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Liquidity versus Leverage



Once, I was observing a sportsman trying to run-up 300 stairs in a row. At a certain level, the sportsman felt so tired and had to rest for 15 minutes before pursuing his race. Besides him, an old lady was going up the same stairs as well; she was resting for 30 seconds every 15 stairs before continuing her hike. I kept observing this unbelievable race, till the final line. Both reached the top, but the old lady was the first to arrive and in a better shape.

Doping the sportsman (the market) with high leverages can only lead to a sharp correction, due to margin calls at the first retracement. The game will be called then *“Liquidity vs. Leverage”*, where those holding the liquidity will be hunting those heavily leveraged who will be forced to close their positions at lower prices. In an uptrend, the key will always be “how long can an investor hold his position during a correction phase”?

During the Q2 2014, Qatar Stock Exchange index recorded a historical high; registering an increase of 5000 points since beginning 2013 (same number of points registered in 2009-2010). Dubai Financial Market reached a turnover velocity level of 173.40% during Q2 2014, exceeding by far the international turnover velocity average.

Everyone agrees that we had to consolidate. The Market had to clean itself, bringing back fundamental ratios to their attractive levels. Even geopolitics showed that their effects grow when the markets are prepared to a correction, as geopolitics can be sometimes the trigger and not the reason.

As for the UAE and Qatar MSCI upgrade; Investors were already anticipating the MSCI upgrade following the saying *“Buy the rumor and sell the news”*. Still, the upgrade wasn't the only reason behind the up-move; our markets were two years late compared to the International markets and they had to catch-up with their uptrend, supported by their excellent fundamentals. For those reasons, I keep having a solid confidence in our markets.

God Bless.

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