



Strategies for the Middle East Investor



Mark Phelps from W.P. Stewart & Co., Ltd, a sponsor at the **marcus evans Middle East Investments Summit 2010**, highlights the benefits of a concentrated portfolio investment approach.

Interview with: Mark Phelps, Chief Executive Officer, W.P. Stewart & Co., Ltd

FOR IMMEDIATE RELEASE

A concentrated portfolio of high quality and steadily growing businesses has proven to be a less risky approach to investing, says Mark Phelps, Chief Executive Officer, [W.P. Stewart & Co., Ltd](#). The investor gets to understand a few companies really well, avoiding the volatility that investing in an index could bring along.

From a sponsor company at the **marcus evans Middle East Investments Summit 2010**, Phelps discusses how a concentrated approach has proven effective, and why equities are better value than bonds.

What is the concentrated portfolio investment approach, and why has it proven to be effective?

Mark Phelps: At W.P. Stewart we are fans of concentrated portfolios, because the reality is that we are looking for companies which can grow consistently over time. S&P 500 companies have grown by about seven per cent in the last few years, but with a more focused approach, investors can find companies which can grow faster.

Stocks can become too expensive at times, therefore we limit portfolios to 20 stocks that we believe will be able to grow at the right price. Interestingly, we have found this approach to be less risky than investing in a basket of [investments](#) through an index. Even in our 2008 portfolio we still managed modest growth of two per cent when earnings in the market went down by 35 per cent. We still go down when the markets go down, but we do better than others.

A concentrated portfolio is less risky because it gives the investor the opportunity to understand 20 companies well. If they buy the index, they buy every bad thing that goes along

with it and end up with a highly volatile earnings profile. This approach has proven to be very effective over time.

What investment strategies would you recommend?

Mark Phelps: [Chief Investment Officers](#) are faced with the decision of allocating capital to areas where they think they can make the best returns over the next three to four years. Sovereign debt is a significant problem on a global basis, negating the advantages of investing in bonds.

It is unlikely that interest rates will go up in the Western world as yield curves remain steep. Interest rates in [emerging markets](#) are already increasing and will continue to, as yield curves flatten.

From a security standpoint, it makes sense to invest in bonds in the US and Germany, as money is safe in those countries, but returns might be low. [Hedge funds](#) have a large part to play in any portfolio, however, having a good manager is important when concerned about lock ups. Equities do look attractive, but on a reasonable time horizon. There is a lot of volatility in the marketplace, and valuations take the double dip recession into account.

From our perspective, [equity investments](#) both in the mature and emerging markets are where investments will grow over the next few years.

Why do you consider equities better value than bonds?

Mark Phelps: In the US at the moment, the ten-year yield has been around three per cent; this is a poor return as inflation is still a worry. In the next few years, a lot of money will be printed and at some point that will have a knock-on affect; a three per cent yield will not look very attractive when the potential for capital loss is taken into account.



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US equity earning yields are currently double that of bond yields, almost at the absolute peak of the range. This suggests that equities should perform better.

We had a very strong earnings rebound in 2010, but as we move into 2011 and 2012, people are starting to worry of a double dip. Investors must be careful when investing in equities which have positive underlying trends. Leading trends have an international presence, and we believe these are good opportunities for returns.

In Europe, Germany is still growing along with the Euro, whilst peripheral Europe is struggling with authority measures taken in Greece, Portugal, Spain and the UK. The markets needed fiscal imbalances to be repaired, and the measures that are underway are providing a good foundation for growth. We believe equities will do better than bonds over the next few years.

What best practices would you propose?

Mark Phelps: Valuations are an attractive solid base. Investors need to have a medium time horizon and focus on where they want to deploy assets, and how to go about that. They should have cash to meet their short-term needs with confidence, bond **portfolio investment** on a global basis, and exposure to currencies other than the dollar.

Investors should focus on both mature and emerging equities within a portfolio. Emerging equities have come back this year, and so I would go for a broad exposure whilst not trying to be too clever on individual markets. Look at mature markets that already have good exposure to both the emerging and mature world as they tend to have good cash flow from their existing business, and are ready to redeploy that cash back into the market. It is in a balanced approach, and very much in the equity area, where the opportunities lie.

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About the Middle East Investments Summit 2010

This unique forum will take place at the Park Hyatt Dubai, United Arab Emirates, 3 - 5 October 2010. Offering much more than any conference, exhibition or trade show, this exclusive meeting will bring together esteemed industry thought leaders and solution providers to a highly focused and interactive networking event. The summit includes presentations on ensuring capital adequacy, the new age in governance and risk management.

For more information please send an email to info@marcusevanscy.com or visit the event website at www.mei-summit.com

Please note that the summit is a closed business event and the number of participants strictly limited.

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