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Nikko Asset Management

Keeping track of the STI

If you invest in stocks, you would be familiar with the FTSE Straits Times Index (STI) and the top 30 blue chip companies listed on the Singapore Exchange Ltd. (SGX), ranked by market capitalisation, that make up the STI. These 30 companies include the likes of Singapore Telecom, DBS Group Holdings and OCBC, household names that are familiar to every Singaporean. The STI is well-known and regarded as the benchmark index for the Singapore stock market.

A lesser known fact is that investors can actually participate in the performance of this index through an exchange traded fund (ETF), such as the Nikko AM Singapore STI ETF.

The STI ETF tracks the performance of the STI by investing in mostly the same stocks that make up the STI, in approximately the same weightings. It is classified as an Excluded Investment Product (EIP), which means investors need not be assessed on their investment knowledge before investing in it.

The STI ETF is traded on the SGX in lot sizes of 100 units, versus 1000 units for individual stocks, making it affordable for individual investors. With a small capital outlay, it immediately allows investors to gain exposure to a diversified portfolio of the blue chip stocks that make up the STI.

With diversification within an asset class taken care of, you may like to go one step further to ensure that you do not enter the market at the wrong time. Investing at regular intervals instead of making a huge lump-sum investment, also known as dollar cost averaging, takes away the stress of trying to time the market.

Dollar cost averaging works well for exchange traded funds such as the STI ETF due to its lower transaction fee structure. By investing at regular intervals over the long term, you can help reduce your average entry cost and minimise the impact of volatile markets.

Taking a two-year timeframe, we look at how dollar cost averaging works with the STI ETF.

With an investment of S$2,400 at the start of June 2011, you would have bought 745 units at the cost of S$3.22 per unit*. If you had decided to invest regularly instead, with S$100 per month from June 2011 to May 2013, you would have paid an average cost of S$3.05 per unit*. Your average cost is lower and you would have received 777 units in all – 37 more units than a lump sum investment would have given you.

**Units are rounded down to the nearest whole number and transaction fees are excluded from the calculation. Source: Bloomberg, as of 31 July 2013*

This is part 4 of a series brought to you by Nikko Asset Management Asia Ltd. Registration Number 198202562H

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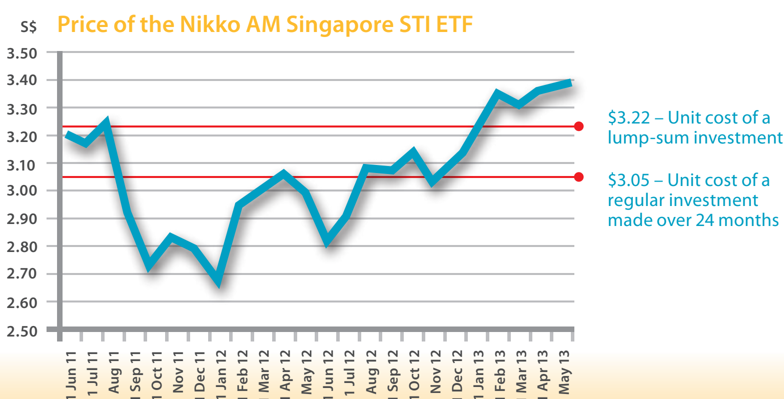

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