WEALTH PRESERVATION AMID VOLATILITY

• Affluent investors are scaling back expectations of returns on their portfolio

By Lianne Gutcher
Special to GN Focus

Affluent investors have shifted into wealth preservation mode, with returns on their portfolio likely to remain muted as the volatility generated by oil prices looks set to continue. Many clients have adopted a hold and hope approach while they observe the markets over the next three to six months, according to wealth managers.

Tom Elliot
International Investment Strategist, deVere Group

Sean Kelleher
CEO, Mondial Dubai

Satinder Aggarwal
CEO, Seguro Private Wealth

"Among our clients at deVere, the accent is increasingly on wealth preservation," says Tom Elliott, deVere Group's International Investment Strategist. "This is in part because of the lack of obviously cheap financial assets to buy, the bull market in risk assets is now seven years old and there are no low hanging fruits left. And partly because investors are hearing from many sources that financial markets are overvalued, and so they do not want to take unduly risky positions."

Risk and reward

The S&P 500, one of the main US stock market indexes, in March 2013 closed above the October 2007 pre-crash high of around 1,550.

Since then it has risen more than 60 per cent.

"While we might dispute that financial assets such as shares and credit are expensive, given the extremely low rate of return on bank account cash or on core government bonds, we do encourage clients to think seriously about risk as well as return," explains Elliott. "Therefore, a cautious approach to investing is to be welcomed."

Investors seeking opportunities may look to emerging markets for better returns, says Sean Kelleher, CEO of Mondial Dubai.

"US equities are still somewhere between fairly priced and slightly expensive. Emerging markets are currently underpriced. Most multi-asset managers are sticking with US equities and buying when the markets drop and reducing weighting. They are not selling, but just not buying lots of it."

The biggest risk to US equities is wage inflation, says Kelleher. But "we're not there yet".

While UAE investors may like to keep some of their money close to home, opportunities for investing in GCC stocks are increasing. UAE and GCC equities as well as real estate investments are among the preferred assets for UAE investors. The DFM and ADX both benefited tremendously from the emerging market status conferred to them in 2014, a move that resulted in billions of dollars coming in.

"The options available in GCC stock markets are increasing," says Satinder Aggarwal, CEO of Seguro Private Wealth in Dubai. "And the investors are looking at these options positively."

UAE trends shift

UAE investors have typically favoured investing in bricks and mortar and this remains the case, explains Aggarwal.

"People have moved on from the 2008 slowdown. From 2011-12, we've seen a sharp influx of people moving into the UAE. This has resulted in people already in Dubai looking to invest in properties possibly as an investment to begin with, then down the line as their own property."

As oil prices have stabilised, sentiment in the UAE has also improved.

"At the beginning of 2016 and end of 2015, that's when [lower prices] affected people most," says Aggarwal. "But some stability has crept into the market. As of now, we don't find too many people talking about a dip in oil prices. From our perspective, we feel it as more or less stable, although those directly connected to the [sector] are affected."

Oil prices hit a low of around $28 a barrel in January 2016, after trading above $100 in 2014. Oil is currently trading at around $50 a barrel.

"If oil prices continues to rally, supported by the ongoing commitment by Saudi Arabia and Russia to last year's agreed output restrictions, UAE investors may return to local stocks and regional funds," says Elliott.

Long-term investors are able to shrug off geopolitical uncertainty, including nearby conflicts in Yemen, Syria and Iraq and heightening US-Iran tensions.

"We don't really see investors juggling their portfolios in the short term," says Aggarwal. "On a long-term portfolio, short-term volatility gets mitigated." ■

POSITIVE OUTLOOK

Traded value on DFM stood at Dh600 million on October 9, up from Dh100-200 million the previous week, according to a *Gulf News* report on 9 October.

"We do see liquidity coming back to the market, which is positive," said Tariq Qaqish, Managing Director – Asset Management at MENACorp.

"We believe an increase in liquidity will lead investors who were sitting on the sideline to reinvest in the market."

"While we are approaching third-quarter results, we see the macro pictures remain solid which would have an impact on capital markets," Qaqish added.

"Most of the negative news is discounted and future outlook is becoming clearer to predict after a long period of consolidation."

– L.G.