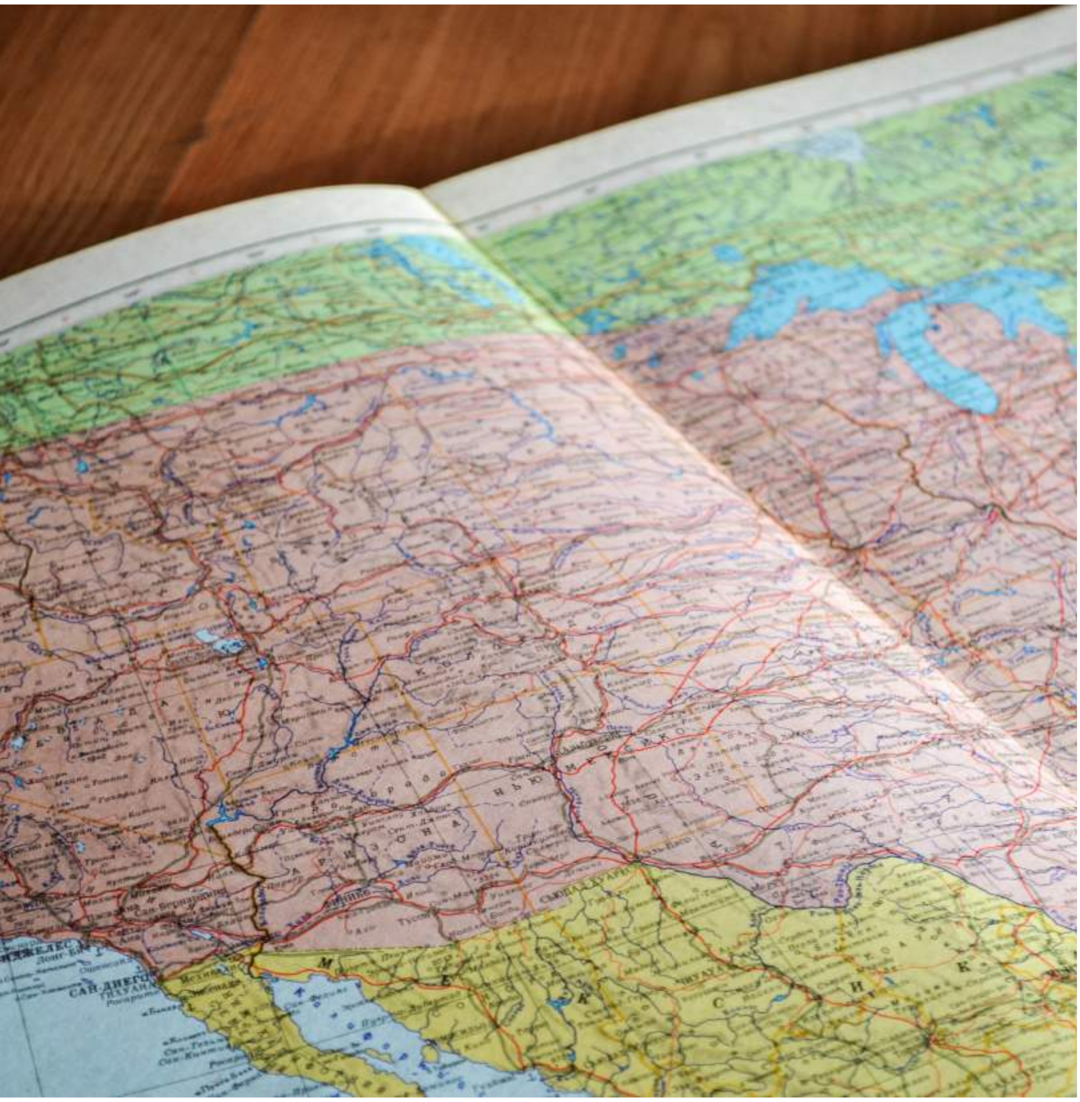
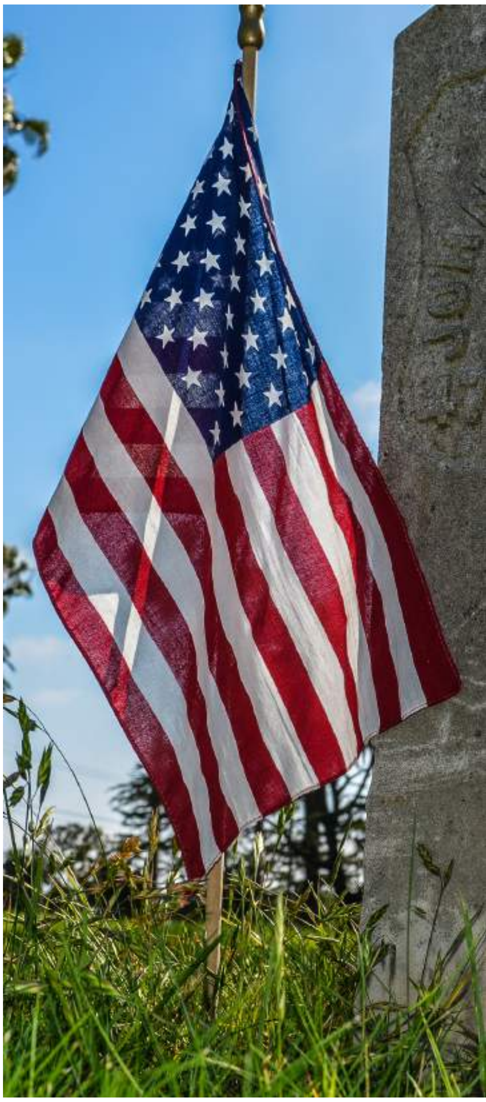
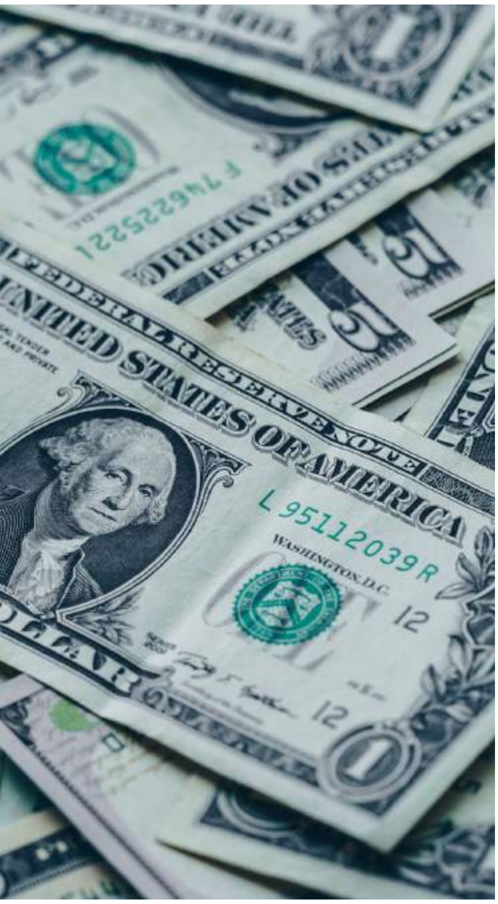
THE SMART INVESTOR

HOW TO MAKE MONEY INVESTING IN THE US STOCK MARKET





SPECIAL FREE REPORT



INTRODUCTION

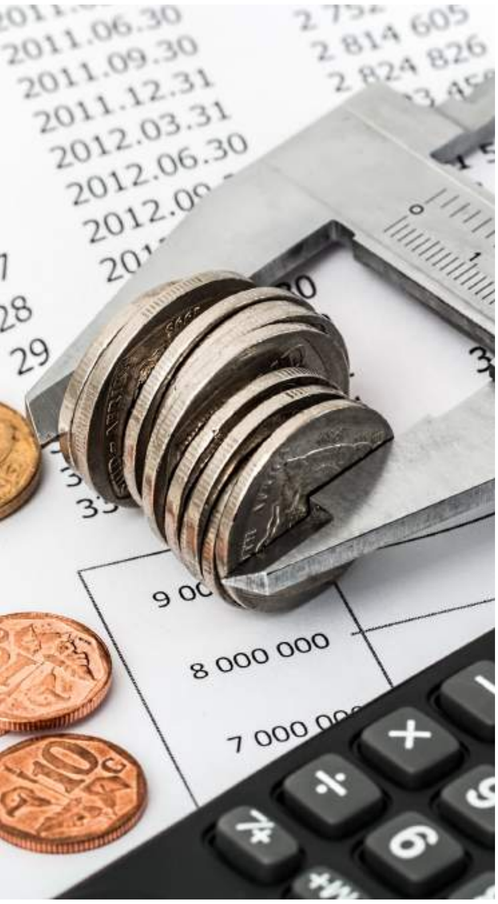
There are many reasons why people invest.

Some may invest for passive income, others are more interested in capital growth.

We are blessed because Singapore is a fertile ground for dividends due to the strong presence of real estate investment trusts (REITs), dividend-paying blue-chip companies, and tax-free dividends for individual investors.

But if investors wish to go for growth, a better destination to invest would be the US Stock Market.

Let us explain why.



PASSIVE INCOME

CAPITAL GROWTH

CHAPTER 1: WHY INVEST IN THE US MARKET?

Investing beyond Singapore's borders can help you to diversify your stock holdings.

There are many more opportunities to explore in the US market compared to our local bourse. As you may be aware, the Singapore stock market is tiny compared to other major stock markets such as Hong Kong, China and the US.

In fact, the four largest listed companies in Singapore account for nearly 40% of the Straits Times Index.

And three of them are banks!

This heavy weightage in the finance industry could land investors in hot soup should the sector fall on hard times, like what happened during the Global Financial Crisis of 2008-2009.

Investing beyond Singapore's shores does not have to feel out of place.

Most of the brands that we are familiar with have their roots in the US.

For example, this report was written on software produced by software giant **Microsoft** (NASDAQ: MSFT), with research done with the help of Google, the search engine division under **Alphabet** (NASDAQ: GOOGL).

When you want to hang out with a bunch of friends, you will probably choose the cosy ambience of a **Starbucks** (NASDAQ: SBUX) outlet.

As you check your iPhone, a product from **Apple** (NASDAQ: AAPL), for messages, you place an order at the counter and pay with either your **Visa** (NYSE: V) or **Mastercard** (NYSE: MA) credit card.

As you settle in with your drink and share stories with your friends, they will probably be posting photos, captions and updates of the gathering on **Facebook** (NASDAQ: FB) or Instagram (which is also owned by Facebook).

From the simple example above, you can see that these brands, products and services, provided by US-based companies, are very much part of your daily life.

In contrast, Singapore's stock market is heavy on sectors such as banks, telecommunication, real estate and electronics, but does not have the same wide breadth of companies that the US does.

The closest we have to a software giant is **Creative Technology** (SGX: C76), a pale shadow of Apple. There is no equivalent of Alphabet, Facebook or Visa listed locally, while the closest we have to Starbucks is our local equivalent, Toast Box under **Breadtalk Group** (SGX: CTN).

There is even a new category of technology companies that offer Software-as-a-service (SaaS) subscription models to their customers, such as **Salesforce.com** (NYSE: CRM) or **DocuSign** (NASDAQ: DOCU). This business model increases the revenue certainty for these firms and also makes its customers more "sticky" as a strong network effect kicks in.

Bottom line, by investing outside of Singapore, you can mitigate Singapore-specific risks that may threaten the health of your investments.

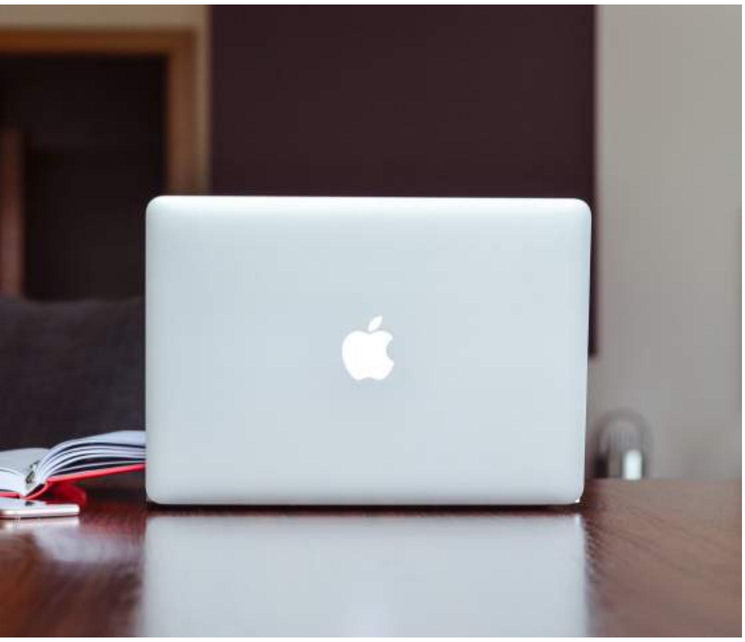
CHAPTER 2: SHOW ME THE MONEY

Aside from diversification, the US market also offers bigger returns, on average, compared to the local market.

As many US-listed companies tend to be global in nature, they enjoy a longer growth runway compared to their Singaporean counterparts.

As a long-term investor in the US market, you stand a chance to compound your wealth at double-digit annual rates if you select the right companies.

Some examples from the above list illustrate this point.



For Apple, its share price has soared from US$34.5 in April 2010 to around US$283*, an increase of 800%. This gain works out to be an annual compounded growth rate (CAGR) of 23.4%. For Starbucks, its share price has risen from US$12.50 to US$75.58* over the same period, for a six-fold increase or a CAGR of around 20%. Over the same period, Visa has seen its share price jump from US$23.50 to US$167.32, for a more than seven-fold gain or a CAGR of close to 22%. [Note: Stock prices as of 25 April 2020]

What's even more amazing is that the returns above do not take into account the dividends paid out from these companies, which would further bolster the total returns.

And like most Singapore REITs, many companies in the US have the practice of paying quarterly dividends, so investors enjoy both a healthy share price growth and rising dividends as well.

What we have named constitutes just three companies that have displayed stellar share price growth over the last decade. There are many more such companies for the picking as the US market is significantly larger than the Singapore one.

CHAPTER 3: HOW WE DID IT AT THE MOTLEY FOOL SINGAPORE

We are not strangers to the US stock market.

In fact, when we were at the Motley Fool Singapore, we ran a service known as Stock Advisor Gold (SAG) May 2016 till October 2019.

For our international stock picks, which mostly features US stocks, we scored an average return of **45.7%** against the Straits Times Index's (STI) **7.8%** return, simply by picking one stock per month for the entire duration.

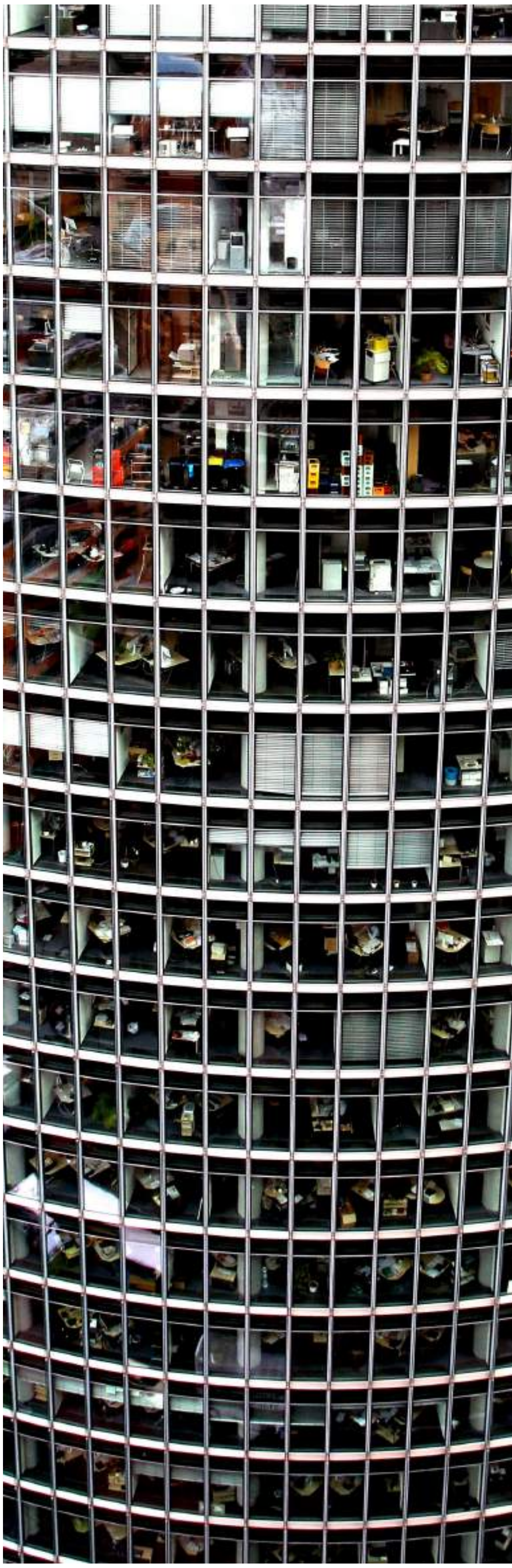
The performance was almost six times better than what the STI achieved!

In dollar terms, if you had invested S$100,000 into stocks that were recommended in the service, it would have grown to a tidy sum of S$145,700 over a three and a half year period.

Here are some of the big winners that we chose from the US:

- **Mastercard** (NYSE: MA) +194.6%
- **Veeva Systems** (NYSE: VEEV) +161.2%
- **AppFolio** (NYSE: APPF) +129.5%Apple (NASDAQ: AAPL) +128.3%
- **Intuitive Surgical** (NASDAQ: ISRG) +123.7%
- **Okta** (NASDAQ: OKTA) +117.3%
- **American Tower** (NYSE: AMT) +116.5%
- **Amazon** (NASDAQ: AMZN) +108.9%

CHAPTER 4: THE COVID-19 PANDEMIC



Let's address the elephant in the room.

You may have serious concerns about the current COVID-19 pandemic and how it is going to adversely impact the economy and businesses.

With lockdowns, border closures and restricted movement across many countries, supply chains have been disrupted and many businesses have been temporarily shuttered.

However, we believe that there has never been a better time to invest.

First off, stronger companies typically have a track record of surviving multiple crises and have a sturdy enough balance sheet that should weather the current one.

Secondly, the crisis has brought down the valuations of most US companies to more palatable levels. For the long-term investor, the recent market crash has opened up juicy opportunities to own many great companies at significantly marked-down prices as compared to half a year ago.

To be sure, revenue, earnings and cash flow could suffer in the short-term.

However,we believe that companies that have the right mix of a strong moat, quality management and strong financials will be able to emerge even stronger than before. This pandemic presents an opportunity to scoop up shares more cheaply.

CHAPTER 5: 3 STOCKS YOU CAN BUY

Starbucks (NASDAQ: SBUX)

Starbucks is a familiar name with its recognisable logo seen in cafes within numerous malls around Singapore.

Coffee culture has taken strong root in Singapore and many enjoy the ambience offered by Starbucks' cafes while sipping a hot cup of coffee.

The business itself has grown steadily over the years. Revenue grew from US$19.2 billion in the fiscal year 2015 (note that Starbucks has a September 30 fiscal year-end) to US$26.5 billion in the fiscal year 2019.

Net profit jumped from US$2.75 billion to US$3.6 billion over five years, and dividends per share from US$0.68 to US$1.49 over the same period.

In its first-quarter fiscal year 2020 report, Starbucks announced that comparable store sales were up 5% globally, led by both China and the US. Active Starbucks Rewards Membership in the US grew 16% year on year to 18.9 million.

However, the impact of COVID-19 has hit Starbucks hard. The company had to shut most of its China stores in late-January, and only opened them by late March.

By late March, only around 44% of US company-operated stores were in operation, under modified store hours and with only the drive-thru channel still active.

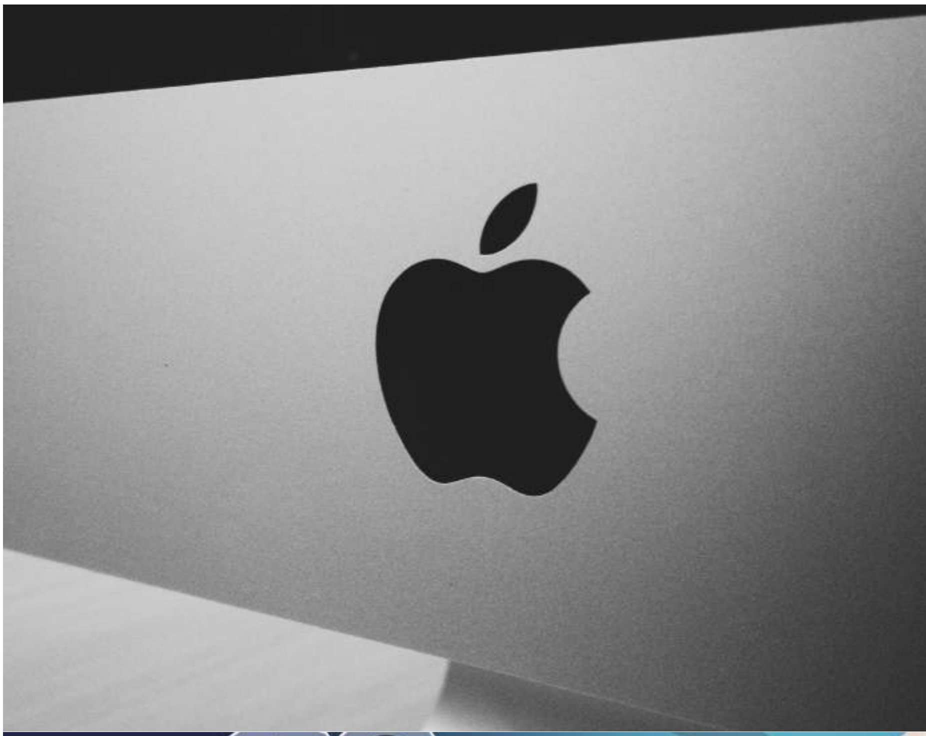
The adverse impact is expected to be temporary, though. Starbucks shares are down 18% year to date, closing at US$72.

Apple (NASDAQ: AAPL)

Widely acknowledged as the pioneer in the smartphone industry, Apple needs no further introduction.

What's amazing is how the company has managed to come up with a new iPhone iteration every single year and record healthy sales.

Aside from its iconic iPhone, Apple has also come up with the iPad, Apple Watch and a range of accessories and services.



The iPhone still makes up more than half of total revenue, but the wearables and services divisions have been increasing its contribution to the total, now making up 11% and 13.8% of total revenue for the first quarter of the fiscal year 2020.

The company's market capitalisation has doubled in the last five years and is now worth more than a trillion US dollars..

Apple's innovative culture and intensive research and development efforts still manage to yield new and refreshing products to excite its customers.

These attributes should help to power the company's business over the long-term.

Facebook (NASDAQ: FB)

Social media usage has grown tremendously over the last decade, powered by the proliferation of smartphones.

The giant in this space is no other than Facebook, which also owns chat program WhatsApp and photo and video-sharing social networking service Instagram.

The company reported total revenue of US$70.7 billion for the fiscal year 2019, up 27% from a year ago.

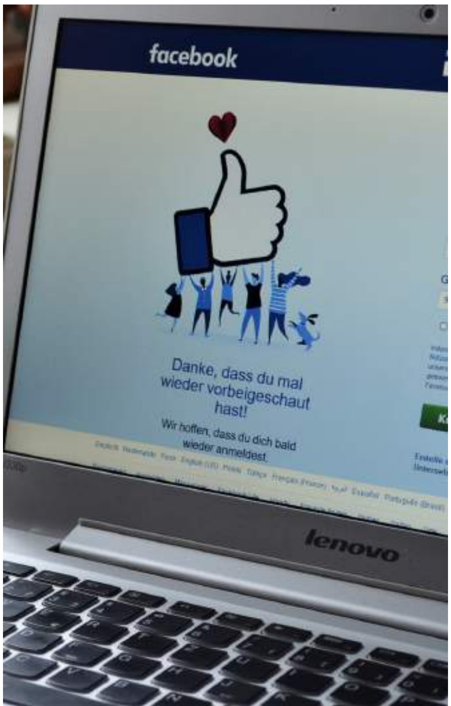
Net profit, however, dipped by 16% year on year to US$18.5 billion mainly due to higher legal fees and settlements.

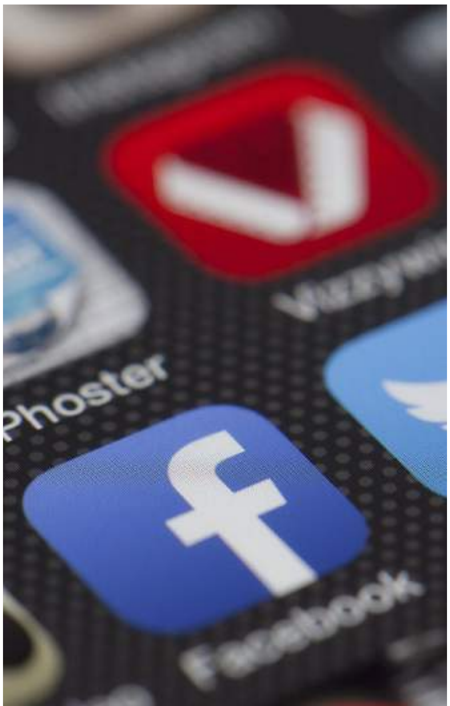
Daily and monthly active users (DAU and MAU), two metrics that measure user engagement across Facebook's platform, continued to grow.

DAU rose by 8.8% year on year to 1.66 billion users, while MAU increased by 7.7% year on year to 2.5 billion users.

The constant user engagement allows Facebook to continue to earn significant sums of money from advertising, which is its main source of revenue.

Facebook's share price has doubled over the last five years, and the company is now worth almost half a trillion US dollars.

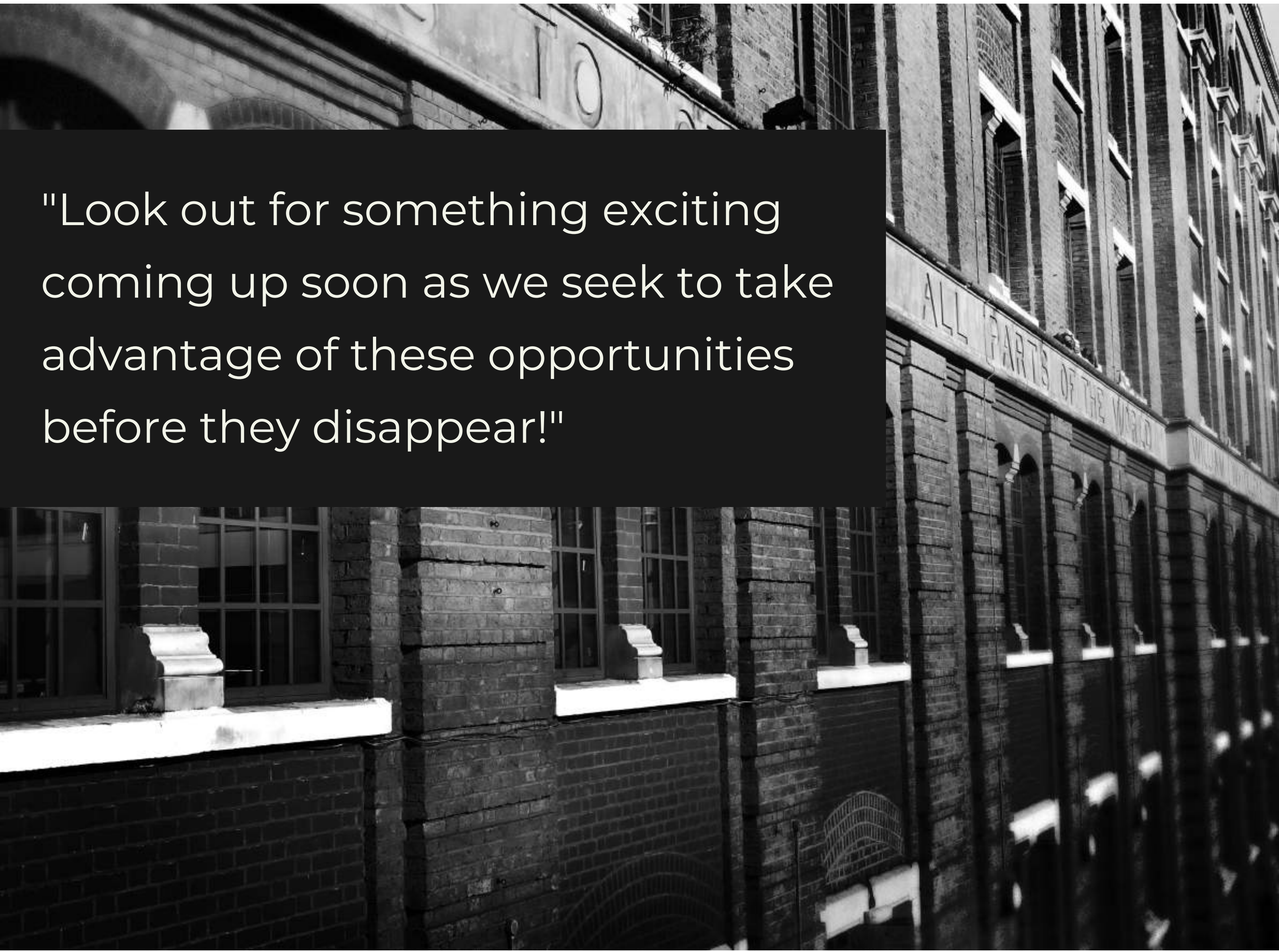




GET SMART: A RARE WINDOW OF OPPORTUNITY

Every company is affected by the global downturn caused by the Covid19 pandemic. The key for investors to build a strong, profitable portfolio is to identify companies that can move swiftly to position themselves for success when things get better.

For us at The Smart Investor, we are excited by the opportunities being thrown up in the US market. The sharp and swift market decline has opened a rare window for investing in some of the world's greatest companies.



"Look out for something exciting coming up soon as we seek to take advantage of these opportunities before they disappear!"