Time to Embrace Qatari Equities

For over a year we have been advising our clients to invest in Qatari equities in our monthly investor letters and in various press interviews. We felt they were cheap compared to the rest of the world, and since the beginning of 2013, Qatari stocks are up by almost 20%. A valid question one could ask is if it is now time to sell or reduce some equity exposure.

For an investor with a long term horizon, and who does not need the funds in the near term, our answer to that would be to rather use any weakness as an opportunity to buy more. Valuations are still at a discount compared to the rest of the world, and also importantly, expected returns for other investment alternatives are low.

Returns on deposits and bonds are very low

Despite the slight increase in bond yields recently, interest rates are still very low both globally as well as in Qatar. Currently local banks are offering around 1.25% for short term local currency deposits. This compares to inflation of around 3% (2% if rent is excluded), which means deposits yield a negative real interest rate. If one choses to invest longer term, average bond yields for 10 year bonds are around 4%. If inflation remains at around current levels for 10 years, then bonds are offering only 1% real returns, but it would be bold to assume inflation will stay that low for that long.

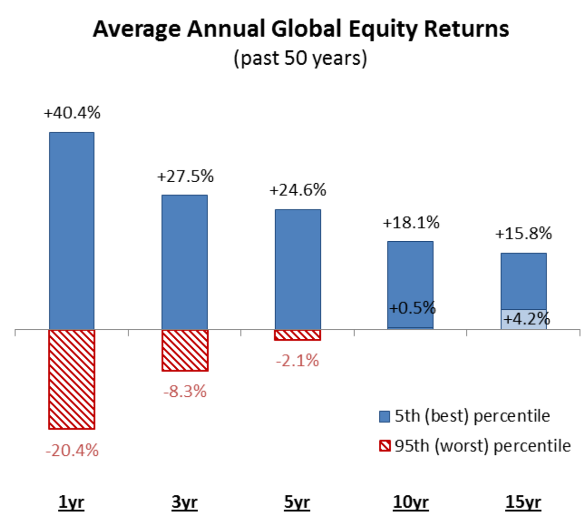
Deposits should not be viewed as investments in any event, but rather as short-term instruments to somewhat protect the time value of money against inflation. Currently though deposits are 1.75% **below inflation**.

We would only recommend deposits to investors who plan to use the money within a year or so. For anything beyond that we would recommend a basket of bonds and equities, depending on the horizon.

Horizon is key in determining how much to invest in equities

In our view, horizon is a key determinant of how much one should invest in equities and bonds. Of course another important determinant is their valuations but we explore that later.

First let us explore past equity returns, but not just annual returns, but also **average annual returns** on a 3, 5, 10 and 15-year horizon. This kind of analysis is important for investors to truly understand the risk of equity investing. We analyzed global equity returns going back 50 years.



Source: Bloomberg, Amwal

Based on 5 percentile returns, the worst annualized return was -2.1% on a 5 year horizon, +0.5% on a 10 year horizon and +4.2% on a 15 year horizon. Which means based on past returns, while from one year to another while equity returns can be negative, over a longer term horizon, downside risk is significantly reduced.

How to invest in equities?

So should one invest in equities blindly? Absolutely not! Investing in equities can be risky particularly if done without a solid understanding of what one is investing in. (As Warren Buffet recently said "the biggest risk in investing in not knowing what you are investing"). We recommend getting professional advice before investing in equities. With careful analysis and selection, and continuous monitoring, we believe investing in equities can be significantly more rewarding in the long run. To give an example, if an investor invests in fixed deposits yielding 2.5% p.a. for 15 years, the initial investment of 100 will become 145 at the end of 15 years, assuming initial investment is reinvested every year with the interest earned. However if assumed average returns were for example 10% instead, than the same 100 will become 418 at the end of 15 years, almost 3 times higher than the level achieved with the deposits. Even including all the past crises we had in the past 50 years, average historic returns have been around 11% for global equities during this period.

About Amwal

Amwal LLC is wholly owned by Sheikha Hanadi Nasser bin Khaled Al Thani, founder of the first regulated investment company in Qatar in 1998. Amwal LLC is authorized by the QFCRA and is a leading independent asset management firm serving institutional clients, family offices and high net worth individuals. The Amwal group has pioneered the Qatar financial services industry for over a decade, with a number of firsts to its credit, including the first to offer financial planning and wealth management, first mutual fund, first Islamic mezzanine private equity fund and first money market fund.

Amwal has received awards for Best Asset Manager in Qatar from EMEA Finance (2011 and 2012), Best Investment Bank in Qatar from World Finance (2012), and Qatar Deal of the Year from Islamic Finance News (2008). Qatar Gate Fund, managed by Amwal, was ranked the #1 equity fund in the MENA region ranked by 3-year returns in a report prepared by MENA FM (April 2013).

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