

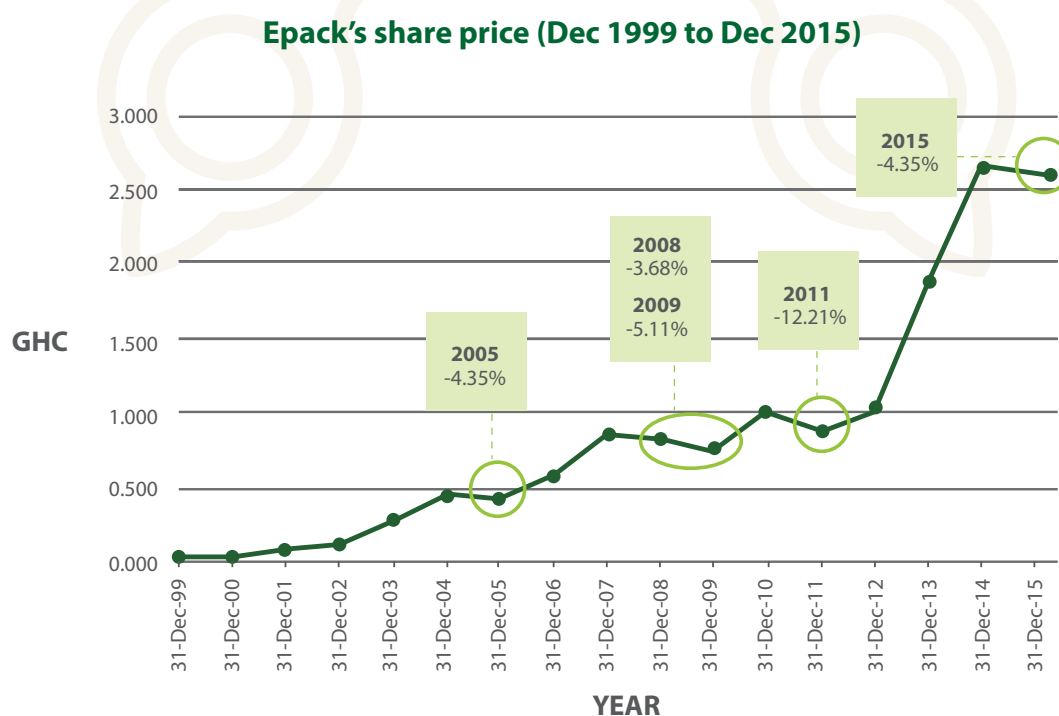
## Why 2016 is the Best Year to Invest in Equity

From the view point of an equity investor, 2015 was a year to forget.

In Ghana, rising inflation, erratic power supply, volatile exchange rates, together with hikes in fuel prices and utility tariffs restricted the growth in the profits of Ghanaian companies. The stock market’s total return of -8% mirrored the sentiments of most investors, driving them to invest heavily in fixed-income securities (whose yields remained within the 23% to 25% band for the entire 2015 calendar year). With global investors pulling out of frontier markets in sub-Saharan Africa (SSA) on account of weaker growth prospects in the region (NB: Recent rate hikes in the U.S. have made Western investments more attractive to investors), a call to investors to invest in SSA equities NOW may seem ill-timed. Far from a contrarian view, I cannot think of a better time to invest in equities than now.

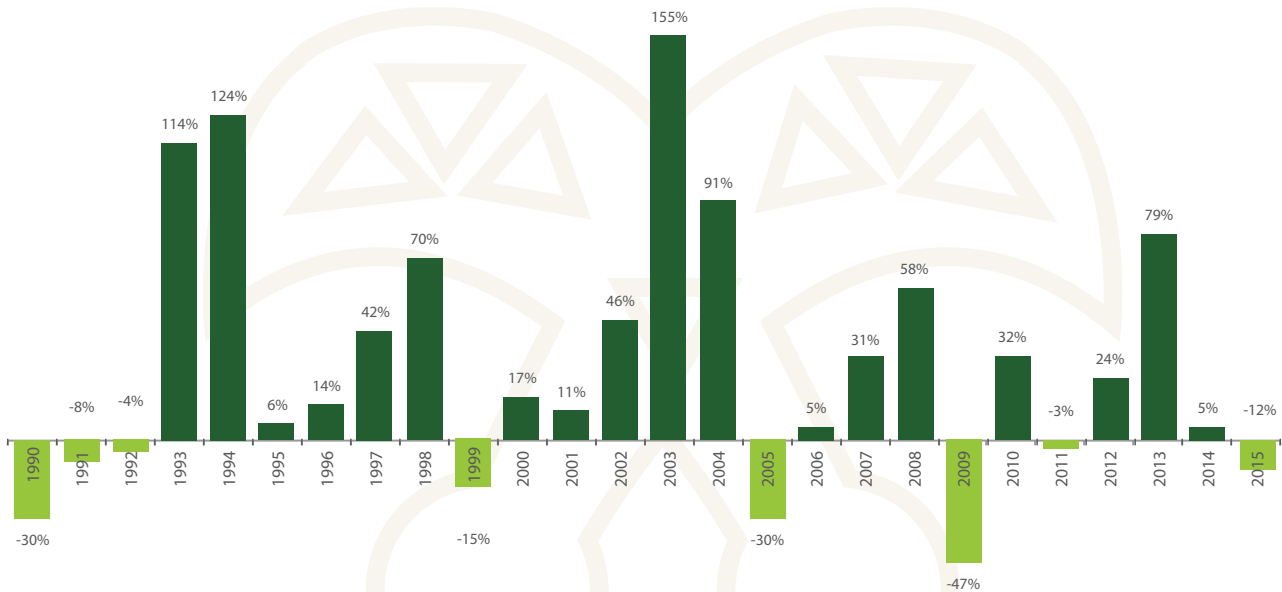
Here are three reasons why:

**1. Conventional wisdom, as it pertains to investing, recommends that you purchase assets when prices are low, and sell them when the prices go up.** Sadly, most investors do the exact opposite. They often sell their investment when prices are low and rather invest when prices are on the rise and the stock is considered “hot.” As an example, the chart below shows the rise and fall in Epack’s share price from December 31, 1999 to December 31, 2015. In 2008 and 2009, Epack had two consecutive years of negative returns. Many investors got jittery and withdrew all their investments and put them in other investments they considered to be more stable. However, as the graph shows, Epack’s share price has risen considerably since and those that remained invested during the down time or started investing when the Fund seemed to be down, have benefitted greatly by not following the crowd. It then stands to reason that following 2015’s negative return, 2016 is the “next” best time to invest in Epack.



**2. Over its 25 year-history, the GSE has almost-always had a good run during an election year.** With the exception of the year 1992, during which the GSE realized a market return of -4%, history seems to point towards the Ghanaian market delivering a positive return to investors. I am yet to come across an empirical study that adequately explains this trend. Anecdotally, with increased public spending (that usually occurs in such periods), businesses are in a position to grow faster and consumers are in a position to spend more as well. A more intuitive explanation could be this: If the year prior to an election year saw the market post a negative return, then our conventional wisdom argument will work to the advantage of the investor in the following year – the election year.

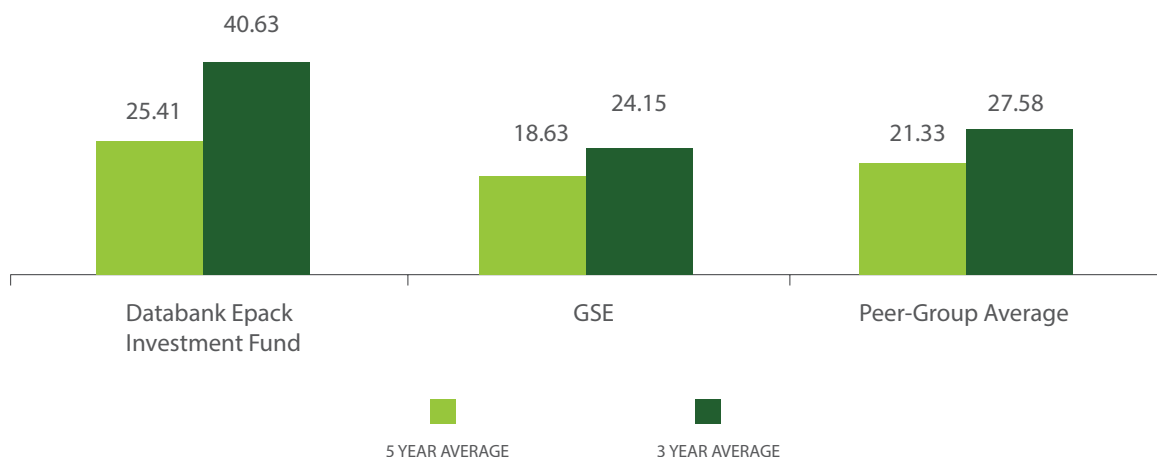
### GSE Historical Returns



Source: GSE, Databank, ARG

**3. It's not just a Ghana-play, but an Africa-play.** SSA's appeal to the global investor has waned in recent months, following improved growth prospects in the West. Low demand (from China) for Africa's main exports (commodities, metals) has adversely affected the world market prices of these exports. Consequently, the forex reserves of SSA nations have declined and, as a result, their currencies are weaker now. These factors point to one thing: African assets are cheaper now. The last time they were this cheap was in 2008/9, shortly after the global financial and economic crisis. Investing in African assets offers great diversification benefits; and could offer decent returns to the patient investor if it is done well. Alternatively, an investment in a pan-African equity mutual fund could get the job done.

### Performance of Epack vs GSE and Ghana Equity-focused funds (up to December 2015)



Source: Databank, ARG

The views expressed here are best summed up by a quote from Warren Buffett – one of the world’s best known and successful investors- ***“I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful.”*** Simply put, it means invest in a down market and “get out” in a soaring market. It may not be the popular choice; if it were, we would have a lot more millionaires in the world.

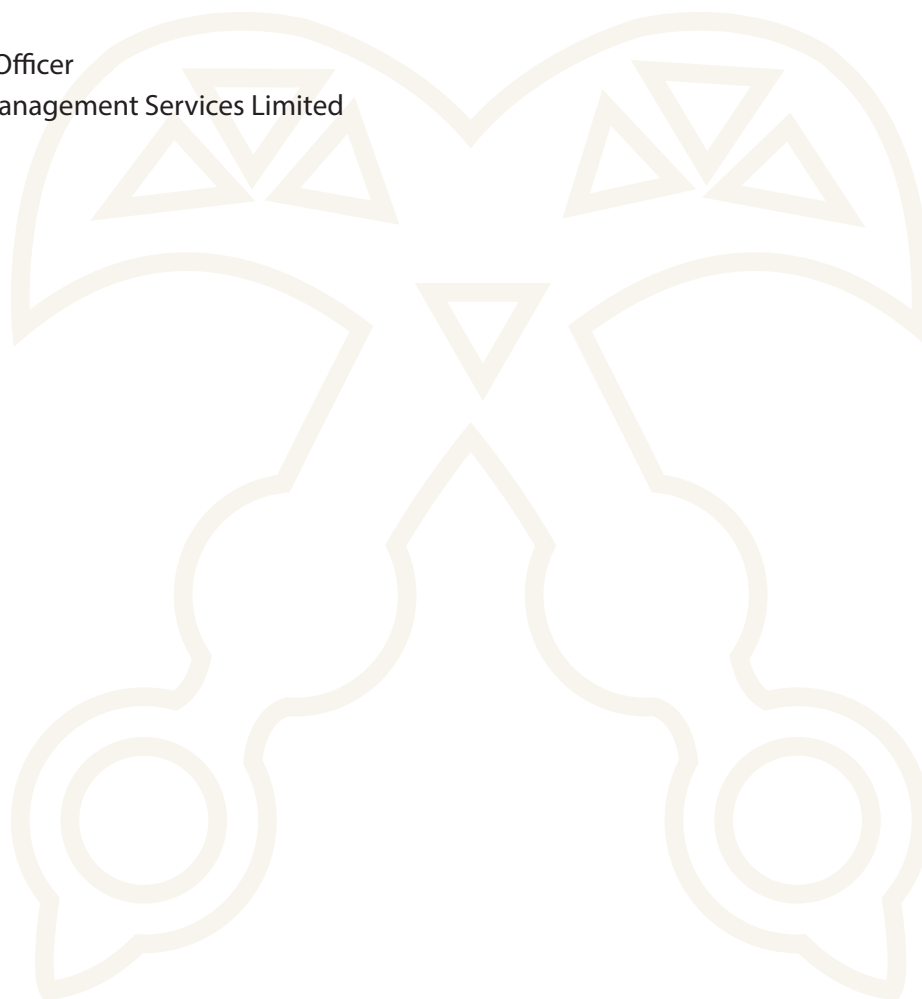
Sincerely,

*Nii*

Nii Ampa-Sowa

Chief Investment Officer

Databank Asset Management Services Limited



**0302 610610**

[fundquestions@databankgroup.com](mailto:fundquestions@databankgroup.com)

[www.databankgroup.com](http://www.databankgroup.com)