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THE LAST WORD

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Who got rich or poor in 2014?

At the end of the year, I always like to look back and see what happened.

We all have a vague notion of how markets moved during the year. For example, I know the US stock market did pretty well, Singapore did okay and Russia did terrible. Oil collapsed.

But you will be shocked by the size of the moves. I was. Another surprise was China. I had no idea it had done so well. Indonesia was a couple rungs lower but still a superstar.

The US, with about half the world's wealth, was the third best performer. Fourth was Singapore, which didn't have its best year or its worst, but performed adequately in 2014.

At the very bottom of the list was Russia. No stock market in recent memory has declined as far and as fast, especially considering its declining currency.

Working with the numbers

You will be surprised to learn that it's not so easy to determine that Singapore shares returned 8 per cent in 2014, the US returned 20 per cent or that Aussie shares fell 2 per cent.

First, what does "return" mean? It is the capital gain plus dividend. The capital gain is the per cent change in share price from Jan 1 to Dec 31 2014, which is not hard to get but dividends are another matter. I took a short cut and used the average long-run dividend yield of 2 per cent, added it to the capital gain or loss, and this gives a total return number.

One more adjustment is needed, which is to put it in Singapore dollars to account for foreign currency gains or losses. For example, the Japanese stock market rose 11.7 per cent in 2014. That is good, but the yen fell by 10.5 per cent, which took away nearly all the gain, leaving Japan with a net return of only 1 per cent for the year.

It was the same for the world's fourth largest economy, Germany, where shares rose 6.6 per cent (good) but its Euro currency fell by 7.6 per cent (bad). That left its net return in 2014 at minus 1 per cent.

> *Quick***Quote**
>
> **"The safest way to double your money is to fold it over and put it in your pocket."**
>
> Kin Hubbard

In Australia, shares rose a modest 2.4 per cent but this was more than offset by the 4.5 per cent drop in its currency, leaving it with a minus 2 per cent return for the year.

Singapore is the only place not affected by currency changes since it is the home currency we use to pay our bills.

The most exciting – and disastrous – investment in 2014 was Russia. Its shares declined 46 per cent while its currency fell another 40 per cent. It looks like an 86 per cent loss, but a required statistical adjustment reduces the loss to "only" 68 per cent. It's still a disaster. Only casino games give you returns like that!

Perhaps the biggest story of the year was the greasy stuff: Oil. In USD terms, it fell 45 per cent with almost all the decline coming in the last six months. If the low oil price holds in 2015, it will boost oil importers like Singapore and hurt oil exporters like Malaysia.

Good or bad?

"So, how?" as we say in Singapore. Was 2014 a good or bad year?

Well, compared to what? The relevant comparison is a long-run average, like over 75 years. That has been 10 per cent per year, and only three world markets beat this benchmark in 2014: China, Indonesia and the US.

Finally, a technical point for hardcore readers like you! A 10 per cent historical return implies an expected future return of 12 per cent.

Does it mean you can expect to earn 12 per cent per year on shares if you hold on to them long enough? Yes. Why? Don't ask, although it has to do with compounding.

Rank	Country	Returns
1	China (Shanghai)	**+ 56 %**
2	Indonesia	**+ 23 %**
3	US (S+P 500)	**+ 20 %**
4	S'pore (STI)	**+ 8 %**
5	Hong Kong	**+ 8 %**
6	Japan	**+ 1 %**
7	Germany	**- 1 %**
8	Australia	**- 2 %**
9	Malaysia	**- 12 %**
10	Russia	**- 68 %**
Oil	Brent Crude	**- 45 %**

Note: Total returns = capital gain + dividend yield.
Returns are in Singapore dollars terms except oil is in US$.

An adjunct professor at SMU, Dr Haverkamp contributes this column weekly to help our readers understand money matters better.