Our President Nalla had written an article titled "Bring back the market's glory days" that has been published in The Edge today, 23rd Feb 2024.

It's an opportune time for the Finance Minister to take leadership to rebuild the much needed vibrancy to our Singapore stock market which has been languishing for too long a time. A vibrant stock market lends confidence to the economy and has a multiplier effect for the corporates especially for our Small & Medium Enterprises.

We'll need the various stakeholders like the Monetary Authority of Singapore, The Singapore Exchange, The Securities Association Singapore, The Society of Remisiers (Singapore) & the Securities Investors Association (Singapore) to work together to chart a mid to long term plan for our Capital Markets.

Singapore as a nation has survived & thrived against all odds and the Singapore stock market should be no different.

Let's make it happen!

Majulah Singapura.

Bring back the market's glory days

BY S NALLAKARUPPAN

The Singapore Exchange enjoyed the best market vibrancy for more than three decades in 1993 with the historic and largest IPO ever of Singapore Telecommunications (Singtel) on Nov 1 of that year.

The number of Central Depository accounts and broking accounts were opened at an unprecedented pace as every Singaporean 21 years old and above was given Singtel shares and became a stock market participant. The government's policy then was to transform Singapore from a home-owning society to a share-owning society and to let all adult Singaporeans have a share of the country's phenomenal growth in the three decades since independence.

How Singtel's share price did over the last three decades is also symptomatic of the Singapore market as a whole. Singtel ended its first trading day at more than $4. More than 30 years on, it closed at a very depressed $2.37 on Feb 7.

Did Singtel as a company worsened? Not quite. Instead, its fundamentals have vastly improved. Many analysts call for a target price of more than $3. Yet, Singtel has not crossed this level since the beginning of Covid-19 in early 2020.

The main factors contributing to this lack of price performance for Singtel and many other fundamentally sound companies is due to the severe lack of liquidity and market confidence.

I've about 30 years of stockbroking experience and the invigorating major market cycles I've experienced are close to my heart and my experience and the necessary government policy measures are honestly expressed below.

Policy changes

The Singapore stock market was already picking up pace from the beginning of 1993 after a lacklustre 1992 market. For the whole of 1993, regional markets across Southeast Asia and Hong Kong were hitting new record highs. The Straits Times Index (STI) hit a record high of 2,500 and after a good 30 years, the STI closed at 3,156 on Feb 7. Unless one accounts for dividends, this means the compounded return over 30 years is less than a meagre 1%. After taking into account inflation, it is a negative return. Of course, some components of the STI — such as the banks — have performed better but the overall performance of the market has been lacklustre.

During most of the 80s, Singapore had had one of the highest savings rates in the world whereby 50% of one's monthly earnings were diligently squirrelled into their individual CPF accounts.

As substantial amounts of the CPF funds were used to purchase homes, the government cleverly decided then to channel some of the massive CPF funds accumulated to equity investments to provide some risk diversification and boost the capital market vibrancy. In the later part of 1993, the government increased the usage of CPF funds for share investments from 40% to a substantial 80% of the Ordinary Account.

After the very successful listing of Singtel, more and more savings of Singaporeans were pumped into the Singapore market resulting in a vibrant market never experienced before. The government's policy was one of the main contributors to the stock market's unprecedented vibrancy which increased the wealth of fellow Singaporeans.

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In 1997 and 1998, we had the Asian Financial Crisis which rocked the Asian markets to the core. Also, 108 Malaysian "Clob" or "central limit order book" stocks were delisted from the Singapore Exchange (SGX) due to the Malaysian government's policy of imposing capital controls which greatly impacted the market volumes of Singapore. The trading of Malaysian stocks in SGX was very vibrant, so much so that the volumes in Singapore were way much higher than the same counters trading in the Malaysian bourse.

Some quarters in Malaysia felt that Singapore was taking away their business which eventually resulted in the delisting of the Malaysian stocks from SGX. The Malaysian government killed the goose that laid the golden eggs and now both the Malaysian and Singapore bourses are worse off. It could have been a win-win situation for both countries if an amicable solution could be found as both countries are well-intertwined by years of history and geography. Here again, government policies played a pivotal role in affecting market vibrancy, albeit on the negative side.

In 1999, due to a dearth of listed companies in the Singapore bourse coupled with the market recovery, substantial amounts of money including CPF money were pumped into the remaining listed companies in SGX. Known as Sesdaq companies then, these smaller cap companies skyrocketed to stratospheric levels within a short space of six months from March to August that year.

As with all things, when valuations got berserk, the prices of most of the smaller capitalised companies plummeted resulting in substantial losses for many investors and traders. Quite a bit of CPF funds were wiped out along the way. Such occurrences raised red flags for the government as these are critical retirement money of Singaporeans.

Following the dot-com bubble's bursting in March 2000, policymakers in the following year reined in the CPF Investment Scheme (CPFIS), allowing only 35% of the Ordinary Account balance to be used for investments after setting aside $20,000.

This drastic measure sapped tremendous liquidity from the markets. Many investors were unable to invest further into good quality companies even though they had monies in their CPF Ordinary Accounts as they had exceeded their 35% investment limits.

Yes, the CPF funds are also critical retirement money of Singaporeans but it has also become an important source of liquidity for the Singapore market. Perhaps, the CPF Investment Scheme can be relooked and the investment limits raised back to 80% of the Ordinary Account balance.

Of course, the bar for being a CPF Trustee stock needs to be raised as well. The present CPF Ordinary Account interest rate is 2.5% and to qualify for the coveted CPF Trustee stock status, the dividend yield should be set at a minimum of 3% and have a minimum of a three-year profitable track record. Being a CPF Trustee stock would benefit companies greatly in terms of better valuations and also the ease with which to raise additional capital to further their growth prospects. These are the very reasons why companies list in the first place.

More of the listed companies will vie for the coveted CPF Trustee status which will result in better returns for investors thereby greatly enhancing their retirement nest eggs. The CPF Trustee status can be reviewed yearly so that companies are motivated to pay decent returns to shareholders and continue to enjoy this coveted status.

In 2003, we encountered the bewildering Sars pandemic. Thankfully it was over in a couple of months with relatively minimal casualties and limited long-term impact on the economy.

A fantastic run then

This health and economic crisis became the start of a fantastic bull run for four years from 2003 to 2007. The STI index hit a historical high of 3,906 in October 2007. It has been more than 16 years and we've never surpassed that peak as compared to many other developed markets that have multiplied manifold.

To replace the vacuum left by the delisted 108 Malaysian companies in 1998, a deluge of China-based companies were brought here for their IPOs from 2003 to 2007. Between 2003 and 2004 alone, there were 55 so-called S-chips listed, raising many billions of dollars.

For these companies, it made sense to list far away from their home market as there was a long list of companies waiting to go IPO on the Chinese bourse which could take a couple of years. Many of the China-based IPOs listed here were flawed from the start as they were often shell companies incorporated in a tax-free or low-tax jurisdiction country while the actual operations and business were all conducted in China via their subsidiaries. Many turned out to be fraudulent and there was not much recourse whatsoever. The poor shareholders were left in the lurch to nurse their wounds quietly and many had vowed not to return to our markets as the losses were just too painful.

The confidence of investors had been shaken to the core and were at wits end to seek legal recourse as they had neither the resources nor the expertise to do so and when one fraudulent case happened one after another, our regulators realised they had limited teeth to pursue cross-border actions.

There's a laundry list of malfeasant companies that are under investigation and have been suspended for an inordinate amount of time. Till today, the poor investors are none the wiser about the state of the investigations and they've been suffering in silence. The Monetary Authority of Singapore (MAS) has a regular enforcement report where there are some brief updates regarding ongoing probes but I hope more regular updates, say, quarterly, can help investors feel more assured that they are on top of things and investor interests are well-protected.

Ombudsman office?

The government needs to seriously consider setting up an ombudsman office to hear the plight of investors who are at their wits' end and take necessary legal action against wrongdoers to recover the due money of investors. This office will be a great help to investors who have neither the resources nor expertise to undertake such a mammoth task and this office can help reinstate much-needed trust into our markets.

We had the Global Financial Crisis in 2008 and 2009. Thankfully, due to the quick action by the US Federal Reserve, other central banks and governments, massive amounts of liquidity had been pumped into the markets and economies to avert a terrible financial disaster. Global markets bottomed out in March 2009 and they have not looked back since.

For example, the S&P 500 briefly touched a low of 666 points and now after about 15 years, it is trading at 4,995 points as of Feb 7, which is a whopping 650% increase from the lows. In the case of the FTSE STI index, it hit a low of 1,505 points in March 2009 and it is now trading at 3,156 points as of Feb 7 — double from the lows. The vast difference in appreciation is mainly attributed to the lack of sufficient liquidity and confidence in our markets as compared to other developed markets.

Here again, government investment policy would play a pivotal role in bringing back the liquidity and vibrancy to our markets. Presently, about 28% of Temasek's investments are allocated to the Singapore market. Out of its total investment portfolio of $380 billion, $106 billion is invested in historical government-linked companies such as Singtel, Singapore Airlines, Keppel, Sembcorp Industries and Singapore Technologies Engineering. More could be invested here as our markets are seriously suffering from a dearth of liquidity. It is about time our government takes a keen interest in our local market and provides the necessary support just like many other countries.

We had the infamous Penny Stock Crash of October 2013 whereby the three penny stocks Blumont, Asiasons and LionGold had a colossal loss of market capitalisation of a whopping $8 billion in just a couple of days.

As a result of the fallout, sweeping regulations were proposed, such as, to reduce the board lot size from 1,000 units to 100 units. The other proposal that was quite damaging to the market was the implementation of the Minimum Trading Price (MTP) of 20 cents for mainboard-listed companies. If they fall below this level, the shares will need to be consolidated to bring up the market price to at or above the 20-cent level. The policy objective was to protect retail investors from excessive speculation of lower-priced securities which were more susceptible to market manipulation. However, this MTP policy did the reverse as the liquidity dried up, resulting in many investors losing even more money and thereby sapping the much-needed confidence in the market.

In an unprecedented move, the writer together with three other dedicated remisiers, who had in total of about 80 years of market experience, wrote a letter dated Jan 15, 2015, to the then Deputy Prime Minister and Finance Minister Tharman Shanmugaratnam on the eight issues plaguing our Singapore market and our honest recommendations to resolve these issues.

Thereafter, we had about five meetings

BLOOMBERG

STI from 1993 to 2023

with MAS and one of our key recommendations was to do away with this MTP rule as it will further sap liquidity from our market and create elephant quotes on those consolidated shares.

As of March 1, 2015, exactly one year before the MTP rule implementation, 250 out of 650 mainboard-listed stocks had market prices trading below 20 cents. On March 1, 2016, the MTP rule was implemented despite our recommendation not to do so.

Due to the MTP implementation, the market value of many of the smaller capitalised companies collapsed resulting in thousands of investors losing tonnes of money. The MTP rule was finally removed on June 1, 2020, after so much damage had been done to the confidence of our markets, especially for retail investors.

The key learning point here is that although the policy was well-intended, there must be prompt follow-up to see whether the implementation has met its objective. If the policy objective is not working as intended, quick corrective action must be undertaken and not let it fester for too long a time. The ineffective MTP rule had dragged on for too long a time which had done so much damage to the markets and undermined confidence to a drastic extent.

The other key learning point is that it would be good for policymakers to have real market experience which no textbook could substitute and take ownership and accountability of policies in a timely manner, be it good or bad.

The Singapore bourse used to have the highest trading volumes in South East Asia but in 2013, the Stock Exchange of Thailand relegated SGX to second place. To boost trading volumes, SGX launched the market maker and liquidity provider programme on June 1, 2014. About eight to ten large market-making firms participated in this programme with preferential SGX trading fees.

Here again, although the policy objective is well-intended, market participants got disillusioned over time, especially retail investors, as they felt it was no longer a level playing field. To a certain extent, the market prices were influenced by the market makers due to their sheer size which left the other smaller market participants at the losing end.

At the end of the day, the market makers are not here to do charity but to make money and with their sheer size they're able to do so. There's a fine line between market making and market manipulation. Many market participants, especially the traders, felt that it was that much more difficult to make money and left the Singapore market altogether. They have moved on to markets in the US, Hong Kong and Thailand where the markets are much more liquid and provide a much fairer level playing field. Even our own homegrown companies such as Grab Holdings and Sea have gone on to list in the US.

Even at the subdued daily trading volumes of about $1 billion at SGX, the general perception among market participants is that a substantial portion of these daily trading volumes are generated by market makers, which are seen to have the ability to influence prices.

So, the bottom line is that market makers may help to boost volumes in the short term but in the long run, they're harmful to the markets as they drive away many players in the ecosystem, resulting in a lack of depth and liquidity. This is one of the key contributing factors that has resulted in the lacklustre market we're facing right now.

Big Bang approach

To be fair to SGX, it has been trying many ways to improve the market vibrancy by introducing various products such as special purpose acquisition company (spac) listings, Thai Singapore Depository Receipts (Thai SDR), a possible cross-listing of Exchange Traded Funds (ETFs) with the Indonesian Exchange and a multitude of derivative products.

For these products to take off in any meaningful way, the underlying conditions need to be repaired first. This means liquidity and market confidence need to be restored and investors need to be assured that their interests will be well-protected. For any malfeasant listed company, the regulators will investigate promptly and render due justice to the poor investors promptly.

Now, more importantly, what do we need to do right now to revive the fortunes of the Singapore stock market? We'll need a Big Bang approach, like what we did in 1993, to list Singtel. We can consider listing some of the decent-sized government-linked companies such as PSA International, Income Insurance, NTUC Fairprice or Changi Airport Group. Give a certain stake to Singaporeans like what was done for Singtel so that Singaporeans are galvanised and feel a sense of ownership of Singapore's massive wealth build-up over the past 50-odd years.

A certain portion of Temasek and even GIC funds could be allocated to the tune of an additional $50 billion, which is less than 10% of Singapore's total market cap of $760 billion, investing in attractively-valued companies listed in SGX. It is about time our government takes a keen interest in our local market in a substantial way and provides the necessary support to boost the vibrancy which has been languishing for too long a time. In terms of fundamental parameters, the Singapore market is one of the cheapest in the world be it in terms of price-earnings multiple, dividend yield or price-to-book value. So, why not invest in our local market which makes a lot of investment sense?

One good example to study is the Japanese government's move to support the Japanese stock market. The Japanese market was languishing for many years just like Singapore as it had been regarded as an ageing society and lacked growth initiatives. The Japanese government addressed this critical issue squarely and started actively purchasing Japanese Exchange Traded Funds (ETFs) and as of June 2023, it has bought a sizeable amount of JPY37.1 trillion ($350 billion) worth of ETFs. It has done wonders for the Japanese stock market which is now one of the world's best-performing markets trading near the record highs which last seen in the late 80s.

Stock markets are good barometers and catalysts for the economy and if the stock market is vibrant, that is a confidence boost to the economy. In many of the developed countries, the government of the day is watchful of the markets and provides the necessary support from time to time.

It's about time we have various stakeholders such as the Ministry of Finance, MAS, SGX, the Securities Association of Singapore, the Society of Remisiers (Singapore) and the Securities Investors Association (Singapore) come together to chart a mid-to-long-term plan for our stock market which has been languishing for too long a time.

Singapore as a nation has survived and thrived against all odds and its stock market should be no different. Let's put our hearts and heads together with some urgency to make our dear Singapore stock market a vibrant one just like its once glory days in the 1990s! ■

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