EQUITIES

EXPERT VIEW TIME TO TAKE STOCK OF REGIONAL MARKETS

■ Stock markets are a glamourous investment option for many, with their get-rich-quick appeal ■ Their inherently volatile nature means there is also plenty of opportunity to burn your fingers ■ With regional markets at a historic low, our experts debate the pros and cons of putting your money into equities


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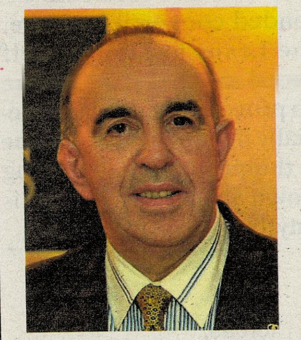
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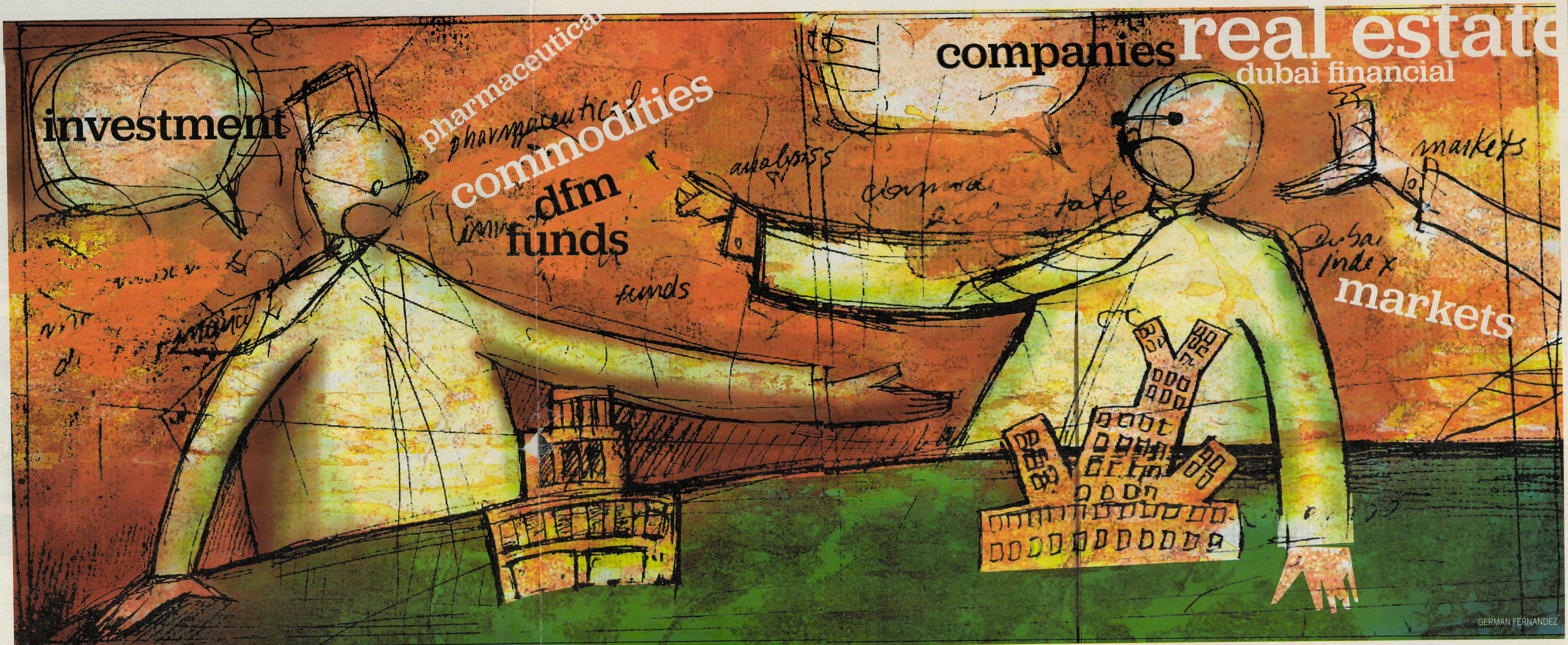

GERMAN FERNANDEZ

DUBAI **Veathika Jain**

Many investors are wondering where they should put their money in the current challenging global financial situation.

A volatile yet popular option is the stock market – but is this the right time to buy shares? And, in particular, should you put your hard-earned cash into the UAE stock markets?

Emirates Business asked a panel of experts to guide us through this difficult subject.

—Is this a good time to invest in stock markets in the UAE and the rest of the GCC region?

—Wakeman: Current price levels give stocks a chance to react positively to earnings releases and any resumption of the rally needs to be based on tangible evidence such as earnings growth or macro data. Given this, I think now is a good time to invest in the GCC markets as current prices still reflect a gloomy scenario. Also, oil's continuing strength means that regional budgets are in surplus and infrastructure spending plans are intact.

—Stonuary: Overall it's a good time to invest in the UAE, GCC and other markets as they are recovering. By investing now you will basically get more for your money. But investors have to be realistic about the fact that the return may not come for five to 10 years. When you are doing any form of investing, a long-term strategy will always give you greater returns. If you want to make a quick buck you have to be very clever.

—Kelleher: Is it a good time to buy fireworks? The connection? Well, you can achieve immense satisfaction with both fireworks and stock selection; similarly you might blow a hole in your pocket, or even worse.

Like fireworks, stock selection should be left to professionals. Inexperienced individual investors, like firework spectators, need to be fenced in behind some form of safety barrier. With stock selection many fund managers do precisely this: They reduce risk, provide professional management, diversify stock selection and provide economies of scale.

For the inexperienced investor unfamiliar with stock selection the same advice applies to watching a firework show. Yes, go out and enjoy yourself, but be aware of the risks and seek professional protection.

—So what sectors are worth looking at now?

—Stonuary: The best sectors to invest in are ones that people will always need, such as healthcare and pharmaceuticals.

—Kelleher: This is surely a question of attitude to risk or tolerance to loss. From a top-down perspective, there is perceived to be less risk in investing across an entire index. I look forward to the creation of a UAE or GCC index tracker. Slightly more risky would be a play on a sector as such plays are still limited in the UAE. Greater risk and greater rewards come from the selection of particular stocks.

—Prakash: If we compare defensive stocks with the general index, from recent highs to date we find that they are still holding higher and the markets are close to previous lows. If any recovery is seen in the market then these are the stocks that can see a rapid rise in the coming sessions. The transportation, logistics, telecoms and utility sectors remain the best choice for investment at lower levels. Real estate and banking may face pressure.

—What factors should investors keep in mind when investing in stocks?

—Prakash: Investors should learn how to select the best stocks for long-term investment. When selecting stocks, liquidity is the first and foremost thing that investors should look for as illiquid stocks are very difficult to sell. Look at the past track record of dividend payouts and important ratios like price to book value, price to cash flow, price to earnings and dividend yields. After selecting good fundamental stocks find strong support levels with the help of technical analysis and place your buying orders accordingly.

—Kelleher: Three litmus-test questions on whether a choice is good or not might help. Firstly, how volatile is the share price? Volatility, or risk, can be measured. Secondly, how much do you know about a particular stock? What are the chances that you have chosen a stock before the herd has noticed? Eugene Fama's efficient market theory is worth a look.

He believes that in efficient markets all that is known about a stock is factored into the price, therefore the price is fair. In an inefficient market, like those in the UAE and the Gulf, there is less information.

This means not everything is known and it becomes useful to rely on either your own or other research departments. On the upside, and with good information, it should be possible to make better returns in inefficient markets, but there is greater risk. Thirdly, has anyone looked at the cash flow, the profit and loss story and the business plan? Can you see why the company will make money? Or will eventually be of value? If not, why would you choose the stock?

—Wakeman: Investors need to decide what they are looking to obtain from stock ownership. It could be long-term price appreciation, high risk, low risk, day trades or regular income generation.

The volatility that we have seen in stocks over the last year, though unprecedented in our generation, highlights the importance of diversification and not having all your eggs in one basket. An investor looking to put all their savings to work, given that interest rates are low, should not put them all in one asset class such as equities; they should also look at bonds and commodities.

—When do you think investors should book profits?

—Kelleher: Whoa, slow down horse! The question should be: why did they make the investment? If it is for a 10-year goal why would you be looking for a short term result? If it was for a short term result, the answer would be that you are betting anyway and you may as well take the gains when they are there.

—Prakash: It is very difficult to catch the highest and lowest prices in stock markets. One must be ready with estimated targets and stop loss levels before entering a trade. Print this and post it where you will read it daily: "I will always sell when I have a profit of x per cent or a loss of y per cent." Following this rule will avoid the major pitfalls that so often trap the average investor. With the Dubai Financial Market (DFM) general index it depends on the investor's timeframe. If he or she has invested for the long term then profit-booking levels come at 2,200, the previous high. Short-term traders can book profits on the 20-day moving average on the daily charts, which is at 1,800, and buy back at lower levels.

—Wakeman: Investors in the GCC are historically fairly short-term by nature, so if you're investing in stocks here you need to be nimble and trade in and out to lock in gains after moves of five to 10 per cent. Buy and hold is a risky strategy, as is shown by the fact that the UAE markets are trading at levels not seen since 2004.

—Stonuary: Deciding when to take profits depends on the market, how much

continued on page 18

HOW TO GO ABOUT IT

- **A demat account with any bank is a must-have**
- **A DFM investor card is necessary. This is available for Dh1 at the DFM office. You need to carry your valid passport copy and valid visa.**
- **A bank account is a must, preferably with the same bank as your demat account.**
- **A broker account is also a must. You can choose from any of the brokers listed on the stock exchange websites.**
- **People of all nationalities can invest in the UAE stock markets. However, each listed company has specified whether it allows foreigners to hold its shares and, if so, what proportion of the total they may hold.**

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> **Sean Kelleher,**
> Financial Partners