisor or a funds platform.

You just need a stock brokerage account to invest in an ETF. Since the ETF is traded during market hours, the price of the ETF is continuously quoted, while a unit trust would only have one price for each market day.

#2 – An ETF is usually "managed" passively

An ETF tracks a particular index and the fund manager do not make any individual judgement on which stocks or asset to invest in. The ETF fund manager only needs to replicate the stocks determined by the index, and follow the performance as closely as possible.

A unit trust fund manager on the other hand selects the stocks in the portfolio and tries to get a higher return than the index that the fund is bench-marked against.

For example if you are keen to invest in the top 30 companies listed on SGX, which is essentially the STI, you would have to invest directly into the 30 stocks.

This would require a large amount of capital and a lot of effort to make sure the portfolio follows the index weights prescribed by FTSE, SPH and SGX.

However, with an ETF that invests according to the STI constituents, you can just invest in one ETF to get exposure to the 30 companies. It becomes much more feasible for the individual investor. Hence, the ETF facilitates the investment of the index stocks.

Read more:

- 10 ETFs Listed On The Singapore Exchange You Don't Know About
- 16 top performing ETFs that returned more than 100% in 2020
- How to lower your risk with fixed income ETFs and ride the rise of China
- How to invest if you have $20k or more – Why we think The Straits Times is Wrong (Unit Trust vs ETF)

What is STI ETF?

The STI ETF is an ETF that invests in the STI constituents, giving its investors exposure to all the 30 companies that make up the Straits Times Index.

It allows you to invest in just one ETF to get exposure to the companies that make up the STI, thus making it much more feasible for the individual investors. i.e. you don't need to have a huge capital to invest in each of the companies individually.

Investors who are looking to invest in the STI ETF have 2 options; the SPDR STI ETF and the Nikko AM STI ETF. The next section will introduce these 2 options, explore their differences and the reasons that lead to these differences.

SPDR STI ETF vs Nikko AM STI ETF

There are two STI ETFs listed in the SGX, namely the **SPDR STI ETF** and the **Nikko AM STI ETF.**

The former was introduced in 2002 and managed by State Street Global Advisors, a leading U.S. ETF asset management company, and the latter was introduced in 2009 and Nikko Asset Management is a subsidiary of DBS. Their investment objectives are similar, which is to replicate the performance of the STI as closely as possible, before expense costs.

	Nikko AM STI ETF	SPDR STI ETF
Stock code	G3B	ES3
Inception Date	24 Feb 2009	11 Apr 2002
Fund Size	SGD 575.13M	SGD 1663.56M
Lot Size	10 shares per lot	10 shares per lot
Fees	0.3%	0.3%
Net Asset Value (NAV)	SGD 3.12	SGD 3.14
5-yr Performance	4.84%	4.83%

Figures are accurate as of Oct 2021. Refer to Fund fact sheet for updates.

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How Accurate Are These Funds Compared to The STI?

Do note that the STI ETFs mentioned above are funds managed by various independent companies. Although their aim is to replicate the STI as closely as possible, they are still exposed to various conditions that could lead to tracking errors.

In summary, here are 4 reasons for possible tracking errors in the STI ETFs:

1. **Challenges in owning constituent stocks immediately upon changes in STI**: this is due to the large size of the ETFs. Any changes in constituent stocks would results in large buy and sell orders that may not be fulfilled easily.

2. **Transaction Costs**: Buying and selling of stocks would incur transaction costs which can eat into the returns of the ETFs. These costs are not present in the actual STI.

3. **Dividends**: Dividends collected will be used to pay off expenses such as taxes, management fees and trustee fees before they are redistributed to ETF investors. This will lessen the amount of dividend collected by each investor.

4. **Bid and Ask Spread**: Instead of being quoted based on NAV as per other funds, the STI ETFs are quoted with Bid and Ask spreads as they are traded like stocks on the SGX. This means that the prices investors get would be affected by the market demands, hence the price that you pay may vary from the actual price of the STI.

What is the degree of tracking error?

Now that we recognise that the ETFs are subject to tracking errors, we need to understand how much error are we really looking at, and if we can accept those errors.

I feel that the degree of tracking error is acceptable for both STI ETFs.

- Annual Tracking Error in SPDR STI ETF: 0.184%^
- Annual Tracking Error in Nikko AM STI ETF: 0.15%*

Figures for example are from Aug 2021fact sheets.

^SPDR STI ETF tracking error is a rolling 1 year.

*Nikko AM tracking error is a 3 year annualised tracking error.

Do note the difference in the numbers above are due to the way the fund managers release their tracking errors.

The tracking error is almost negligible for both funds, especially when compared to the amount of fees you would have to pay if you were to invest in all the STI component stocks on your own.

Nikko AM has fared slightly worse in terms of tracking error but it might be due to her shorter history. In the short run, tracking error is expected to be higher and this error will revert to the mean over a longer period of time.

Hence, given more years of existence, the SPDR STI ETF has a smaller tracking error. At this point in time, we cannot determine if the employment of futures contracts by SPDR to minimise tracking error is indeed a better strategy.

We need to give Nikko AM STI ETF more years to stabilise their tracking error.

STI ETF Dividends

Many people have queried whether STI ETF gives out dividends. The answer is YES! And yes to both SPDR and Nikko AM STI ETFs.

However, there are a few features you should understand about the dividend payout by the STI ETFs:

Dividends From Stocks are not Paid Immediately to Investors

Both SPDR and Nikko AM STI ETFs hold their assets with Trustees. This includes the dividends paid out to the Funds by the individual stocks under the Funds' holdings.

These dividends are withheld until the distribution dates. The dividends are deposited in cash, into investors' designated bank account linked to the Central Depository (CDP).

The mode of receiving the dividends is similar to other stocks listed on SGX.

Dividend Distribution Frequency

Nikko AM STI ETF – Semi-annually

SPDR STI ETF – Semi-annually, at Manager's Discretion

Fund Expenses are Deducted from Dividends

The Funds will take their fees from the dividends before distributing to the ETF investors.

Hence, the dividends received by investors are lesser than the dividends received directly from the companies.

As the Funds’ expenses are low, the dividends are more than enough to cover the fees and the excess will be distributed to investors.

However, it is stated in both Funds’ prospectuses that in the event the dividends are not sufficient to cover costs, the Managers may sell some units or make short term loans to top up the difference.

Dividends Contribute to 30% of STI ETFs' Past Returns

Although the dividends are lesser after the deduction of fees and taxes, dividends still contribute more than 30% of STI ETFs' total returns.

Let's look at the 10-year return of SPDR STI ETF vs the Index (I excluded Nikko AM STI ETF because it only has 6 years of history). Annualised Returns for the period of 1 Jul 2005 to 30 Jun 2015,

- SPDR STI ETF (Without dividends) = 4.11%
- SPDR STI ETF (With dividends reinvested) = 7.37%

Hence, dividends have increased the Fund's returns by 3.26% per year, accounted for about 44% of the overall STI ETF Returns!

Who Should Invest In STI ETF

Now that we understand how the STI ETF work, the next question to ask is "Should I be investing in the STI ETF?"

We think that people who fall into the following categories would find the STI ETF a convenient way to invest:

You Have Small Investment Capital

With a small capital, you can still invest in 30 stocks. This would provide sufficient diversification for your investments. Should any particular stock or industry underperform, the overall STI ETF would not be greatly affected.

But if you invest in individual stocks, a small investment capital of say $1,000, could only invest into one stock. Investing in one ETF that owns 30 stocks is a safer approach than putting all that money into one stock.

You Do Not Know How To Pick Stocks

There have been sufficient literature and statistics to show that most investors, including the fund managers, are not able to beat the index by picking stocks.

Since even the professionals who do it full time are having difficulties to beat the index, the chance of a part time investor beating the market should be even lower.

Hence, why not just invest in the index and you do not need to fret trying to beat it?

There is a saying, "if you can’t beat them, join them!" You could have save a lot of trouble and money by avoiding individual stocks altogether.

You Are Lazy To Pick Stocks

Picking stocks require time and effort.

Not everyone enjoys pouring through annual reports and catching up on developments of the companies they are interested to invest in.

There is nothing wrong with that and I know some investors openly declare their disinterest.

In this case, ETFs are often the best instruments for them. They could park their money in index ETFs and grow their money over the long run while they enjoy other activities that life has to offer.

You Want To Beat The CPF Ordinary Account Interest Over The Long Run

At the time of writing, CPF OA was offering 2.5% interest per year.

*The returns since SPDR STI ETF's inception is 6.38% and returns since Nikko AM STI ETF's inception is 8.25% (as of Oct 2021)

If you have excess capital in CPF OA, and you do not mind taking more risks investing in stocks, you can consider utilising CPF OA monies to invest in STI ETF.

This ETF is approved by CPF board for members to invest their CPF in. It is important to note that it is more likely for the STI ETF to beat CPF OA's interest in the long run (more than 5 years), but in the short run no one can accurately predict the stock market, and you may have paper losses on STI ETF.

That said, you must have the ability to tolerate such losses and stay invested for the long run instead of selling in panic.

*Index performance does not reflect tracking error, charges and expenses associated with the Fund, or brokerage commissions associated with buying and selling exchange traded funds.

You Want To Invest In The Future Of Singapore

Investing in STI ETF is essentially investing in the future of Singapore.

It was an amazing growth story and today we have many established companies that have begun expanding their influence in Asia and other parts of the world.

I am proud to see the Singapore Brand being admired by our neighbouring countries.

The world generally believes that Asia is the next growth story and Singapore appears to be in a good position as an East-meets-West hub and should benefit from the rising affluence of Asians.

If this is true and as demand for goods and services grow in Asia, I believe some of our home-grown companies would be able to capture parts of the growth and make profits for shareholders.

Read more:

- How To Beat The Straits Times Index By An Average Of 7.2% Per Year Using A Smart Beta Strategy
- Risk-budgeting your rookie portfolio

Should You Invest In Unit Trusts or the STI ETF

Let's compare the cost structures between a typical unit trust and a typical ETF:

Types of Fees	Unit Trusts	ETFs
Sales Charge	Up to 5%	0.28%
Management Fee	~1.5%	<1%
Trustee Fee	~0.1%	~0.1%
Switching Fee	~1%	0.28%
Redemption Fee	Up to 5%	0.28%
Total fee	Up to 11.6%	Up to 1.66%

Let me explain the fees to you.

#1 - Sales Charge

When you buy a unit trust, you will normally have to pay an upfront fee known as the sales charge, and it can go **up to 5%.**

Of course you wouldn't really need to cough out the fee in cash, as the company will just deduct the amount from your investment.

If you put in $20k and the sales charge is 1%, your actual invested amount will be $19,800 instead of $20k.

For ETFs, the sales charge is essentially the brokerage fee which you incur when you buy or sell stocks. The market rate is **0.28% with a minimum of $25.**

#2 - Management Fee

There is an **ongoing management fee** that you need to pay for both unit trusts and ETFs. However, the former is much higher than the latter, usually by a few times.

The fee for an actively managed unit trust is around 1.5% per year while an ETF like the Straits Times Index ETF is at 0.3% per year. *This means the unit trust is 5 times more expensive than the ETF*.

Talk about compounding costs, this will erode a sizeable profits over the long run. All collective investment schemes should have separate trust accounts to hold clients' money apart from the company's funds. As such, the Trustees who custodise clients' money must also be paid for the service.

#3 - Trustee Fee aka Custodian Fee

This is usually a small amount but nonetheless a cost. The **custodian fees** are similar between unit trust and ETF.

#4 - Switching Fee

The **switching fee** may be incurred when you switch between unit trusts. This fee may not be incurred by some companies.

For **ETFs**, take it as you sell one ETF to buy another. Either way you incur the normal brokerage charges of 0.28%.

#5 - Redemption Fee

Let's say you would want to sell your **unit trusts**, some companies charge you a redemption fee that can be as high as 5%. Some do not charge this fee so you must be very clear before you commit to any investments.

For ETFs, selling means incurring brokerage fee of 0.28%. To summarize, the ETF definitely beat unit trusts in terms of costs.

Are Unit Trusts Worth the Extra Costs?

The next question is to ask is that since unit trusts are expensive, are they worth the money? Can they deliver higher returns?

In the U.S. where financial data is very well collected, we have enough evidence that most unit trusts (or mutual funds as U.S. calls them) under-perform the benchmark they are trying to beat. You can go on to read the works of John Bogle and Burton Malkiel.

I did a short study on the **10-year performance** of the Unit Trusts that invest in Singapore, versus the STI ETF, as at **31 Dec 2016**, and the results are as follow (performance excluding costs, data from Fundsupermart):

1. Aberdeen Singapore Equity Fund: 3.5%
2. **STI ETF: 2.66%**
3. Schroder Singapore Trust: 2.58%
4. Amundi Spore Dividend Growth: 2.23%
5. Nikko AM HIF Spore Div Equity: 1.91%
6. Nikko AM Shenton Thrift: 1.77%
7. Deutsche Singapore Equity: 1.72%
8. United Singapore Growth: 0.71%
9. LionGlobal Singapore Trust: 0.6%

NOTE: the above returns **exclude** *sales charge and brokerage commissions*

STI ETF beat 7 unit trusts based on a 10-year performance.

And the difference between STI ETF and the top fund is only 0.2%.

If I were you, I would not bet my dollar on which fund will beat the STI ETF in the next 10 years because you and I both have a high degree of getting it wrong!

Performance of STI ETF

We will take SPDR STI ETF (stock code: ES3) as a reference for the long term STI ETF performance as this ETF has a longer operating history as compared to Nikko AM STI ETF.

For the period of 11 Apr 2002 to 30 Jun 2021, which is more than 13 years of history, the **SPDR STI ETF performance has provided a return of 6.38% per annum**. In other words, you would have doubled your investment every 9 years.

It is important to note that the historical performance is not indicative of future returns.

Risks of STI ETF

Investments are not without risks, this includes the STI ETF. The following spells out the risks, which may not be an exhaustive list.

Country Concentration Risk

The STI ETF only invests in Singapore listed stocks and hence it is highly sensitive to changes to Singapore's economic or political conditions.

These stocks may also lack behind stocks listed in other countries should Singapore become a less worthy investment to pursue by investors.

Volatility Risk

The price of STI ETF would swing as much as other stocks.

The degree of volatility can be extremely high during a stock market crash and an investor must be willing to accept the potential price swings that come with the investment in STI ETF.

Tracking Error

This has been discussed in the early part of this article. In general, the STI ETF may not be able to track the Index closely, and deviates in terms of the returns to investors.

Liquidity Risk

The STI ETF, if unpopular, may face thin volume and becomes harder for investors to buy or sell the units. Market makers, which are financial institutions, should create liquidity for STI ETF.

But in the absence of these market makers and low interest from retail investors, the STI ETF may become illiquid and the buy and sell price spread may expand, and deviate greatly from the Net Asset Value of the Fund.

Managerial Risk

An ETF still requires fund management, even though there is no active decision making on security selection or asset allocation.

The risk is that the fund management is fraudulent or has high degree of negligence that the Fund fails to achieve its objective that it set out in the first place.

Is It A Good Time To Buy STI ETF?

Some investors want to gauge whether the STI is overvalued or undervalued by the Index PE Ratio. ***An accepted fair value of an index is when PE is about 15.***

Any higher suggests that the market is overvalued and some investors prefer not to invest in the STI ETF or to avoid stocks in general.

While this is a way to incorporate some market timing for entry or even exits in the stock market, **it is not an accurate indication.**

It should be used as a reference, in combination with other considerations, but should never be used as a single hard rule to buy or sell stocks.

To find out the STI ETF PE Ratio, you should refer to the SPDR STI ETF website. At the time of writing (updated *Oct 2021*), **the SPDR STI ETF PE Ratio was 16.43**. The Nikko AM STI ETF does not publish their PE Ratio but it should be very similar to SPDR STI ETF.

How To Invest in the STI ETF?

You can **buy STI ETF easily with any brokerage account that gets you access to the SGX market**.

Any brokers that is a trading member of SGX will be able to deliver the STI ETF units into your Central Depository (CDP) account.

Most brokerages in Singapore charge a commission of about 0.28% with a minimum of S$25, excluding SGX fees and GST. Including the fees and GST would usually end up about S$28.

You must invest in full lot sizes and one lot is equivalent to 10 units. Assuming the price of STI ETF is $3, it would mean one lot would cost $30. On top of that, you would still have to pay S$28 commission, which is almost 100% sales charge! Too expensive!

It isn’t worthwhile to invest a small amount of money via the brokerages as your percentage cost may be too high.

The alternative is to start a monthly investment plan which we will discuss later.

Using CPF To Invest In STI ETF

You can also use your **CPF Ordinary Account to invest in STI ETF.**

It is one of the four approved ETFs that can be invested under the CPF Investment Scheme (CPFIS).

To do so, you need to apply a CPFIS scheme account with one of the local banks and link it up with your brokerage account.

The process of buying the STI ETF using CPF monies is the same as you would do with cash, just need to indicate on your brokerage platform that you are using CPF to pay for the shares.

For **CPF Ordinary Account**, you can invest **all** the amount **after the first S$20,000** into STI ETF.

CPF-SA allows investment in STI ETF. However there are no mechanisms to do so at the point of writing.

Of course, you have to understand that the STI ETF may drop in value due to price fluctuations. Hence, you must be willing to accept large drawdowns before deciding to invest in STI ETF.

Monthly Investment Plans for STI ETF

Instead of guessing whether the stock market is overvalued or undervalued, which most investors get wrong all the time, you can choose to dollar cost average the STI ETF.

This means that you set aside a fixed sum of investment capital, as little as $100 per month, you can invest in STI ETF gradually.

This is especially useful for people fresh out from school and do not have enough capital to begin investing.

When STI ETF prices drops you buy more of it, and buy less of it when it gets expensive. Overtime you would collect enough shares to make your returns meaningful.

The table below would bring you through the *comparisons of companies* that provide this monthly investment plan for STI ETF.

Features	POEMS	OCBC	POSB	Maybank Kim Eng	FSMOne
Minimum Investment Per Month	S$100	S$100	S$100	S$100	S$50
Available STI ETF	SPDR STI ETF (ES3)	Nikko AM STI ETF (G3B)	Nikko AM STI ETF (G3B)	SPDR STI ETF (ES3) and Nikko AM STI ETF (G3B)	SPDR STI ETF (ES3) and Nikko AM STI ETF (G3B)
Buying Fees	< 2 counters $6 ≥ 3 counters $10	0.3% or $5 per counter, whichever higher	1%	1% for amount less than S$1,000	0.08% or S$1 min
Dividends	Auto Reinvestment 1% charge (cap at $50)	Credit to OCBC bank account	Credit to POSB bank account	Credited to bank account	Credited to cash holdings in FSMOne
Selling Fees	Normal brokerage fee applies (0.28% to 0.5%)	0.3% or $5 per counter, whichever higher	No sales charge	Normal brokerage fee applies (0.275% to 0.5%)	Flat Rate of S$8.80

Let me bring you through the comparisons among these monthly investment plans.

Minimum Investment Per Month

All companies, except for FSMOne offer the same minimum investment of S$100 per month.

Underlying STI ETF

POEMS only offers SPDR STI ETF while OCBC and POSB offer Nikko AM STI ETF.

Maybank Kim Eng and FSMOne offers both SPDR and Nikko AM STI ETF.

Buying

POEMS charges minimum of $6 and it becomes hefty in percentage terms in you only invest S$100 per month. The charge will be 6% high! But if you invest above $600 you would enjoy economies of scale and lower your percentage cost.

OCBC is not by far cheaper at minimum of $5. And as you surpass this minimum cost with a larger investment per month, your cost can only go as low as 0.3%.

POSB charges a flat 1% regardless of investment amount and this would be the best option for a small investor.

Maybank Kim Eng charges a flat 1%, but only for amount less than S$1,000 per month.

FSMOne charges 0.08% or S$1 min.

Dividends

STI ETF historically pays out about 3% dividends per year. POEMS is the only company that automatically reinvest the dividends into STI ETF in the following month. However, you would need to invest more than $600 per month to be cost effective relative to POSB or Maybank Kim Eng.

You have learned about compounding effect is important to attain wealth.

Reinvesting dividends is one of those ways to take advantage of this effect. When you start a monthly investment plan, you aim to do it for at least 5 years.

Selling

POEMS, POSB, OCBC and Maybank Kim Eng allow you to redeem and sell part of your STI ETF holding. You need to refer to procedures prescribed by the companies as they differ.

Instead of selling the units for cash, you should be able to transfer the units to your CDP account*.

In terms of selling fees, POSB came out on top as it charges no fees. POEMS and Maybank Kim Eng, as stock brokerage firms, would charge the prevailing brokerage fees.

As you would have accumulated a substantial number of shares over the years, you should be able to avoid the minimum fees.

As such, the brokerage fee of 0.28% would be slightly cheaper than OCBC's 0.3% selling charge.

While FSMOne charges a flat fee of S$8.80, which may be expensive depending on your transaction size.

**Note: These monthly investment plans are custodised accounts. This means that POEMS, OCBC, POSB and Maybank Kim Eng will hold the shares under their companies, and not in your CDP account. You need to pay an additional fee to transfer the shares to your CDP account.*

Should You Do Dollar Cost Averaging Or Lump Sum Investing

I get this question once in a while about the best way to deploy one's investment capital into the stock market, and especially for the purpose of long term investment in an index Exchange Traded Fund like STI ETF.

Should an investor invest in one lump sum?

Or should the investor spread out the capital by investing a smaller amount on a monthly basis?

Financial advisors often touted the Dollar Cost Averaging (DCA) as a superior strategy to lump sum investment.

The reason they usually give is that the same amount of capital can buy more shares or units when the prices declined. Overtime, the average purchase price would be lower.

Is this true?

This study done by Vanguard tell us that Lump Sum Investment (LSI) is better two-thirds of the time while DCA performed better merely one-third of the time.

Sparing you from reading the whole paper, the gist of it is to tell you that

- Lump Sum Investment is better in a rising market
- Dollar Cost Averaging is better in a down trending market
- Because historically market rises most of the time and collapse infrequently, LSI fared better than DCA

The findings can be understood in an intuitive manner – think of these scenarios:

- A lump sum investment will put all the capital at work immediately and reap the potential gains
- DCA would result in buying lesser shares at higher prices as market trends up

In a downtrending market where share prices are decreasing,

- A lump sum investment will attract the biggest lost while
- DCA would continue to buy more shares at cheaper prices as market declines

Hence, it boils down to whether you are bullish or bearish about the market.

But I will advise you not to rely on your intuition because most investors cannot accurately predict the market direction.

As such, knowing this may not be helpful to investors at all.

The decision to do an LSI or DCA should not rely on the market direction, but the availability of capital.

If you are starting your career and have not much capital to begin with, one should do DCA.

It is a disciplined way of building up investment capital.

If you *have already accumulated a sizeable capital* after years of employment, you should consider LSI, this should work better for you two-thirds of the time.

A summary of the differences between Dollar Cost Averaging and Lump Sum Investing:

	Dollar Cost Averaging	Lump Sum Investing
Capital Requirement	Low	High
Time Frame	Long	Long
Timing The Market	Not Required	Required
When It Works Best?	Down Trending Market	Rising Market
Purpose of Investing	Savings with greater growth (with dividend yield)	Capital Gains (and dividend yield)

How to Secure An Even Higher Return on Investment

As mentioned above, investing in the STI ETF over the long term can allow passive investors to secure an average return of investment of about 6-8% annually.

The next question that we always get from readers who have heard of the STI ETF is: “Is it possible for me to get higher returns?”

The short answer: “Of course, but....”

Less Effort, Less Returns

As investors, we have to understand that there are no free lunches in the world.

With the STI ETF, the investing process is almost passive (except for the application or purchasing process). Your stock portfolio will be regularly monitored by SGX who decides on the constituents in the STI. And the rebalancing of your stock portfolio is done by the fund managers of the STI ETF.

Basically, you are ‘outsourcing’ all of the work required to maintain a stock portfolio that provides a positive return to SGX and the ETF fund managers.

Hence, you do not have much say in the returns of your STI ETF investments.

And many investors who like this form of passive investing method love the STI ETF for its relatively higher returns and margin of safety.

Willing to put in a little more effort in your investing for greater returns?

To secure even higher returns, an investor has to be prepared to take control over some of the investing processes.

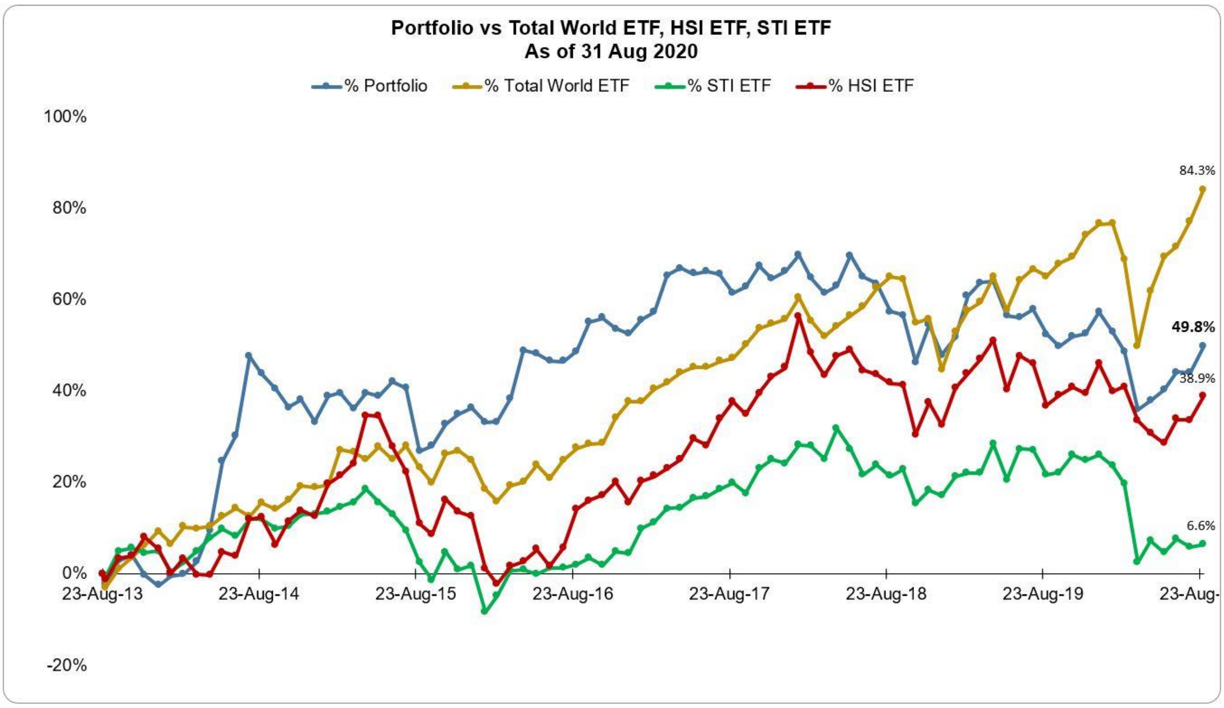
Your investing method will no longer be as passive. You will need to learn to pick stocks, check on them regularly and make decisions to balance and maintain your stock portfolio to secure your desired returns of investments.

And how much returns can you expect for you work?

Well, we'd say a 10 – 15% annual returns as a safe estimate. Suggesting any more than 15% isn't very realistic for new investors.

Introducing an Investing Strategy that works

At Dr Wealth, we use a combination of complementary strategies that allows us to secure such returns:



By tapping into specific characteristic of stocks that can't help outperforming the market, we are able to boost our returns over time.

Our investing strategies lets us **exploit proven Value, Size and Profitability factors** that gives us the ability to invest in stocks that are destined to beat the market.

Best of all, because of the ability to exploit a range of high return factors, our investing strategy has been proven to be versatile – it has worked for us and our graduates across most market conditions, regardless of geography.

This may be the one and only investing strategy you'll ever need as an investor to consistently beat the market and grow your wealth exponentially.

We reveal how our system allows us to find undervalued stocks and growth stocks in any market. It'll truly **allow small investors to level the investing game** and reap gains that are on par with the bigger players.

You can **learn it all for free** at our 2.5 hour introductory course. Check course openings here: Intelligent Investors Immersive Introductory Course

Frequently Asked Questions

Q: I'm a newbie investor with some savings, is it feasible to start investing with the STI ETF?

A: You might want to consider the monthly investment plans that are offered by the banks. I've compared your options above.

Q: Are there any benefits if we invest ourselves manually consistently every month without going through monthly investment plans?

A: Investing consistently requires a lot of discipline and emotion control. You have to remember to put in the investment every month, battle against uncertainty when you look at the market movements and may have to deal with situations where you find yourself weighing the importance of investing vs spending.

It is way easier to set up an automatic system to invest monthly.

Q: Singapore is so small, is it really worth investing in?

A: Most Singapore investors tend to invest majority of their capital in Singapore stocks. So, the STI ETF may be an option if you do not wish to pick individual stocks. Of course, it would be good if you are looking overseas to diversify your investments. There are ETFs that allow you to do that, but it is beyond the context of this guide.

Q: I've been investing in the STI ETF. And, have saved up another account of cash for investing. Should I put it into the STI ETF or are there better options for more returns?

A: The answer to your question relies on your investing style.

Would you prefer to take a hands off approach and avoid the need to analyse financial statement? If yes, you might want to make use of the STI ETF. You can also look beyond the STI ETF for diversification.

If you are looking for more returns and don't mind spending time analysing companies and calculating financial numbers, we show you how we do it via our Factor-Based Investing Guide.

What others say about us

*“I liked how they **explained all the concepts clearly**. And provided us with hands-on and real-life examples to apply and practice what we learnt.”*
LWT, Course graduate

“Through Dr Wealth, I’ve quickly acquired all the necessary investing skills that I did not possess prior to the course.”
Quek Xiao Tian, Life Planner

“I liked the case studies shared in the course, and found the instructors approachable and knowledgeable.”
Norman Lau, Sales Executive

“The courses are a great start for beginners, would recommend for complete newbies.”
Shaun Toh, Manufacturing Engineer

“Thank you for kindling in me a great passion to start investing! And for providing such a great support.”
Ethan Lim, VFX artist