Successful Investing in Asia & Australasia

Everything UK investors need to know about investing in Asian stock markets.

Stockopedia

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Introduction

In the minds of many investors, the familiarity of home stock markets makes it easy to overlook opportunities further afield. Yet this risks ignoring the advice of some of the world's most successful investors - namely, that in the search for strong, stable investment returns, you have to be prepared to look everywhere.

In the words of Sir John Templeton, who was a famous advocate of taking an international approach to investing: "To avoid having all your eggs in the wrong basket at the wrong time, every investor should diversify. If you search worldwide, you will find more and better bargains than by studying only one nation. You will also gain diversification."

In the space of just a few decades, increasingly integrated economies, markets and cultures have transformed the international investment landscape. Instant communications, 24 hour news media and improving access to developed and emerging market exchanges means that investors really do have a global opportunity set on their doorstep.

As east meets west in an increasingly connected world, cultural understanding has improved and investment flows have followed. There simply hasn't been an easier time to look beyond borders for world-beating investment opportunities.

Stockopedia.com's market coverage now extends to Australasia & New Zealand, India and Developed Asia, including Japan, Singapore, Hong Kong, Taiwan and South Korea. Investors can for the first time research the huge breadth of international opportunities from the comfort of a quality research platform.

To help investors get started in Asia-Pacific stocks we've put together this guide, which explains:

- Why international markets are an exciting hunting ground for stock market investors;
- Individual country guides across Asia-Pacific;
- A guide to fees and forex when investing using your ISA, SIPP or brokerage account;
- A guide to choosing a broker;
- Helpful links to content sites and resources to get you started.

The launch of our International Editions are a huge achievement for Stockopedia - a British born company that's going global. We hope you'll join us on our journey.

Why you should invest abroad

Harry Markowitz, a pioneer of modern portfolio theory, once described diversification as the only free lunch in finance. To understand why this advice is so important, you need only look to the recent past. In 2008, markets around the world crashed as the financial crisis took hold. Turmoil that unfolded in the United States quickly spread to other countries, leaving very few equity markets untouched.

Crucially, the economies that suffered most during the crisis were those with the highest levels of government debt and the largest budget deficits. They were predominantly the economies of the west, with the US and Europe suffering most.

By contrast, the economic damage in parts of Asia, India and particularly Australia, was not as extreme. Many of these economies had been growing right up until the crisis, and when it came many were generally better prepared to deal with a period of global uncertainty and slower growth.

On one hand, the economic crisis offered a stark reminder of the truly global nature of financial markets and how a disaster in one part of the world can cause a loss of confidence in another. But it also shone a light on the dynamism and resilience of economies and markets in the Asia-Pacific region, where growth and development continue apace.

From a broader perspective, studies of international diversification have shown it to be a genuinely effective way for investors to protect themselves. It was a notable finding of award winning research by a team led by Cliff Asness at US hedge fund AQR Capital. Their work has found that, over the long term, markets don't tend to crash at the same time. As a result, diversification does protect investors against the adverse effects of holding concentrated positions in countries with poor long-term economic performance.

For UK investors, the case for looking abroad is arguably even stronger. Many believe that exposure to UK large cap stocks offers natural diversification. That's because many FTSE 100 shares have substantial international sales exposure. Yet research shows that the diversification benefits of reduced risk and improved returns are muted because many UK large caps are bunched together in similar sectors. Work by MSCI Barra after the financial crisis showed that the diversification effects gradually increased for a UK investor, starting with a UK large cap allocation, and then adding UK small caps, Developed Market equities, Emerging Market equities, and Frontier Market equities.

But while the evidence is stacked in favour of international diversification, the fact is that many investors fail to heed it. According to fund giant Vanguard, equities outside the UK account for more than 90% of the global market capitalisation. Yet, according to the most recent survey from the International Monetary Fund, UK investors only allocate around 50% of their total equity allocation to foreign markets.

5 key reasons to invest in Asia-Pacific

1. It's one of the fastest growing regions in the world

Asia is one of the most dynamic and fastest-growing economic regions in the world. It's home to three-fifths of the world's population, where disposable income is generally rising. It hosts an attractive and diverse combination of developed and emerging market territories, all on the doorstep of China, where economic growth is forecast to continue at well above the global average. Lord O'Neill, the former chief economist at Goldman Sachs, predicts that China will become the world's largest economy in around thirty years, while India could overtake Germany in as little as ten years. Singapore, Hong Kong, Taiwan, Japan and South Korea all lie at the heart of developed Asia and are well placed to take advantage of economic growth in the region.

2. It has economic and political stability

In the aftermath of the Asian financial crisis, the region has enjoyed a prolonged period of political stability during which governments have concentrated on building financial resilience. This has proved a catalyst for improved investment flows and boosted the attractiveness to foreign investors. Among the points of progress have been the replacement of currency pegging with more flexible foreign exchange structures and a transition away from an exportled growth model to economies that are much more self-sufficient.

3. It has a large, liquid and growing equity market

In 2015, the value of global share trading topped US$ 114 trillion. Of that, Asia-Pacific markets accounted for US$ 54 trillion - a rise of 127% on 2014. According to the World Federation of Exchanges, the region saw a 94% annual rise in the number of trades to 15.5 billion. The capitalisation of all global exchanges was US$ 67 trillion in 2015, with Asia-Pacific's market cap accounting for US$ 23 trillion.

4. It is home to some of the world's most exciting companies

With 25,400 companies quoted across the region, Asia-Pacific offers unprecedented access to some of the world's biggest and best known companies and a vast number of fast growth firms across a range of sectors.

5. It's a strong, long-term source of dividend payments

According to Schroders, dividend returns in Asia are highly-correlated to economic growth and account for over three-fifths of long-run equity returns. But in an era of low debt, stronger balance sheets and, crucially, a shift in corporate attitudes in favour of stakeholder returns, dividends could be an increasingly important feature in Asian equities. Around 95 percent of the companies that make up the MSCI Asia Pacific ex-Japan index, pay a dividend.

The problem with funds

One of the most obvious ways of investing in foreign markets its to consider buying actively-managed fund. However, as Terry Smith, the founder of UK fund management firm FundSmith, points out: "Active Emerging Markets funds have been about as successful as most active fund management – in other words not very successful at all."

An alternative approach could be to buy an index fund, or ETF, which are designed to track indices of Asian and emerging market stocks. However, despite rapid growth in Asia, some emerging market indices have actually underperformed their counterparts in developed economies. For instance, the MSCI Emerging Markets Index return of 69.0% in sterling over the past five years compares with a total 123.5% return on the S&P 500.

The reason for this, according to Smith, is that indices are not always weighted towards companies that are exposed to economic growth. He points out that 'the top ten companies in the MSCI Emerging Markets Index are all in the banking, energy, technology and telecoms sectors'. By contrast, companies that are best placed to take advantage of economic expansion are usually consumer goods stocks - companies which, Smith says, "make their money by a large number of everyday, repeat, relatively predictable transactions" and could grow as a result of the rise in incomes in those countries.

Getting started in Asia-Pacific shares

When it comes to buying foreign shares, the evidence paints a rather bleak picture for investors. On one hand, it is clear that introducing foreign stocks to a portfolio can reduce risk and improve returns by creating a broader exposure to pockets of value, growth engines and dividends around the world. But a lack of familiarity with foreign markets combined with the underwhelming performance of some Asia-Pacific funds acts as a deterrent. But the problems do not end there.

Until recently, the availability of quality financial data and analysis for individual share research was a huge problem. A recent survey by Stockopedia asked investors what stopped them from investing more in foreign stocks:

- 35% of respondents said they were put off by a lack of data and tools.
- 28% said there was a lack of news and views about foreign shares and markets.

We have solved this challenge by extending Stockopediaâ€™s international coverage to Asian and Australasian markets. Investors can for the first time research opportunities in Asia Pacific from the comfort of a home grown quality research platform. It includes fundamental data on:

- 3738 Japanese shares
- 1761 Hong Kong shares
- 742 Singapore shares
- 782 South Korean shares
- 876 Taiwan shares
- 2013 Australian shares
- 146 New Zealand shares
- 4086 Indian shares

To learn more about these individual markets the following section includes a country-by-country guide to help you get started.

Investing in Australia & New Zealand

In the summer of 2015 Warren Buffett, one of the world's most successful investors, announced that his Berkshire Hathaway conglomerate would begin targeting investment opportunities in in Australia and New Zealand. The Oracle of Omaha has already announced plans to build up an equity stake in Insurance Australia Group. It was a ringing endorsement of the investment potential of a region that lies some 9,000 miles from Buffett's Omaha headquarters: "Better late than never and better the best than never. So here we are in Australia and I'm delighted."

Why invest in Australia?

Australia is known as the 'lucky country' and is fortunate to be both rich in natural resources and have political and legal frameworks that are conducive to economic growth.

Commodities such as coal, iron and natural gas have attracted a steady stream of foreign investment to Australia since the middle of the 19th century. More recently, between 1992 and 2007 demand for natural resources, particularly from emerging economies, helped Australia's economy grow at around 3.6% per year, well above the OECD average rate of 2.5%.

These growth rates were also supported by Australia's political and legal systems. The Australian Securities & Investments Commission regulates the securities industry, while the Reserve Bank of Australia helps coordinate the country's monetary policies. These institutions have worked to promote an environment where businesses can thrive and investors can feel safe. According to the World Bank[1], Australia ranks 10th in the world when it comes to ease of doing business - just two places behind the UK. The World Bank also ranks Australia as the fastest place in the world to start a business, with regulatory procedures taking just two days, compared to OECD[2] average of 15 days.

Crucially, Australia has been a relatively safe investment haven during the most challenging market crises of recent decades. We can see from the chart below that during the dotcom crash (2000 through to 2002) Australia's ASX 200 suffered less than the FTSE 100 and the S&P 500. The ASX

[1] http://www.worldbank.org/

[2] http://www.oecd.org/unitedkingdom/

200 then went on to generate higher returns during the bull market leading up to 2008.

In terms of sector diversification, Australia also has some major advantages. The ASX 200 is generally more exposed to the financial and materials sectors. We can also see that IT stocks constitute less than 1% of the ASX 200, compared to nearly 20% of the S&P 500. This helps to explain why the Australian market performed better than the US when the dotcom bubble burst.

Major Australian exchanges

The two main exchanges in Australia are the **Australian Securities Exchange (ASX)** and the **National Stock Exchange of Australia (NSX)**.

Australian Securities Exchange (ASX)

The ASX is the 8th largest equity market in the world by market capitalisation. Over 2,000 companies are listed on the exchange, including **Woolworths Limited**, Australia's largest food retailer, **Coca-Cola Amatil**, one of the world's five major Coca-Cola bottlers, as well as Australia's mining giants - two of which, **BHP Billiton** and **Rio Tinto**, are very familiar to UK investors.

Investors can take comfort from the fact that companies wanting to list on the ASX must meet minimum admission criteria relating to structure, size and number of shareholders. * Companies must trade at a minimum price of $0.20c. * The ASX requires companies to have generated $1 million net profit over the past 3 years, plus $400,000 net profit over last 12 months. * If companies cannot meet this criteria, then they must have $3 million in terms of Net Tangible Assets, or a $10 million market capitalisation. * Full listing requirements are clearly outlined on the ASX website[3].

In terms of trading hours, the ASX has pre-market session from **7:00am to 10:00am** (Sydney time) while normal trading takes place from from **10:00am to 4:00pm** (see here[4]).

National Stock Exchange of Australia (NSX)

The National Stock Exchange of Australia (NSX) is the second largest stock exchange in Australia. It is a much smaller exchange with over a hundred listed securities and

[3] http://www.asx.com.au/listings/listing-capital-raising/listing-requirements.htm

[4] http://www.asx.com.au/about/trading-hours.htm

a combined market capitalisation in excess of $4.0 billion. The NSX tries to cater for less established companies and the listing requirements are less strict than the ASX. The NSX has no minimum price rule. The asset test only requires companies to have a $5 million minimum market cap (vs. $10 million on the ASX). The profitability test only requires companies to have a 'two-year adequate track record', or the IPO must be 'underwritten by an approved underwriter'. Other key differences in listing criteria can be found on the NSX website.

Major Australian indices

ASX Benchmarks

Many investors like to assess their own performance by comparing portfolio returns against a market benchmark. UK investors usually compare their portfolio against the one of the well known FTSE indices (like the FTSE 100). The main benchmark in Australia is the **S&P/ASX 200**, which measures the performance of the 200 largest stocks on the ASX by market capitalisation. The index covers approximately 80% of Australian equity market but is highly exposed to the country's financial sector (see above). The four largest companies are all banks and constitute 27% of the index's market capitalisation (see here[5]). Australia's

[5]http://www.asx200list.com/

mining giants, including BHP Billiton and Rio Tinto, are also part of this index, taking up 5.4% and 1.5% of the index's weighting respectively.

An alternative benchmarking option is the **S&P/ASX 300**, which includes up to 300 of Australia's largest companies by market capitalisation. 'Narrower' indices include the **S&P/ASX 20** and the **S&P/ASX 50**. These comprise of the largest 20 and 50 companies by market cap respectively.

ASX Sector Indices

Investors interested in a particular sector or industry can gauge whether they are beating the market by comparing their performance against one of the ASX sector indices. These indices group companies according to their business activity. For example, the **S&P/ASX 200 Energy Index** comprises companies that operate in the oil and gas sector, while the **S&P/ASX 200 Health Care Index** encompasses companies that manufacture health care equipment and supplies or provide health care related services.

Strategy Indices

In addition to sector indices, investors in Australia can also benchmark their performance against ASX strategy indices, which have been designed to track the performance of a particular investment strategy. For example, the **ASX Dividend Opportunities Index** offers exposure to 50 high yielding common stocks from the Australian equity market.

When do Australian companies file financial reports?

The Australian Securities Exchange requires companies to file financial reports on a half yearly and annual basis (see here). Certain companies with no track record of revenue or profit must also prepare and file quarterly cash flow statements. In addition, mining and oil & gas exploration companies file quarterly reports on activities including changes in tenement interests, issued and quoted securities.

In terms of regulatory news, investors can use the ASX company directory to follow events in Australia. It is possibleto pull up a list of company announcements simply by clicking on a company's ASX code (see image below).

Alternatively, it's possible to search for company specific news by using ASX website's search engine (see here). The ASX website also enables investors to filter company announcements to hone in on 'Financial & Periodic Reports' as well as the 'Chairman's Address', 'Price sensitive' information, and other useful reports.

Company name	ASX code	GICS industry group
A-CAP RESOURCES LIMITED	ACB	Energy
A1 CONSOLIDATED GOLD LIMITED	AYC	Materials
A1 INVESTMENTS & RESOURCES LTD	AYI	Diversified Financials
AAT CORPORATION LIMITED	AAT	Technology Hardware & Equipment

Tax on Australian shares

Capital gains tax: In many cases non-residents will not need to pay capital gains tax in Australia. Non-residents may be subject to Australian capital gains tax (CGT) on assets that are classified as 'Australian taxable property' - essentially real property, or indirect investments in real property. Under Australia's CGT regime, equity investments are treated as indirect investments in property if:

- More than 50% of the company's assets are real property; and
- The investor owns more than 10% of the company.

Investors may need to pay capital gains tax in Australia if both of these conditions are met. For example, investors could disregard CGT if they invest in 2% of a company that has 60% of its assets in property.

UK investors will be glad to know that no stamp duty is payable on share transactions throughout Australia. That is not to say that Australia is a tax haven. Investors will still be subject to UK Capital Gains Tax when they sell Australian shares. The only way to shelter from UK CGT is to invest in a tax-efficient wrapper - either an ISA (individual savings account) or a SIPP (self invested personal pension).

Dividends: The dividends paid by Australian companies can be ‘franked’ or ‘unfranked’.

- Australia operates a dividend ‘imputation’ system which enables shareholders to receive ‘franking credits’ when corporate tax is paid by the companies they invest in. Dividends with franking credits are exempt from withholding tax when paid to foreign residents. A withholding tax is essentially a tax deducted at source when income is paid out to foreign investors.
- Unfranked dividends paid by an Australian company to foreign residents are subject to withholding tax. This would usually be 30%, but the UK has signed a tax treaty with Australia which reduces the rate of withholding tax to 15%.

Investors should of course do their own research and seek the appropriate professional advice. These resources are a useful starting point:

- HMRC Double Taxation Relief Manual
- Australian Taxation Office Website

Why invest in New Zealand?

At a distance of around 1,300 miles, New Zealand's nearest neighbour is Australia, yet its biggest trading partner is China. New Zealand is ideally located between Asia and South America to take advantage of growth in emerging markets, where demand for consumer goods is accelerating rapidly. This is particularly exciting for New Zealand given that the country's temperate climate, high rainfall, clean waters and fertile land make it an ideal location for producing quality food and beverages. Indeed, one third of global trade in dairy products is generated by New Zealand. According to the country's government website, there are nearly 4000 food and beverage firms in New Zealand. Amongst those that are publicly listed are the **A2 Milk Company**, **Cooks Global Foods** and the **Fonterra Co-operative Group**.

Emerging oil and gas industry

New Zealand is also a fast-emerging oil and gas producer, with large under-explored basins in the Taranaki, West Coast and Southland regions. Between 2002 and 2013, petroleum and mineral exports grew at a computed annual rate of 10.5% per annum. There are currently 890 petroleum and mineral firms in New Zealand. Publicly listed firms include **New Zealand Oil & Gas Limited**.

Major New Zealand exchanges

The main stock exchange in New Zealand is the New Zealand Exchange (NZX) - this in turn is split between the NZX Main Board, the NZAX and NXT growth markets and NZDX debt market. As of November 2015[6], 285 securities trade across the exchanges, of which 171 are equities with a total market capitalisation of NZ $106.6bn (or £47.4bn). To list on the New Zealand Exchange main board, a companies are expected to have an overall market capitalisation exceeding $5m. However, unlike other major exchanges, there is no trading history requirement for listing on the NZX.

It's worth knowing that daily trading on the New Zealand Exchange can begin slowly and accelerate through the day. The reason for this is that Australian investors only become active when their market opens at 10.00am (12.00pm New Zealand time), while Asian investors become active later in the afternoon.

Major New Zealand indicies

The main stock index in New Zealand is the **S&P/NZX 50**, which is a market cap weighted index designed to measure the performance of the 50 largest stocks on the New Zealand Exchange. It covers around 90% of New

[6] https://nzx.com/files/attachments/226186.pdf

Zealand equity market capitalisation. **S&P/NZX ALL INDEX** is considered to be the total market indicator for the New Zealand equity market. It comprises of all eligible securities quoted on the exchange. Investors wanting to track a smaller number of shares may be interested in either the **S&P/NZX 10** or the **S&P/NZX 15**, which respectively measure the performance of the largest 10 and 15 companies within the **S&P/NZX 50**.

Tax on New Zealand shares

Dividends paid to non-resident shareholders are typically subject to the deduction at source of a 30% withholding tax. This rate usually reduces to 15% where a double tax agreement has been signed between New Zealand and the shareholder's country of residence. Such an agreement has been signed with the UK, as you can see here.

Non-residents would not normally need to pay taxation on the sale of shares. New Zealand does not have a formal capital gains tax regime. Furthermore, gains derived by non-residents from the sale of shares in New Zealand companies are not normally subject to income taxation. Investors would of course still need to pay tax to HMRC, unless they invested using an ISA or SIPP.

Investing in Hong Kong

Many politicians thought that Britain got a poor deal when Hong Kong became a British colony in 1841. The Prime Minister at the time, Lord Palmerston declared that the tiny island was *”a barren rock. It will never be a mart for trade.”* This is ironic given that Palmerston’s ‘barren rock’ is now an international financial powerhouse and home to the seventh largest stock exchange in the world. Hong Kong has become a dynamic metropolis and an important gateway to eastern markets, particularly China.

Why invest in Hong Kong?

Hong Kong has always benefited from being strategically located close to the dynamic growth economies of the Far East. The island has long served as a bridge between China and the rest of the world, conveying trade and investment both ways. Furthermore, Hong Kong provides exposure to China because many companies that are based in mainland China trade on the Hong Kong Stock Exchange. Examples include China Mobile, which has the world's largest subscription base (over 800m subscribers) and controls over 70% of the Chinese mobile services market. PetroChina, China's biggest oil producer, is also listed in Hong Kong. Between 2002 and 2007, Warren Buffett achieved a total return of 720% after buying 1.3% of this company!

Open Market Economy

For decades Hong Kong has served as a capitalist outpost in the Far East. Back in 1977 the *The Economist* wrote that "a businessman setting up shop in Hong Kong finds low taxes, no foolish government interferences… a government leaning over to encourage him to make as much money as he can." Hong Kong is now technically part of a communist country, China, but it has retained an open market economy since the British hand over in 1997. It operates a 'one country, two systems' regime whereby the island retains a capitalist structure and manages its own taxes and currency. Regulations have been introduced since 1997, but the Index of Economic Freedom - which measures restrictions on business and investment - has ranked Hong Kong amongst the freest countries in the world every year since 1995.

Major Hong Kong exchanges

The Hong Kong Stock Exchange (SEHK) is the country's main exchange. It is the third largest exchange in Asia after the Tokyo Stock Exchange and the Shanghai Stock Exchange, with around 1,800 listed companies and a total market cap of HK$30.55 trillion (US$3.94 trillion). The exchange is home to some of the largest companies in the world. For example Sun Hung Kai Properties is among the biggest real estate development companies in Asia, whose notable buildings include the International Commerce Centre (ICC), currently the tallest building in Hong Kong and the world's fourth tallest building by number of floors. The Lenovo Group, the largest personal computer vendor by unit sales in the world, also trades in Hong Kong.

In 2010 15% of the market capitalisation of the SEHK was owned by Li Ka Shing (above) - the chairman of CK Hutchison Holdings. According to Forbes, Shing is currently the eighth richest man in the world with a net worth of $31bn. CK Hutchison Holdings' origins can be traced to the 1950s when the company manufactured G.I. Joe action figures for Hasbro. It is now a multinational conglomerate that operates across several industries, including telecoms, infrastructure and energy.

1,600 companies are listed on the Main Board and just over 200 trade on the Growth Enterprise Market (GEM). The GEM is a market intended for growth companies from all industries and sizes, while companies that list on the Main Board are generally more established and profitable. It is tougher to list on the Main Board. A company must have a Market Cap of at least HK$200m, while GEM companies only need to have a market cap over HK$100m. Companies on the Main Board must also have a stronger record of profitability, having generated at least HK$50m in the last three financial years, while GEM companies on the other hand must have generated a positive cashflow from operating activities of at least HK$20m during the two financial years preceding their IPO. 920 companies listed in Hong Kong are classified as 'Mainland Enterprises'. These can be divided into subgroups, namely H Shares, which are incorporated in China are trade in Hong Kong, and Red Chips, which are Chinese companies incorporated outside of China itself but are nevertheless listed in Hong Kong.

Major Hong Kong indices

The main stock index in Hong Kong is the Hang Seng Index. This is a market cap-weighted index of 40 of the largest companies that trade on the Hong Kong Stock Exchange, representing around 65% of the total market capitalisation. We can see from the chart below that the index is heavily weighted towards financials, construction and IT companies. Over half the companies are based in China (ie. they are either 'H Shares', 'Red Chip' or 'Other Mainland' companies).

The Hang Seng Index (HSCI) is sub-divided into three indexes based on the sizes of the constituents: the Hang Seng LargeCap Index (HSLI), Hang Seng MidCap Index (HSMI) and Hang Seng SmallCap Index (HSSI) cover the top 80%, the next 15% and the remaining 5% respectively of the total market capitalisation of the HSCI. Investors interested in Chinese stocks may want to check out the Hang Seng Mainland 100, which comprises the 100 largest Hong Kong-listed Mainland companies (inc. H Shares, Red Chips and other Hong Kong-listed Mainland companies). Many analysts use this index as a benchmark to track the Mainland sector of the SEHK.

Tax on Hong Kong shares

Hong Kong is a low taxation country when it comes to investing in shares. No withholding tax is imposed on dividends paid by Hong Kong companies to foreign recipients. Furthermore, profits on disposal of a Hong Kong share by its foreign investor is exempt from corporation tax and capital gains tax. That being said, UK investors will still need to pay tax to HMRC unless shares were bought and traded using a tax-wrapper account (such as an ISA or SIPP). Furthermore, while taxation is generally low in Hong Kong, investors do need to pay stamp duty. Stamp duty on the transfer of shares is 0.2% (payable equally by seller and buyer i.e. 0.1% each) on the market value of the trade.

Investing in India

Economists are in broad agreement that the relentless pace of growth in India will see the country's economy become of the largest in the world in the coming decades. In his excellent book, The Growth Map[7], former Goldman Sachs chief economist Lord O'Neill[8], wrote that "India could overtake Japan in the next 20-30 years to become the third largest economy in the world".

India's rapid ascendency has lead many to draw comparisons with China. In fact, some suggest that India will ultimately grow faster than China to eventually become the largest economy in the world. In some respects it's difficult to imagine a former 'third world' country becoming a major economic powerhouse. But historians note that until the industrial revolution India and China likely accounted for over 50% of global GDP. So perhaps it will merely be a case of history repeating itself (or back to the future, depending on which way you look at it). In any event, economic forecasts suggest that India offers many exciting opportunities for investors, particularly those hunting for dynamic growth stocks.

[7] http://www.amazon.co.uk/The-Growth-Map-Economic-Opportunity/dp/0241958075

[8] https://www.gov.uk/government/people/jim-oneill

Why invest in India?

Emerging Market

There are numerous factors that are likely to drive India's continued economic rise, and one of the most important is the country's demographic growth. Jim O'Neill, who originally identified BRICs (Brazil, Russia, India and China) as a new generation of large emerging market economies, believes that: "the world's largest populated nations should probably have the biggest economies." He adds:

> 'India's demographics are astonishing. Over the next twenty-five or thirty-years, its working population might increase by the same number of people that currently live in the United States, 300 million'.

This level of population growth is likely to be good news for the country's consumer goods companies. Dabur is the fourth largest consumer goods company in India and produces items ranging from Amla Hair Oil to Real fruit juice. In many ways it's like India's equivalent of Unilever. The Amla Hair Oil brand, for instance, is over 70 years old was India's largest selling hair oil by the end of the second world war. Amla remains popular today and can even be found on the shelves of beauty stores on the UK high street. Looking beyond consumer goods, one would expect the number of telephone users to increase as India's middle class grows. This would be good news for Airtel, the largest cellular service provider in India, and also the third largest provider in the world.

India also has the advantages of a credible legal system and many English-language speakers. Raffia Dossani, the author of India Arriving, tells the amusing story of an American economist who got off a boat to meet his Indian student. "Boy, you speak real good English!" said the economist, to which his Indian student replied: "Some day you will, too!" The point is that English has been spoken in India since the British colonial period began during the 18th century. This factor, coupled with the fact that India produces many well-trained technical graduates, makes the country very attractive for multinational firms looking for overseas talent, particularly in the IT space. Let's take a closer look...

Sector	Weight (%)
FINANCIAL SERVICES	31.11
IT	16.43
ENERGY	10.94
CONSUMER GOODS	9.81
AUTOMOBILE	9.43
PHARMA	8.10
CONSTRUCTION	4.02
CEMENT & CEMENT PRODUCTS	2.85
METALS	2.76
TELECOM	2.22
SERVICES	0.93
MEDIA & ENTERTAINMENT	0.78
INDUSTRIAL MANUFACTURING	0.63

Silicon Valley of India

India is regarded as a global leader in technology. The country has been successful at providing software as well as call centre services to the world. The hub of India's technology industry is Bangalore - commonly referred to as the 'Silicon Valley of India'. Texas Instruments was the first multinational corporation to set foot in Bangalore back in 1985, and over the decades India has grown its own talent. In fact engineering talent is so strong in India that we at Stockopedia.com decided to set up our own office there. Our team in Bangalore drive our back-end software development with huge ambition, enthusiasm and industry.

We can see from the table below that India's Nifty 50 index is strongly weighted towards the IT sector. In fact the largest company in the Nifty 50 index is Infosys, a multinational provider of IT, business consulting and software engineering services. Another tech giant is Tata Consultancy Services Limited (TCS). Back in 2013 the UK-based brand valuation firm, Brand Finances, placed TCS among the 'Big 4' most valuable IT services brands worldwide. Going forward, India's IT companies are likely to enjoy further tailwinds as a result of government initiatives like 'Digital India', which aims to improve online infrastructure and increase internet connectivity.

Major Indian stock exchanges

There are two major stock exchanges in India - the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). The NSE had an overall market capitalisation of over $US1.65 trillion at the start of 2015, making it the 12th largest stock exchange in the world. The Bombay Stock Exchange is older, being founded in 1875, while the NSE was only founded in 1992. The BSE is also larger, with an overall market cap of $US1.7 trillion.

More than 5,000 companies trade on these Indian exchanges, including subsidiaries of the Tata Group, like Tata Motors which bought Jaguar Land Rover from Ford Motors back in 2008. The Tata Group is just one of many conglomerates that trade in India. Another one is Reliance Industries, which operates across several industries, including energy, petrochemicals and telecommunications, and in 2013 accounted for 15% of India's overall exports.

In order to list on the NSE a company must satisfy several prerequisites which are all outlined on the NSE's website (see here[9]). Most importantly, a company must be able to produce annual reports for each of the three years preceding the IPO, and also be expected to secure a market capitalisation of at least 250m rupees (£2.5m) after the IPO. The full listing requirements can be found here[10].

Major Indian indicies

The CNX Nifty (also known as the Nifty 50) is the main benchmark for the National Stock Exchange. It is a market cap weighted index that tracks 50 of the largest and most liquid stocks on the NSE. The S&P BSE SENSEX is the bellwether index for the Bombay Stock Exchange. It is designed to measure the performance of the 30 largest, most liquid and financially sound companies that trade

[9] http://www.nseindia.com/corporates/content/eligibility_criteria.htm

[10] http://www.bseindia.com/Static/about/Ipo_Fpo.aspx?expandable=2

across key sectors of the Indian economy. Investors that were interested in a larger pool of stocks may want to track the S&P BSE 100 Index, 200 Index or 500 Index. Each of these are respectively designed to measure the performance of the 100, 200 and 500 largest and most liquid companies in India

How to invest in Indian shares

Who can invest directly in Indian stock markets? It is relatively easy for Non-Resident Indians and Persons of Indian Origin to invest in India. An investor is classified as a Non-Resident Indian (NRI) if they were originally an Indian citizen but now live outside India. If an investor's parents or grandparents were/are Indian citizens, then the investor would classify as a Person of Indian Origin (PIO). NRIs and PIOs are both entitled to invest directly in Indian shares, although there are a number of steps which need to be taken first. It may be necessary to:

- Obtain a Permanent Account Number (PAN) from Indian tax authorities;
- Open a Non-Resident External (NRE) bank account or a Non-Resident Ordinary (NRO) bank account;
- Obtain approval under the Reserve Bank of India's Portfolio Investment Scheme (PIS);
- Open a Demat account (ie. an account which holds shares electronically).

Further details are outlined on the Reserve Bank of India website, see here[11].

Since 2012 the Reserve Bank of India has permitted overseas investors, or Qualified Foreign Investors (QFIs), to invest directly in Indian shares. However, in practice there are still challenges as most of the main UK brokers do not trade Indian stocks. That being said the Dutch broker, De Giro has promised that access to the NSE will be “available soon”.

[11] https://www.rbi.org.in/scripts/BS_FiiUSer.aspx

Investing in Japan

Most of us at some point will have played tunes on a *Sony Walkman*, driven a *Toyota*, or watched our favourite TV programme on a *Panasonic*. Japanese companies are responsible for some of the world's biggest brands and most popular products that we use on a day-to-day basis.

Why invest in Japan?

Economic Powerhouse

Towards the end of the 19th century Japan became the first Asian economy to industrialise. It has been a global economic powerhouse since the country's 'economic miracle' gathered momentum in the years after the second world war. An important factor supporting this 'miracle' was the emergence of *keiretsu* - essentially groups of companies with interlocking business relationships, that shielded their constituent firms against foreign competition and takeovers. Many familiar companies emerged under, and are still part of, these keiretsu. For example, the multinational conglomerate Hitachi is part of the DKB Group keiretsu. Toyota Motor and Toyota Industrial (the world's largest manufacturer of forklift trucks) are both, you guessed it, part of the Toyota Group keiretsu.

Japan is currently the world's third largest economy in terms of GDP and the fourth largest in terms of Price Purchasing Parity (PPP). Much of the country's economic growth in the post-war period was based on the expansion of manufacturing in areas such as automobiles. Today Japan remains the world's largest automobile manufacturing country and is home to companies like Toyota, Honda and Nissan.

Technology Leader

Japan has gained a particularly strong reputation as a world leading producer of high-tech goods. Several socio-economic factors are conducive to this technological innovation. For a start, the country has a high R&D spending to GDP ratio. But on the demand-side, Japanese consumers are generally 'early adopters' who embrace new technology before most other people. Historically Japanese companies like *Casio* and *Sony* introduced gadgets like the portable calculator and the *Walkman*. Today Japan remains a technological leader, recently ranking 4th in Bloomberg's Global Innovation Index[12], ahead of Germany which ranked 5th and the UK which trailed behind in 16th place.

[12] http://www.bloomberg.com/slideshow/2014-01-22/30-most-innovative-countries.html

Japanese companies have made some particularly interesting developments in fields such as robotics. *Honda* has developed a robot, the ASIMO, which has the ability to recognise moving objects, sounds and faces - enabling ASIMO to interact with humans.

Major Japanese stock exchanges

The main stock exchange in Japan is the Tokyo Stock Exchange - Tōshō or TSE for short. This is the fourth largest stock exchange in the world in terms of market capitalisation. Over 2,000 companies trade on the TSE and they manufacture many of the gadgets and products that we see all around us. You could well be viewing this page using a laptop made by Toshiba, which listed on the TSE back in 1949! The TSE is also home to some of the biggest gaming companies in the world, namely Sega, Sony and Nintendo.

Investors may also want to check out the sogo shosha. These are massive Japanese conglomerates that operate across a wide range of industries. One of the largest (and more familiar) sogo shosha is Mitsubishi, which started as a shipping company in the 1860s and now operates across several business segments, including finance, energy, machinery, chemicals and food. The seven major sogo shosha (Mitsubishi, Mitsui, Sumitomo, Itochu, Marubeni, Toyota

Tsusho and Sojitz) are all publicly listed and trade on the Tokyo Stock Exchange.

TSE firms are assigned to one of three segments; the First Section for large companies, Second Section for mid-sized companies, or Mothers for emerging stocks. The listing requirements for the First and Second Sections (Main Markets) are essentially the same and are stricter than the criteria for listing on the Mothers market. To list on the Main Markets a company must usually have a market cap of at least 2 billion yen (£10.9m) compared to 1 billion yen on Mothers. In addition, to list on the Main Markets companies must have generated 500 million yen in profits during two years preceding the IPO. There are no profitability requirements to list on Mothers.

Major Japanese indices

The Nikkei 225 Index (commonly known as the Nikkei) is widely used as the main benchmark for Japanese stocks and is actually the oldest index in Asia. It is named after Japan's main financial publication, Nihon Keizai Shimbun (or Japan Economic Daily). Unlike other major indices like the FTSE and the S&P 500, the Nikkei is a price-weighted index, meaning that each stock takes up a weighting in proportion to its share price, rather than market capitalisation. As such, the Nikkei is calculated using the same method as the Dow Jones. Indeed, until 1985 the Nikkei was known as the Nikkei Dow Jones Stock Average. The 225 index constituents are reviewed periodically. Sector balance and liquidity are two criteria assessed when selecting constituents. Current constituents include Japanese bluechips like Toyota and Mitsubishi.

The Nikkei 225 tracks a relatively small number of stocks compared to the Nikkei All Stock Index and the Nikkei 300 Index. The latter two indices are market value-weighted (ie. stocks take up their respective weightings in proportion to their market cap). The All Stock Index tracks all stocks listed on Japanese stock exchanges, while the Nikkei 300 Index was designed to represent the overall Japanese market, albeit with smaller number of firms (300 companies). The constituents of the Nikkei 300 are reviewed periodically and are selected using similar criteria to the Nikkei 225.

Another important index is the Tokyo Stock Price Index, or TOPIX, which is a cap-weighted index tracking all firms that are considered to be under the ‘first section’ on the

TSE. Many readers also may be interested in Japanese stocks that have exposure to the Chinese economy. They may want to check out firms that are constituents of the Nikkei China Related Stock 50 index. This comprises 50 stocks from major Japanese companies that are selected based on 'how actively companies expand businesses in China'.

There are also FTSE and S&P indices that track Japanese equities. The FTSE Japan All Cap Index is a market-capitalisation weighted index representing the performance of Japanese large, mid and small cap stocks. In addition, the S&P Japan 500 is designed to represent the Japanese investable market and constituents represent the large, mid and small-cap components of the Japanese equity markets.

Tax on Japanese stocks

Under Japanese law, withholding tax is imposed on Japanese dividends paid to foreign shareholders at 20%. Withholding tax is essentially a tax deducted at source by some countries on dividends paid to a person resident outside that country. Fortunately the UK has signed a tax treaty with Japan so the rate of withholding tax for individual investors falls to 10% (see here[13]).

Capital gains derived from the sale of Japanese shares are usually subject to Japanese income, corporation or capital

[13] http://www.hmrc.gov.uk/manuals/dtmanual/dt10654.htm

gains tax. Investors should of course do their own research and seek the appropriate professional advice. These resources are a useful starting point:

- HMRC: Double Taxation Relief Manual[14]
- HMRC: International Tax Forms[15]

[14]http://www.hmrc.gov.uk/manuals/dtmanual/dt10654.htm

[15]https://www.gov.uk/government/collections/international-tax-forms

Investing in Singapore

In 2008, Jim Rogers[16], who co-founded Quantum Fund with financier George Soros, wrote that ”Asia is the future”. So at the age of 65 he, his wife, and two daughters packed their bags and moved East - not to China, but to Singapore which Rogers described as *‘an open and vibrant place to be.’* He wasn’t alone - a growing number of investors seeking to gain exposure to both emerging and developed eastern economies have started to target Singapore.

Why invest in Singapore?

Investors that were hoping to invest in an economic miracle may want to take a closer look at Singapore. The tiny city-state does not have much to offer in terms of natural resources. However, it was able to rapidly transform itself from a ‘third world’ to a ‘first world’ economy in the decades after the second world war.

[16] https://www.youtube.com/watch?v=sDrlTpsUCnQ

The story is neatly summed up by Warren Buffett's business partner, Charlie Munger, who once noted in an interview:

> "I regard what happened in Singapore as the best example of successful governance in the history of the world. To take a handful of people in a malarial swamp and turn them into a meritocratic civilisation that works as well as Singapore does is a huge stunt."

Singapore now boasts one of the highest GDP and employment levels in the world and the city is home to the second highest number of millionaires by capita in the world. So what factors have driven this success story?

A centre of commerce

Commerce is in Singapore's blood. The city was founded in the early nineteenth century as a trading outpost by the East India Company. The island's location was ideal for trading. Lee Kuan-Yew, the country's Prime Minister from 1959 to 1990 pointed out that *"this is not Jamaica or Bahamas or Fiji. This is a little island strategically placed at the southernmost end of Asia, connecting the sea routes between the Indian Ocean and the Pacific."* Singapore's location enabled the island to evolve into a global trading hub - the world's third-busiest port in terms of cargo tonnage and the fourth biggest centre for foreign exchange.

Vibrant finance and infrastructure industries have sprung up around this commercial hub. Singapore has around 20% of the world market for ship repair and the country's ports can accommodate around 1,000 ships at a time, including oil tankers as long as three football fields (see here[17]). It is perhaps unsurprising that some of the biggest infrastructure firms in the world, including **Hutchison Port Holdings**, which until recently was the world's largest port operator, are listed in Singapore. **Global Logistic Properties**, a global leader in the provision of logistics facilities, also trades on the Singapore exchange.

Looking beyond infrastructure, Singapore is a global currency and derivatives trading hub. According to the SGX website the island state is home to more than 600 financial institutions and is *'consistently ranked as the world's fourth most active trading centre, after London, New York and Tokyo'* (see here[18]). In addition, the country's low-

[17] http://www.wsj.com/articles/SB10001424052702304632204579337913522664136
[18] http://bit.ly/1VZnwdI

taxation regime has helped Singapore become one of the fastest growing wealth management centres in the world, described by some as the 'Switzerland of Asia'[19].

(Source: Nations Online Project)

Political, Legal and Education Framework

Two important factors have supported Singapore's success. First, the country has a highly educated workforce and political elite. A fascinating article[20] in the *Wall Street Journal* entitled *Gateway to the Ivy League* found that a Singaporean high school - Raffles Institution - is one of the

[19] http://www.stockopedia.com/content/a-guide-to-investing-in-singapore-107401/
[20] http://www.wsj.com/articles/SB108379707388803277

biggest feeder schools to the Ivy League universities in the United States and Oxbridge in the UK. As a matter of fact, Raffles Institution is the *alma mater* of Lee Kuan-Yew, who went on to graduate top of his class with a double starred-first in law at Cambridge University.

Perhaps more importantly, the Singaporean government has taken steps to ensure that education is accessible to everyone. School fees are generally affordable. Students could attend Raffles for just $15 a month. Furthermore, to prevent a brain drain and encourage the best and the brightest to remain in Singapore, the government provides top students with bond scholarships. These require students to work in Singapore for a number of years after graduating.

Singapore has also benefited from a prolonged period of political stability. Lee Kuan-Yew was in office for 31 years until 1990. One-party rule meant that the country's highly educated technocrats could plan economic affairs with long-term goals in mind. Over the decades the city's bureaucrats worked to create a political and legal framework which has attracted a praise from many commentators. The World Economic Forum[21] ranked Singapore as the most open economy in the world, while Transparency International[22] ranks it as the 7th least corrupt in the world. It was these factors which helped make Singapore an attractive destination for foreign direct investment, ranking first in the Asia Pacific Investment Climate Index in 2014

[21] https://www.weforum.org/

[22] http://www.transparency.org.uk/

(see here[23]). Furthermore, according to The Economist's 'Business Environment Rankings'[24] Singapore 'looks set to remain the world's most investor-friendly location in 2014 - 2018.'

Major Singaporean exchanges

Singapore Exchange (SGX)

The main exchange in Singapore is the **Singapore Exchange** (SGX) which has a total market cap of around US$751 billion. 768 companies are listed on its exchange. Current listings include _Singapore Airlines _- the flag carrier of Singapore and the launch customer of Airbus A380, the world's largest passenger aircraft.

Many other famous brands that we see all around us have listings in Singapore. If you've ever travelled abroad you may have been lucky enough to stay in a *Mandarin Oriental* hotel. These luxury hotels tend to be located at the heart of the world's most cosmopolitan cities and have been rated as five star by Forbes Travel Guide. If you've travelled to the Far East, the chances are that you've shopped at a supermarket operated by Dairy Farm International - one of the largest retailers in Asia. Both *Dairy Farm* and *Mandarin Oriental* are listed in Singapore. Singapore's

[23] http://business.asiaone.com/news/singapore-most-attractive-destination-fdi-region

[24] http://bit.ly/22xfDfU

capital markets serve not only the domestic economy, but also a wide range of Far Eastern companies, with around 40% of listed firms hailing from beyond Singapore's shores. For example *Thai Beverage*, one of the largest beverage companies in the Far East has headquarters in Thailand and is listed in Singapore.

Mainboard vs. Catalist

The SGX has two main listing boards: the Mainboard and Catalist. The Mainboard caters for larger, more established enterprises, while Catalist caters for younger companies that seek to accelerate growth. The listing requirements for the Mainboard are tighter. Companies seeking to IPO must have generated pre-tax profits of at least S$30m (£13.75m) during the latest financial year, or list with a market capitalisation over S$150m (£68.7m). Companies do not need to pass a profitability test or have a minimum market cap to list on the Catalist board (see here[25]). Companies listed on Catalist could potentially carry higher investment risk when compared with larger or more established companies listed on the Main Board. This is not only because companies can list on Catalist without a track record of profitability, but also because Catalist stocks can be less liquid and harder to trade.

[25] http://www.sgx.com/wps/portal/sgxweb/home/listings/getting_started/listing_boards?clink=equities=1=1

Major Singaporean indices

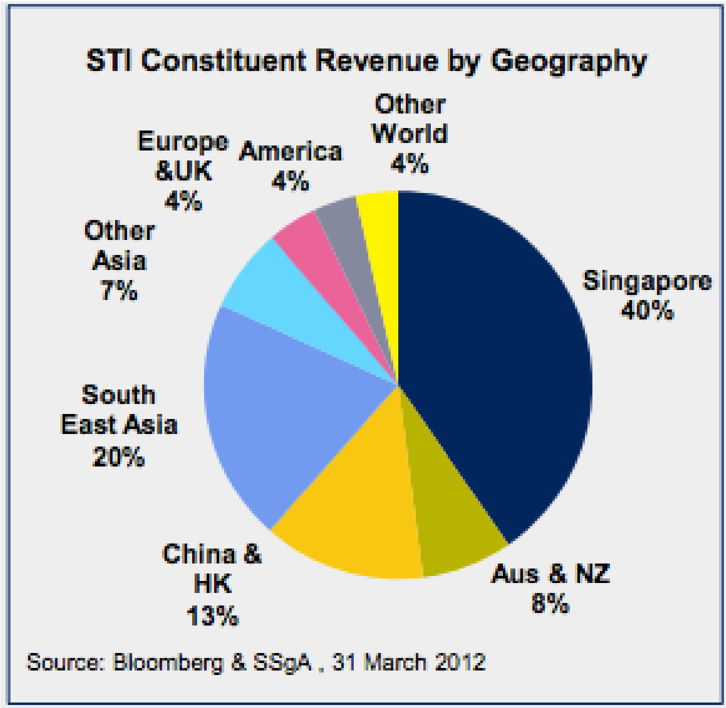
The **FTSE Straits Times Index (STI)** is regarded as the main benchmark index for the Singapore stock market. It tracks the performance of the 30 largest SGX companies by market cap and covers around three-quarters of the Singaporean equity market. Although it represents such a large chunk of the Singapore stock market, the index is heavily weighted towards a narrow range of industries. Banks, real estate, and industrial goods and services respectively take up 33%, 15.9% and 15.1% of the index's weighting (see below).

Investors who want to compare their performance against a wider range of companies may take a look at the **ST All Share Index**, which represents around 98% of Singapore market capitalisation and is of course comparable to the FTSE All Share in the UK. Many private investors in the UK try to identify hidden gems amongst smaller cap companies. A good place to hunt for similar opportunities in Singapore could be the **FTSE ST Small Cap Index**, which covers smaller companies and represents approximately around 12% of Singapore's market capitalisation. Large and mid cp stocks are covered by the **ST Large & Mid Cap Index** and the **ST Mid Cap Index** respectively.

ICB Supersector Breakdown

ICB Code	ICB Supersector	No. of Cons	Net MCap (SGDm)	Wgt %
0500	Oil & Gas	3	14,787	5.86
2700	Industrial Goods & Services	6	38,050	15.09
3500	Food & Beverage	4	15,980	6.34
5300	Retail	1	3,165	1.26
5500	Media	1	6,273	2.49
5700	Travel & Leisure	3	15,407	6.11
6500	Telecommunications	2	29,488	11.70
8300	Banks	3	83,048	32.94
8600	Real Estate	6	39,956	15.85
8700	Financial Services	1	5,976	2.37
Totals		**30**	**252,129**	**100.00**

We can also see from the pie chart that STI companies generate revenues from a wide range of regions and geographies. 40% of revenues are generated in Singapore, while around 23% are generated in China and the Far East. A further 8% are generated in Australia and New Zealand.



Regional & industry indices

Investors who wanted to increase (or limit) their exposure to Chinese stocks that are listed in Singapore may want to include (or exclude) companies that are constituents of the ST China Index and the **ST China Top Index** - the two 'China' themed indices in the ST Index Series. The ST China Index covers stocks that 'have the majority of their sales revenue derived from or operating assets located in China'. The **ST China Top Index** is a subset of the **ST China Index** and tracks the performance of the 20 largest Chinese-listed companies on the SGX Mainboard.

Given that Singapore is one of the world's largest trading ports, investors who want to take advantage of this can look for investment opportunities within the ST Maritime Index. This aims to 'capture the performance of companies that earn a substantial proportion of their revenue from maritime related activities.' To be included 'in the index a company is required to have greater than 55% of total revenue from maritime related activities.'

Tax on Singaporean shares

Singapore is a low-tax jurisdiction and in most cases non-resident shareholders would not need to pay taxes to local authorities. There is no capital gains tax in Singapore. Therefore resident and non-resident investors are not charged capital gains tax when they sell stocks. Furthermore, there is no withholding tax levied on dividends paid by Singapore companies, so investors usually receive the dividend in full, without a tax deduction at source.

However, UK investors will still need to pay UK Capital Gains Tax. The only way to shelter from UK capital gains tax is to invest in a tax-efficient wrapper, either an ISA (individual savings account) or a SIPP.

Investing in South Korea

South Korea is home to some of the world's best known brands and has earned a reputation as a leader in engineering and advanced technologies. A resilient economy and progressive government policies designed to encourage investment means it's no surprise that investors are keen to explore opportunities in the country.

Indeed, the emergence of South Korea as an investing hotspot has been noted by Jim O'Neill, the former chief economist of Goldman Sachs. He named it as one of eleven countries - the N-11 - with the potential to become some of the world's largest economies during the 21st century.

Why invest in South Korea?

Exposure to regional growth

South Korea is a gateway to Northeast Asia, and strategically located between Japan and China. Investors can take advantage of China's growth by targeting South Korean stocks. Terry Smith - portfolio manager at Fundsmith

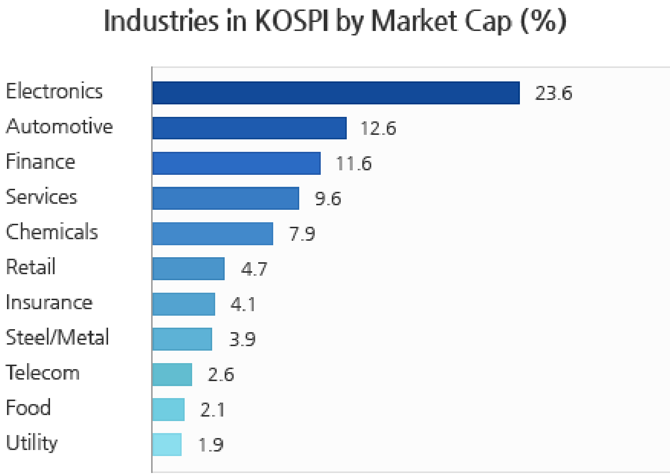
Emerging Equities Trust - provides some useful tips on this front. He targets companies "which make their money by a large number of everyday, repeat, relatively predictable transactions" (ie. consumer good companies). Smith likes consumer goods companies because he believes that "the biggest predictable development in emerging markets… for as far ahead as I can see is the emergence of a consuming class" (see here[26]). Investors wanting to follow Smith's advice may want to take a closer look at Korea's *Amorepacific* corporation, which owns over 30 well known cosmetic brands and already has a foothold in China, where it makes nearly 10% of its revenue. In addition, the multinational electronics company, Samsung Electronics, makes nearly 16% of its revenue in China.

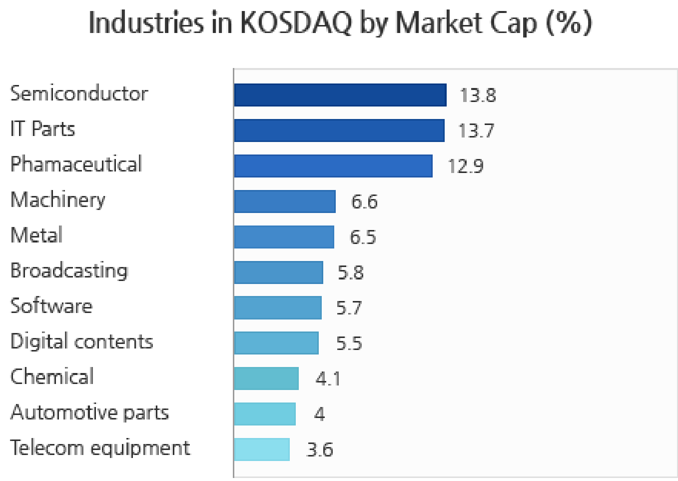
Major South Korean exchanges

The Korean Exchange is the only stock exchange in South Korea. It is divided into three divisions. **The Kopsi Market**:, also known as the KRX Main Board, is the main stock market. Thebar chart below shows that the market is heavily weighted towards companies in the electronics and automotive sectors. The **KOSDAQ market** provides capital for startup companies and SMEs. 1,115 companies trade on this market and the market is heavily weighted towards IT and pharmaceutical firms (see below). Finally, the **Konex market** was established to provide funds for small and

[26] https://www.youtube.com/watch?v=RaF5Uu4WI_M

medium-sized companies, and it's home to around 110 companies.





Major South Korean indicies

The main index for the Korea Stock Exchange is the **Kospi 200**. This is a capitalisation-weighted index of 200 of the largest companies on the Korean market. It makes up over 90% of the total market value of the Korea Stock Exchange. The **Kospi Composite Index** represents a larger population of companies. It is the index for all common stocks traded on the Stock Market Division of the Korea Exchange.

Tax on South Korean shares

Dividends paid to a non-resident are typically subject to withholding tax of 22% unless the rate is reduced by a tax treaty. Fortunately, the UK has signed a tax treaty with South Korea and so the tax rate usually falls to 15% of the gross amount of the dividends. Non-resident shareholders are typically exempt from capital gains tax if they hold a less than 25% of a Korean company. However, capital gains tax could be applied if the company trades outside the Stock Exchange (ie. on an OTC market). South Korea imposes a Securities Transaction Tax on transactions involving the transfer of stocks. This tax is levied on the seller at a rate of 0.5% for stocks traded on the Kospi market and 0.3% for stocks traded on the KOSDAQ.

Taking the first steps

Finding the right broker

While UK investors can trade many international shares and markets through some of the country's best known brokers, the range of services and fee structures varies. So it's worth examining whether your broker offers a service that suits your needs. Here we cover some of the main considerations when it comes to trading international shares.

Remember, a huge part of successful investing is keeping the costs low. Traditional full-service brokers may well make life easier, but they can come with very high fees. Online execution-only (XO) dealing has made the cost of trading shares much cheaper and quicker but some stockbrokers do not provide comprehensive online share dealing for international stock markets.

Online commissions on international share trades vary widely between brokers depending on the frequency of your trading. Don't be fooled by cheap frequent-trader rates because you're unlikely to trade enough to qualify for them.

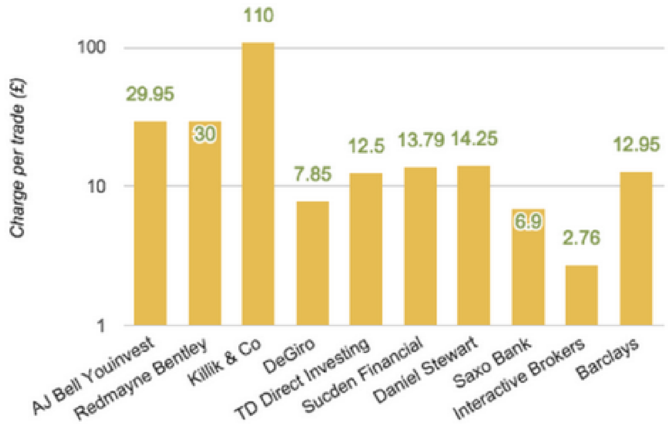
As a top tier, full service broker it's no surprise that one of the more expensive options is Killik & Co. To trade

Australian stocks they charge clients more than £100 per trade. The standard dealing commission is £70, and they charge another £30 for ‘local agent charges’, plus £10 ‘as a contribution towards regulatory compliance’. Similarly, to trade in Singapore, Killik charge £70 as a standard dealing commission, plus another £75 for ‘local agent charges’ and £10 ‘as a contribution towards regulatory compliance’.

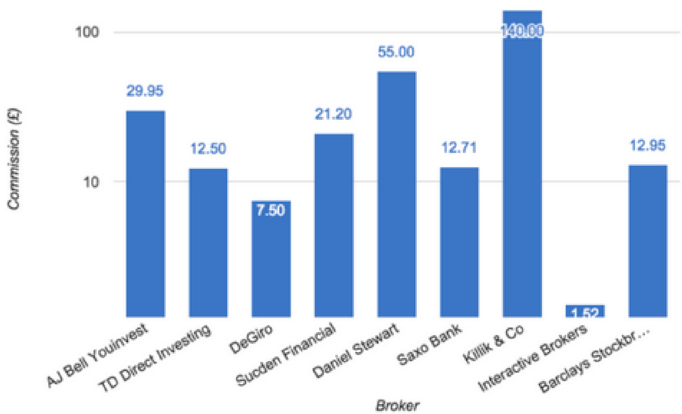
Cheaper brokers include DeGiro, Saxo Bank and Interactive Brokers. To trade in Australia, DeGiro charge the equivalent of €10.00 per trade, in addition to 0.05% of the trade’s value. Saxo Bank and Interactive Brokers charge minimum commissions of AUD15 (£6.90) and AUD6 (£2.76) respectively.

To help identify the most cost effective brokers, here are some comparison charts of commission rates in various territories.

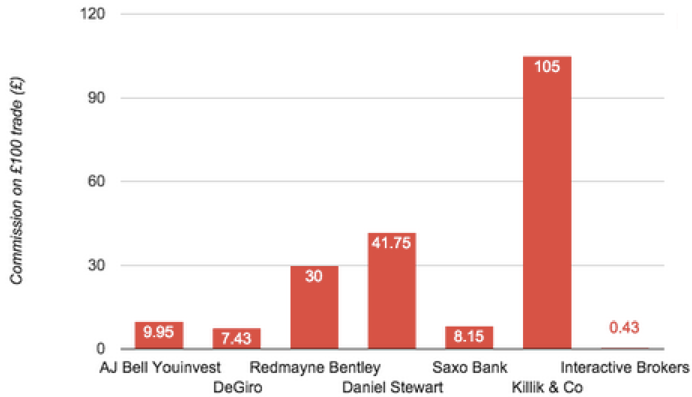
Australia: Commission per trade



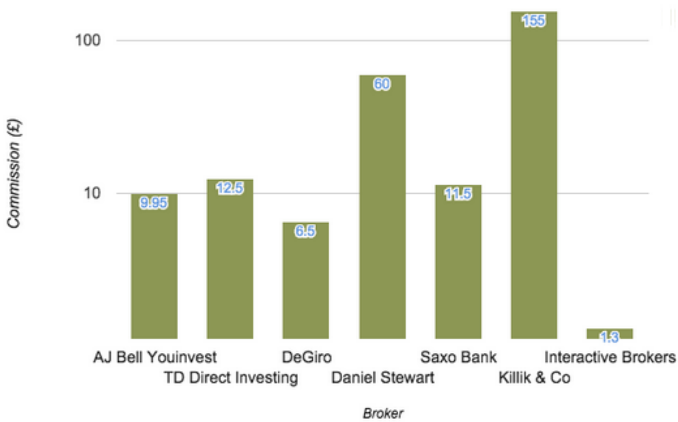
Hong Kong: Commission per trade



Japan: Commission per trade



Singapore: Commission per trade



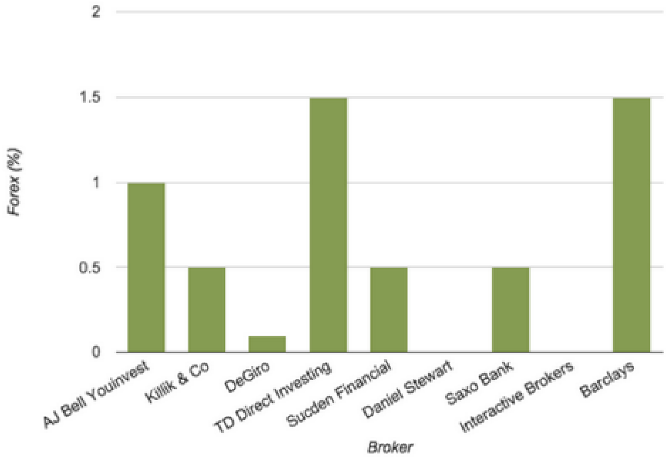
India Since 2012 the Reserve Bank of India has permitted overseas investors, or Qualified Foreign Investors (QFIs), to invest directly in Indian shares. However, in practice there are still challenges as most of the main UK brokers do not trade Indian stocks. That being said the Dutch broker, De Giro has promised that access to the NSE will be "available soon".

New Zealand Only three of the main UK brokers enable clients to trade stocks on the New Zealand stock exchanges. These are AJ Bell Youinvest, Redmayne Bentley and Killik & Co. DeGiro have said that New Zealand will be 'available soon'.

Watch the forex charges

Remember that in most cases you won't be able to buy international stocks unless you have the correct foreign currency. On most occasions, brokers will convert your hard pounds into local currency and charge you a variable rate of commission. Research by Stockopedia has found wide variations in the currency exchange fees charged by some of the UK's most popular brokers. Apart from shopping around for low forex rates, one of the most effective ways to dodge constant high fees is to use a broker that offers multi-currency trading accounts.

Australia



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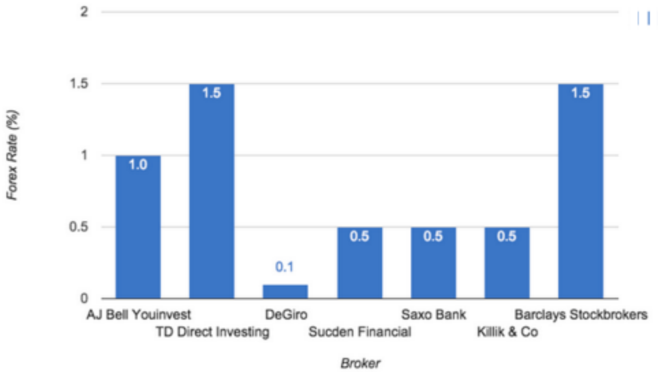
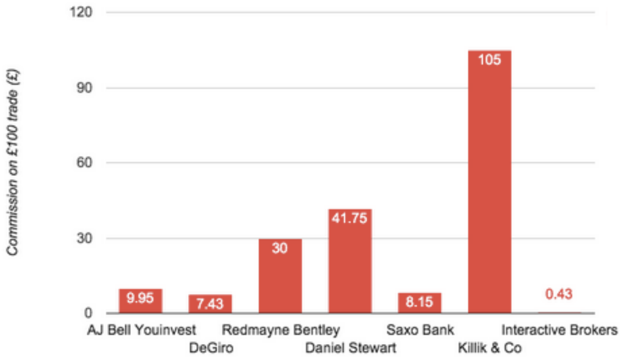
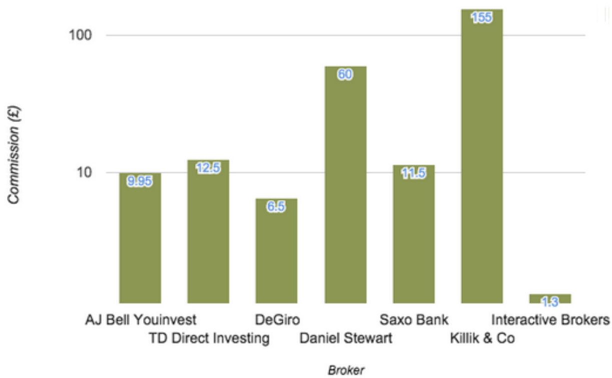


Japan



Singapore



Using a non-UK broker

Until now, Stockopedia's geographic coverage across Europe and the US was largely catered for by UK brokers. With the additional regions our research shows that most stocks can still be traded from home. But in some instances, particularly in Asia, a local broker may be needed, and may indeed be preferable. Brokers based in Hong Kong and Singapore could be a good place to start looking.

Boom[27] is based in Hong Kong and enables foreign clients to open an account to trade Australia, Chinese B shares, Hong Kong, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand and the US, all online. In Singapore OCBC Securities[28] offers Australia, Canada, Chinese B shares, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Taiwan and Thailand to foreign clients. Their commission charges can be seen on this page[29].

This MoneyWeek[30] article provides further details.

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[27] https://baby.boom.com.hk/en/service_support/open_account/

[28] http://www.iocbc.com/

[29] http://portal.iocbc.com/assets/pdf/ospl/ConsolidatedCommissionCharges.pdf

[30] http://moneyweek.com/the-best-brokers-for-trading-foreign-stocks-21001/

Brokerage	Australia	New Zealand	Japan	Hong Kong	Singapore	South Korea
AJ Bell Youinvest	Yes	Yes	Yes	Yes	Yes	No
Selftrade	No	No	No	No	No	No
Hargreaves Lansdown	No	No	No	No	No	No
TD Direct Investing	Yes	No	No	Yes	Yes	No
Interactive Investor	No	No	No	No	No	No
IG	No	No	No	No	No	No
DeGiro	Yes	No	Yes	Yes	Yes	No
Redmayne Bentley	Yes	Yes	Yes	No	Yes	No
Sucden Financial	Yes	No	No	Yes	No	No
Daniel Stewart	Yes	No	Yes	Yes	Yes	No
Saxo Bank	Yes	No	Yes	Yes	Yes	No
Killik & Co	Yes	Yes	Yes	Yes	Yes	Yes
Interactive Brokers	Yes	No	Yes	Yes	Yes	No
Halifax	No	No	No	No	No	No
Charles Stanley	No	No	"Far East"	"Far East"	"Far East"	No
Stocktrade	No	No	No	No	No	No
Alliance Trust	No	No	No	No	No	No
Share Centre	No	No	No	No	No	No
Barclays Stockbrokers International	Yes	No	No	Yes	Yes	No

Conclusion

As a young British company with global ambitions, the introduction of Asia-Pacific market data is a huge leap forward for Stockopedia. Our subscribers can now analyse and compare nearly 40,000 stocks across European, North American, Developed Asian and Australasian markets.

Taking an international approach to stock market investing makes sense for many good reasons. Evidence is fully behind the idea that broad international exposure can reduce risk and enhance returns in a portfolio. But there's more to it than just good portfolio management. The introduction of Asia-Pacific data opens the door to a vast investment world that blends some of the fastest growing economies in the world. They are home to some of the best known companies and hugely familiar brands. But they also host some of the most exciting growth stories, hidden gems and future giants that exist in equity markets anywhere.

Jim Rogers, who co-founded Quantum Fund with financier George Soros, put it neatly in his observation: "If you were smart in 1807 you moved to London, if you were smart in 1907 you moved to New York City, and if you are smart in 2007 you move to Asia."

Getting the process right

At the heart of everything we do at Stockopedia is a belief in sound investment styles based on what actually works in stock markets. This means using market data intelligently to understand which stocks are aligned with the forces that have historically been the most influential statistical drivers of stock market returns.

Nearly 100 years of research and endeavour by some of the greatest minds in finance have illustrated how and why Quality, Value and Momentum guide the probability of investing success. Put simply, these factors represent the tendency for undervalued stocks to outperform expensive stocks, for high quality stocks to outperform junk stocks, and for positive price and earnings trends to persist.

But despite validatory evidence from academics and high profile investors who have successfully used these factors, most individual investors fail to do the same. Part of the problem is that despite making so much sense, there are strong behavioural and risk based reasons why many of us struggle to apply them properly. Instead, investors are generally predisposed to stories, good news, popularity, and excitement. They veer away from shares that appear to be troubled, staid or have seen their prices rise in the recent past. Yet it's precisely this profile of stock that tends to win in the stock market.

With these concepts in mind, Stockopedia has built a research platform that combines comprehensive company data with a powerful ranking system that gives investors the ability to find Quality, Value and Momentum in stocks across multiple major markets around the globe.

To see how these principles work in practice as well as a variety of ready to go screens, check out the tools at www.stockopedia.com. We aim to make the best investment processes completely available wherever you are.